**US SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

# FORM 40-F

[ ] Registration Statement Pursuant to Section 12 of the Securities Exchange Act of 1934
or
[x] Annual Report Pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934

For the fiscal period ended **December 31, 2008**

Commission file number **0-24762**

# FirstService Corporation

*(Exact name of Registrant as specified in its charter)*

**N/A**
*(Translation of Registrant's name into English (if applicable))*

**Ontario, Canada**
*(Province or other jurisdiction of incorporation or organization)*

**6500**
*(Primary Standard Industrial Classification Code Number (if applicable))*

**N/A**
*(I.R.S. Employer Identification Number (if applicable))*

**1140 Bay Street, Suite 4000**
**Toronto, Ontario, Canada M5S 2B4**
**416-960-9500**
*(Address and telephone number of Registrant's principal executive offices)*

**Mr. Santino Ferrante, Ferrante & Associates**
**126 Prospect Street, Cambridge, MA 02139**
**617-868-5000**
*(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)*

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Subordinate Voting Shares** | **NASDAQ Stock Market**<br>**Toronto Stock Exchange** |

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

For annual reports, indicate by check mark the information filed with this Form:

[**x**] Annual information form [**x**] Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

**5,772,274 7% Cumulative Preference Shares, Series 1**
**28,007,790 Subordinate Voting Shares and 1,325,694 Multiple Voting Shares**

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

[ ] Yes [**x**] No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

[**x**] Yes [ ] No

## PRINCIPAL DOCUMENTS

The following documents have been filed as part of this Annual Report on Form 40-F:

**A. Annual Information Form**

For the Registrant's Annual Information Form for the fiscal period ended December 31, 2008, see Exhibit 1 of this Annual Report on Form 40-F.

**B. Audited Annual Financial Statements**

For the Registrant's consolidated audited annual financial statements as at December 31, 2008, March 31, 2008 and 2007 and for the nine months ended December 31, 2008 and three fiscal years ended on March 31, 2008, including the auditor's report with respect thereto, see Exhibit 2 of this Annual Report on Form 40-F.

**C. Management's Discussion and Analysis**

For the Registrant's management's discussion and analysis for the nine months ended December 31, 2008, see Exhibit 3 of this Annual Report on Form 40-F.

## DISCLOSURE CONTROLS AND PROCEDURES

The Registrant's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Registrant's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this annual report (the "Evaluation Date"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the Registrant's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Registrant in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the "SEC") and (ii) accumulated and communicated to the Registrant's management, including its Chief Executive Officer and 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 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, 2008. The total assets and total revenues of these majority-owned entities of the Company represent 1.6% and 1.4%, respectively, of the related consolidated financial statement

amounts including discontinued operations as at and for the nine-month period ended December 31, 2008.

Management has assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2008, based on the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as at December 31, 2008, 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, 2008, has been audited by PricewaterhouseCoopers LLP, the Company's independent auditors. The attestation report of PricewaterhouseCoopers LLP is included in PricewaterhouseCoopers LLP's report to the shareholders of the Company dated February 27, 2009, which accompanies the Company's audited consolidated financial statements for the nine-month period ended December 31, 2008, filed as Exhibit 2 to this Annual Report on Form 40-F.

## CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the nine-month period ended December 31, 2008, there were no changes in the Registrant's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

## NOTICES PURSUANT TO REGULATION BTR

There were no notices required by Rule 104 of Regulation BTR that the Registrant sent during the nine-month period ended December 31, 2008 concerning any equity security subject to a blackout period under Rule 101 of Regulation BTR.

## AUDIT COMMITTEE FINANCIAL EXPERT

The Registrant's board of directors (the "Board of Directors") has determined that it has at least one audit committee financial expert (as such term is defined in item 8(a) of General Instruction B to Form 40-F) serving on its audit committee (the "Audit Committee"). Mr. Peter F. Cohen has been determined by the Board of Directors to be such audit committee financial expert and is independent (as such term is defined by the NASDAQ Stock Market's corporate governance standards applicable to the Registrant).

The SEC has indicated that the designation of Mr. Peter F. Cohen as an audit committee financial expert does not make him an "expert" for any purpose, impose on him any duties, obligations or liability that are greater than the duties, obligations or liability imposed on him as a member of the Audit Committee and the Board of Directors in absence of such designation, or affect the duties, obligations or liability of any other member of the Audit Committee or Board of Directors.

## CODE OF ETHICS

The Registrant has adopted a Code of Ethics and Conduct that applies to all directors, officers and employees of the Registrant and its subsidiaries, and a Financial Management Code of Ethics, which applies to senior management and senior financial and accounting personnel of the Registrant and its subsidiaries. A copy of the Code of Ethics and Conduct and the Financial Management Code of Ethics can be obtained, free of charge, on the Registrant's website (www.firstservice.com) or by contacting the Registrant at (416) 960-9500.

## PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets out the fees billed to the Registrant by PricewaterhouseCoopers LLP and its affiliates for professional services rendered in each of the fiscal periods ended December 31, 2008 and March 31, 2008. During these periods, PricewaterhouseCoopers LLP was the Registrant's only external auditor.

| (in US$) | Nine months ended December 31, 2008 | Year ended March 31, 2008 |
|---|---|---|
| Audit fees (note 1) | $ 1,590,000 | $ 2,020,700 |
| Audit-related fees (note 2) | 220,000 | 324,500 |
| Tax fees (note 3) | 271,000 | 254,800 |
| All other fees | - | - |
| | **$ 2,081,000** | **$ 2,600,000** |

**Notes:**

1. Refers to the aggregate fees billed by the Company's external auditor for audit services, including statutory and subsidiary audits. In the year ended March 31, 2008, audit fees included $242,000 of fees related to the divestiture of the Integrated Security Services segment.
2. Refers to the aggregate fees billed for assurance and related services by the Company's external auditor that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under (1) above, including professional services rendered by the Company's external auditor for accounting consultations on proposed transactions and consultations related to accounting and reporting standards. Such fees included fees incurred in respect of: due diligence and other work related to the disposition and acquisition of businesses, such work being unrelated to the audit of the Company's financial statements; accounting consultations with respect to proposed transactions; as well as other audit-related services.
3. Refers to the aggregate fees billed for professional services rendered by the Company's external auditor for tax compliance, tax advice and tax planning.

The Registrant's Audit Committee pre-approves all audit services and permitted non-audit services provided to the Registrant by PricewaterhouseCoopers LLP. The Audit Committee has delegated to the Chair of the Audit Committee, who is independent, the authority to act on behalf of the Audit Committee with respect to the pre-approval of all audit and permitted non-audit services provided by its external auditors from time to time. Any approvals by the Chair are reported to the full Audit Committee at its next meeting. All of the services described in footnotes 2, 3 and 4 under "Principal Accountant Fees and Services" above were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

## OFF-BALANCE SHEET ARRANGEMENTS

The Registrant does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Registrant's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

## TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The information provided in the table entitled “Contractual Obligations” under the section entitled “Liquidity and Capital Resources” in the Management’s Discussion and Analysis of Results of Operations and Financial Condition included as Exhibit 3 to this Annual Report on Form 40-F, is incorporated herein by reference.

## IDENTIFICATION OF THE AUDIT COMMITTEE

The Registrant has a separately designated standing Audit Committee established in accordance with section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are Messrs. Bernard I. Ghert (Chair), Peter F. Cohen and David Beatty.

## UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

### A. Undertaking

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the staff of the SEC, and to furnish promptly, when requested to do so by the SEC staff, information relating to the securities in relation to which the obligation to file an Annual Report on Form 40-F arises or transactions in said securities.

### B. Consent to Service of Process

The Registrant has previously filed with the SEC an Appointment of Agent for Service of Process and Undertaking on Form F-X in connection with its Subordinate Voting Shares.

**SIGNATURE**

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

**FIRSTSERVICE CORPORATION**

Date: February 27, 2009

By: */s/ John B. Friedrichsen*
Name: John B. Friedrichsen
Title: Senior Vice President and
Chief Financial Officer

**EXHIBIT INDEX**

| No. | Document |
|---|---|
| 1. | Annual Information Form of the Registrant for the nine-month period ended December 31, 2008. |
| 2. | Consolidated audited financial statements of the Registrant as at December 31, 2008, March 31, 2008 and 2007 and for the nine months ended December 31, 2008 and the three fiscal years ended on March 31, 2008, in accordance with generally accepted accounting principles in the United States. |
| 3. | Management's discussion and analysis of results of operations and financial condition of the Registrant. |
| 23. | Consent of PricewaterhouseCoopers LLP. |
| 31. | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13(a)-14(a) or 15(d)-14(a) of the Securities Exchange Act of 1934. |
| 32. | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

**EXHIBIT 1**

# FIRSTSERVICE CORPORATION

**ANNUAL INFORMATION FORM**



**For the nine months ended December 31, 2008**

**FEBRUARY 27, 2009**

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## FORWARD-LOOKING STATEMENTS

This Annual Information Form contains "forward looking statements" which reflect the current expectations, estimates, forecasts and projections of management regarding our future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "may," "would," "could, " "will," "anticipate," "believe," "plan," "expect," “intend," "estimate," "aim," "endeavour" and similar expressions have been used to identify these forward-looking statements. 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 risks, uncertainties and assumptions. 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, including, without limitation, those listed in the "Risk Factors" section of this Annual Information Form. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward-looking statements contained in this Annual Information Form. These factors should be considered carefully and prospective investors should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this Annual Information Form are based upon what management currently believes to be reasonable assumptions, we cannot assure prospective investors that actual results, performance or achievements will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this Annual Information Form and we do not intend, and do not assume any obligation, to update or revise these forward-looking statements.

**FIRSTSERVICE CORPORATION**

**ANNUAL INFORMATION FORM**
**February 27, 2009**

*All amounts referred to in this Annual Information Form ("AIF") are in United States dollars unless otherwise indicated. All financial and statistical data in this AIF is presented as at December 31, 2008 unless otherwise indicated.*

**Corporate structure**

FirstService Corporation (the "Company" or "FirstService") was formed under the *Business Corporations Act* (Ontario) by Certificate of Incorporation dated February 25, 1988. The Company amalgamated with Coloma Resources Limited pursuant to a Certificate of Amalgamation dated July 31, 1988, and the amalgamated corporation continued under the name "FirstService Corporation".

By Certificate of Amendment dated April 2, 1990, the Company: (i) consolidated each of its Class A Subordinate Voting Shares on a 30 to 1 basis and changed the designation of that class of shares to "Subordinate Voting Shares", each such share carrying one vote; and (ii) consolidated each of its Class B shares on a 30 to 1 basis and changed the designation of that class of shares to "Multiple Voting Shares", each such share carrying 20 votes.

By Certificate of Amendment dated June 27, 2007, the first series of Preference Shares of the Company were created and designated as 7% cumulative preference shares, series 1 (the "Preferred Shares"), with each Preferred Share having a stated value of US$25.00 and carrying a fixed cumulative annual dividend of US$1.75 payable quarterly.

Our Subordinate Voting Shares are publicly traded on both the Toronto Stock Exchange ("TSX") (symbol: FSV) and the NASDAQ Stock Market ("NASDAQ") (symbol: FSRV). Our Preferred Shares trade in US$ on the TSX (symbol: FSV.PR.U). Our head and registered office is located at 1140 Bay Street, Suite 4000, Toronto, Ontario, M5S 2B4.

Our fiscal year-end was March 31 up to and including the fiscal year ended March 31, 2008. On May 14, 2008, our Board of Directors approved a change in year-end to December 31, effective December 31, 2008. A Notice of Change in Year-End was filed with regulators by the Company, a copy of which can obtained at www.sedar.com.

The following chart sets out the significant subsidiaries of the Company as of December 31, 2008. The voting securities of such subsidiaries not controlled by us are those owned by operating management of each respective subsidiary.

| Name of subsidiary | Percentage of voting securities owned by FirstService | Jurisdiction of incorporation or formation |
|---|---|---|
| American Pool Enterprises, Inc. | 93.1% | Delaware |
| Field Asset Services, Inc. | 73.8% | Texas |
| FirstManagement Partners, Inc. | 82.9% | Delaware |
| FirstService Commercial Real Estate Services, Inc. (d/b/a Colliers Macaulay Nicolls and Colliers International) | 92.3% | Ontario |
| FirstService (USA), Inc. | 100.0% | Delaware |
| FirstService Delaware, LLC | 100.0% | Delaware |
| FirstService Delaware, LP | 100.0% | Delaware |
| The Continental Group, Inc. | 77.9% | Florida |
| The Franchise Company, Inc. | 86.8% | Ontario |
| The Wentworth Group, Inc. | 74.9% | Pennsylvania |

**General development of the business**

Our origins date back to 1972 when Jay S. Hennick, the Founder and CEO of the Company, started a Toronto commercial swimming pool and recreational facility management business, which became the foundation of FirstService. In 1993, we completed our initial public offering on the TSX, raising C$20 million. In 1995 our shares were listed on NASDAQ. In 1997, a second stock offering was completed in Canada and the United States raising US$20 million. In December 2004, a stock dividend was declared effectively achieving a 2-for-1 stock split for all outstanding Subordinate and Multiple Voting Shares.

On August 1, 2007, we issued a stock dividend of Preferred Shares to holders of Subordinate Voting Shares and Multiple Voting Shares (together the "Common Shares"). One Preferred Share was issued for every five outstanding Common Shares. The stock dividend resulted in the issuance of 5,979,074 Preferred Shares, with an aggregate par value of $149.5 million. The annual preferred dividend obligation is $10.1 million, payable quarterly on or about the last day of each quarter.

From 1994 to present, we completed numerous acquisitions, developing and growing the service lines that exist today.

In 1996, we obtained a revolving credit facility from a syndicate of banks, which has been amended and restated at various times to the present and now includes a $225 million revolving credit facility due September 2012. In 2001, we completed a private placement of $100 million of 8.06% Senior Notes due June 29, 2011 with a group of US institutional investors. In October 2003, $50 million of 6.40% Senior Notes due September 30, 2015 was issued. In April 2005, we completed a further private placement of $100 million of 5.44% Senior Notes due April 1, 2015.

In November 2004, we established a new commercial real estate services division under the "Colliers International" brand with the acquisition of CMN International Inc. ("CMN"). CMN is the largest affiliate of the Colliers International commercial real estate services network. CMN's real estate services offerings include brokerage (sale and leasing), property management, valuation and advisory services.

In March 2006, we disposed of Resolve Corporation, our Business Services operation, through an initial public offering of trust units of Resolve Business Outsourcing Income Fund in Canada for consideration comprised of cash and a 7.3% interest in the trust. The disposal marked a significant milestone in our strategy of focusing on property services businesses for future growth.

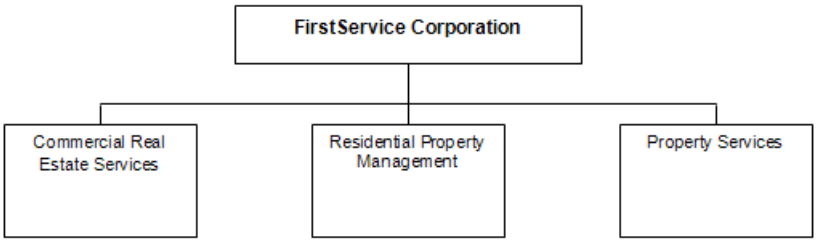
In July 2008, we disposed our Integrated Security Services division, which includes Intercon Security in Canada and SST in the United States, for gross cash proceeds of approximately $187.5 million. The proceeds were used to pay down debt and intensify our focus on global diversified real estate services.

**Business description**

FirstService is a leader in the rapidly growing property services sector, providing services in the following areas: commercial real estate; residential property management; and property services. Market-leading brands include Colliers International in commercial real estate; Continental, Wentworth and Merit in residential property management; and Field Asset Services, Paul Davis Restoration and California Closets in property services.

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

Our operations are conducted through three operating segments:




| **Revenues by continuing operating segment** (in thousands of US$) | **Nine months ended December 31** | **Year ended March 31** | | | |
|---|---|---|---|---|---|
| | **2008** | **2008** | **2007** | **2006** | **2005** |
| Commercial Real Estate Services | $ 578,192 | $ 787,467 | $ 577,676 | $438,032 | $120,535 |
| Residential Property Management | 475,251 | 544,926 | 423,797 | 346,133 | 275,229 |
| Property Services | 269,114 | 216,972 | 150,794 | 134,136 | 111,779 |
| Corporate | 123 | 348 | 554 | 367 | 572 |
| **Total** | $ 1,322,680 | $1,549,713 | $1,152,821 | $918,668 | $508,115 |

***Commercial Real Estate Services***

We are a leading international commercial real estate services provider offering a full range of commercial real estate services in the United States, Canada, Australia, and several other countries in Europe, Asia and Latin America. Operations in the United States and Canada generate approximately 60% of total revenues for this segment, while Asia-Pacific, Europe and Latin America generates approximately 40%. We provide services to owners, investors and tenants, including brokerage (sale, leasing, and mortgage), property management and maintenance, valuation, project management, and corporate advisory services. We operate principally under the Colliers International and FirstService Commercial Real Estate brand names.

Commercial real estate brokers match buyers and sellers of real estate (investors, developers or owners-users) as well as owners and tenants of space for lease in return for a commission generally based on the value of the transaction. Our brokerage activities focus primarily on office, industrial, retail and multi-unit residential properties. Brokerage activities represent approximately 70% of segment revenues and provide opportunities for cross selling other real estate services. In calendar year 2008, through a network of approximately 1,900 brokers across 148 offices in 36 countries, we executed transactions valued at approximately $40 billion across a diverse client base, including corporations, financial institutions, governments and individuals. Typically, brokers earn a direct commission on individual transactions, which provides variability in our cost structure.

Commercial property management focuses on the same client segments as brokerage; however, fees are typically multi-year fixed fee contracts that are largely recurring in nature.

Our international corporate services group partners with large corporations in managing their overall portfolio and transactions. Professional staff combines proprietary technology with high level strategic planning, portfolio management, lease administration and facilities and project management. Fees in corporate services are derived from a combination of fixed fee services and transaction based brokerage fees.

Commercial real estate brokerage is cyclical and seasonal in nature, affected by external factors, including interest rates, access to financing, investor and consumer confidence and other macroeconomic factors and political risk in any specific region. Our revenues in this segment are weighted more heavily to the latter half of the calendar year, with approximately 70% of transactions occurring in our fiscal quarters ending in September and December.

We are the largest affiliate within the global Colliers International Property Consultants ("CIPC") alliance. Each member of the CIPC alliance licenses the right to use the Colliers International brand in an exclusive territory. Colliers International is recognized as one of the top 3 commercial real estate services organizations worldwide with a network of 293 offices and over 11,000 employees in 61 countries. Membership in CIPC provides us with a global brand name and local market intelligence throughout the world to assist the international community of investors, owners and users of real estate. Members of CIPC are required, except in certain circumstances, to direct referrals for other regions to member firms. We also operate commercial real estate services businesses under the following brands: FirstService Commercial Real Estate, PGP Valuation, PKF Consulting and MHPM Project Managers.

Commercial real estate firms can be segmented into two tiers: (i) large global full-service firms with international service capabilities, and (ii) regional and niche firms with strengths in their respective local markets. Recent industry trends have seen an increase in outsourcing by multi-national clients with global needs, creating an opportunity for full-service global players like our company. There has also been a recent trend amongst larger firms to further improve their market position through consolidation. However, the commercial real estate competitive landscape market remains highly fragmented.

Our growth strategy is to expand our suite of complementary service offerings and the geographical markets where services are offered. This will continue to be achieved both organically and through selective acquisitions. We also plan to enhance our brand and service delivery through increased broker training and continued development of proprietary market tools and research resources. During the nine months ended December 31, 2008, we made investments in several businesses, including Colliers Netherlands and FirstService Williams Real Estate operating in the greater New York City area. In January 2008, we wound down our Canadian commercial mortgage securitization operation and in December 2008, we decided to dispose of our Chicago-based US commercial mortgage brokerage and servicing business, both due to unprecedented adverse changes in Canadian and US credit markets which are fundamental to these operations.

Our commercial real estate services business is subject to regulation by the countries and regions in which it operates. In most countries or regions, laws require that brokers must be licensed and conform to a code of ethics, which involves certain examinations and continuing education. In addition, our property managers are subject to regulation in the various regions in which they operate.

***Residential Property Management***

We are the largest manager of private residential communities in North America. Private residential communities include condominiums, cooperatives, gated communities, homeowner associations and a variety of other residential developments governed by common interest or multi-unit residential community associations (collectively referred to as "community associations"). In total, we manage more than 1 million residential units in 3,700 community associations in 18 American states. We operate under the umbrella brand name FirstService Residential Management, along with regional brands.

In Florida, we operate primarily under the Continental brand. In the mid-Atlantic region, we operate primarily under the Wentworth, Cooper Square, Planned Companies, and American

Pool brands. In Arizona, we operate as Rossmar & Graham, in Illinois as Wolin-Levin, in Nevada as RMI, in Texas as Premier and in California, we operate as Merit.

In the residential property management industry, there are two types of professional property management companies: (i) traditional property managers, and (ii) full-service property managers. Traditional property managers primarily handle administrative property management functions on behalf of their community association clients, such as advising homeowner boards on a wide variety of matters relating to the operation of their communities, collecting monthly maintenance fees, sourcing and paying suppliers, preparing financial statements and contracting out support services. Full-service property managers provide the same services as traditional property managers but also provide a variety of other services under one exclusive contract.

We are a full-service property manager and in many markets we provide a full range of ancillary services including grounds maintenance, landscaping, painting, pest control, irrigation, home service contracts, real estate sales and leasing, heating, air conditioning, plumbing and swimming pool management and maintenance. A majority of the swimming pool related services revenues are generated outside the “sunbelt” states, and are therefore impacted by weather-related seasonality. Accordingly, revenues are earned primarily in the fiscal quarters ending in June and September. In most of our major markets, we also provide rental management and maintenance services to (i) property owners and (ii) individual investors or owners of single or multiple residential units, many of which are within the communities we manage. Finally, in most markets we also provide advisory services with respect to financial services (primarily lock-box and other transaction-related services), insurance brokerage, and waste management, utilizing the scale of our operations to economically benefit our clients.

The aggregate budget of all the community associations in the United States is estimated to be approximately $41 billion. The aggregate budget of the community associations managed by us is estimated at approximately $5 billion. Currently, we estimate that we access in the range of 12-15% of the aggregate budget of our client communities through the various services that we offer. Our strategy is to continue to add communities under management while striving to earn a greater percentage of the aggregate budget by introducing additional value-added services and products, thereby offering our clients a single point of accountability and leveraging our scale and purchasing power to the benefit of the community associations.

Based on recent industry data compiled by the Community Associations Institute, we estimate that: (i) more than 60 million Americans, representing approximately 24 million households, live in condominiums, cooperatives, planned communities and other residential developments governed by common interest or multiple unit residential community associations; (ii) more than 50% of new homes currently being built in and around major metropolitan areas in the United States are within these categories; (iii) there are approximately 301,000 community associations in the United States; and (iv) the total annual operating revenues for these community associations are estimated to be $41 billion. The market is expected to grow at a rate of approximately 3% per year as a result of the several thousand new community associations formed each year. In addition, the growing trend from self-management to professional management, currently almost 50% of the market, is believed to at least double the effective growth rate for professional property management companies.

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

The residential property management industry is extremely fragmented and dominated by numerous local and regional management companies. Only a small number of such companies,

however, have the expertise and capital to provide both traditional property management services as well as the other support services provided by full-service property managers. FirstService is the largest full-service manager of private residential communities in the United States, managing over 4% of the nation's approximately 24 million units in community associations. We enjoy a competitive advantage because of our size, depth of financial and management resources, and operating expertise.

Our business is subject to regulation by the states in which we operate. In most states, laws require that property managers must be licensed, which involves certain examinations and continuing education. In addition, our residential real estate sales and leasing operations are subject to regulation as a real estate brokerage by the various states in which we operate.

***Property Services***

In our Property Services division, we provide a variety of residential and commercial services in North America through three service delivery channels: vendor networks, franchising and branchising. The principal brands in this division include Field Asset Services ("FAS"), California Closet Company ("California Closets"), Paul Davis Restoration, CertaPro Painters, College Pro Painters, Pillar to Post Home Inspection, Handyman Connection and Floorcoverings International.

*Vendor network* – FAS, headquartered in Austin, Texas, is one of America's largest residential property preservation services companies. FAS provides comprehensive property preservation, maintenance and repair services to some of the largest residential mortgage lenders and servicers in America, for residential properties acquired through foreclosure. FAS processes client requests through the use of information technology systems to manage client portfolios of foreclosed properties. All maintenance and repair services are managed through a process that includes outsourcing field services to a national network of independent service contractors. At any one time, FAS provides its services to more than $5 billion in client assets representing over 70,000 residential properties.

*Franchising* – we own and operate seven franchise systems, as described below.

California Closets is the largest provider of installed closet and home storage systems in North America. Headquartered in San Rafael, California, California Closets has 94 franchises in the United States and Canada as well as master franchises in other countries around the world. California Closets receives royalties from franchisees based on a percentage of the franchisees' gross revenues.

Paul Davis Restoration is a Jacksonville, Florida based franchisor of residential and commercial restoration services serving the insurance restoration industry in the United States through 220 franchises. This company provides restoration services for property damaged by natural or man-made disasters. Paul Davis Restoration receives royalties from franchisees based on a percentage of the franchisees' gross revenues.

CertaPro Painters is a residential and commercial painting franchise system with 346 franchises operating in major markets across the United States and Canada as well as master franchises in other countries around the world. CertaPro Painters focuses on high-end residential and commercial painting and decorating work and other programs for property managers who have portfolios of condominium and commercial properties. Franchisees pay CertaPro Painters either a royalty based on a percentage of gross revenues or a fixed monthly fee, plus administrative fees for various ancillary services.

College Pro Painters is a seasonal exterior residential painting franchise system operating in 29 states and across Canada with approximately 515 franchises. It recruits students and trains them to operate the business, including price estimating, marketing, operating procedures, hiring, customer service and safety. College Pro Painters receives a royalty from

each franchisee based on a percentage of revenue. College Pro Painters' operations are seasonal with significant revenue and earnings in the Company's June and September quarters followed by losses in the December and March quarters.

Pillar to Post is one of North America's largest home inspection service providers. Services are provided through a network of 327 franchises. Pillar to Post earns royalties from its franchisees based on a percentage of franchisee gross revenues.

Handyman Connection is a leading North American home repair and remodeling service franchiser. Services are provided by a network of 111 franchises operating throughout the United States. Handyman Connection earns royalties from its franchisees based on a percentage of franchisee gross revenues.

Floorcoverings International is a residential floor coverings design and installation franchise system operating in North America with 76 franchisees. Floorcoverings International earns royalties from its franchisees based on a percentage of franchisee gross revenues.

Franchise agreements are for terms of five or ten years, with the exception of College Pro Painters where the agreements are for a term of one year. All franchise agreements contain renewal provisions that can be invoked at little or no cost.

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

Franchise businesses are subject to US Federal Trade Commission regulations and state and provincial laws that regulate the offering and sale of franchises. Presently, the Company is authorized to sell franchises in 40 states, in all Canadian provinces and in several other countries around the world. In all jurisdictions, we endeavor to have our franchisees meet or exceed regulatory standards.

*Branchising* – we own and operate twelve California Closets franchises located in major population centers in the United States and Canada. These operations are referred to as "branchises". The purpose of branchising is to reacquire well-established and profitable franchises located in large territories to accelerate growth in these territories in partnership with operating management.

**Business strategy**

We operate in the real estate services sector. Our objective is to increase the revenues, profitability and market position of each operating unit and subsequently acquired business, while maintaining the highest level of service to our customers.

Over the course of time, and as we have grown, our management style and way of doing business has been refined and enhanced into an approach we call "The FirstService Way". Built on seven strategic pillars, it has guided our growth and attracted strong management teams with visions for the future success of their businesses. The seven principles of our business strategy are defined below:

1. Partnership philosophy. We believe equity ownership by our management teams is essential. Our partners enjoy total authority over front-line operating decisions, while equity ownership allows direct participation in the financial outcomes of their decisions. With significant equity interests in the businesses they operate, management's interests

are aligned with our shareholders in building long-term value. These interests are in the form of a non-transferable direct minority equity ownership position, stock options or in equity-like notional value appreciation plans. In all cases, we have the right to purchase ("call") the minority interest at a formula price based on a multiple of trailing EBITDA[1]. Minority shareholders have the right to require us to purchase their shares at the same price, generally in tranches over a two or three year period.

2. Focus on internal growth. We have a keen focus on operational excellence. We set high internal growth targets and leverage our scale, competitive advantages, and sales channels by enhancing and broadening our service offerings. These differentiate us from competitors and support strong internal growth. Our performance-based compensation plan is structured to reward internal growth.

3. Performance-based compensation. Successful management teams are well compensated for driving growth. Aligning our key operating managers with our shareholders through generous performance-based compensation programs ensures that they have the incentive needed to continue growing the business. In general, senior managers receive bonuses that are based on a percentage of the amount by which their results exceed prior year EBITDA on a "same-store" basis. Lower level managers' incentives are also aligned with business unit EBITDA targets, but may include other measures deemed important for growing their business. We believe these programs are effective incentives to operating management to deliver internal growth and consistent, high-quality service in a cost-effective manner.

4. Acquisition strategy. Our disciplined approach to acquisitions ensures we invest in high-potential, well-managed businesses, at a fair price. New acquisitions are selected to augment our internal growth strategies and also to support the growth of the Company as a whole. The acquisition strategy entails the systematic acquisition of established, well managed, and profitable real estate service companies operating in fragmented industries that: (i) enhance the market position of an existing service line, provide an entry into a new geographic region/market, or introduce a new service line; and (ii) provide a return on invested capital that exceeds our weighted average cost of capital. Each acquisition must meet strict criteria that include the following:
    - Strong, experienced management teams in place that are interested in growing their businesses and in being rewarded through performance-based compensation;
    - History of consistent profitability, supported by significant contractual revenues;
    - Non-capital intensive operations with a variable cost structure;
    - Leading positions in the markets served; and
    - One or more senior managers who wish to retain a significant minority interest in the acquired company in order to participate directly in its future growth and development as part of FirstService.

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

5. People development process. Retaining and promoting key operating managers is one of our most important practices. Each year, the key people within our businesses are evaluated in a consistent manner; strength, weaknesses and internal career opportunities are discussed, as are opportunities for advancement with other FirstService business units.

6. Management and review process. We have a rigorous process of oversight and operational review to maximize cash flows, increase margins, manage operational risk and monitor performance indicators. Sharing of best practices is proactively incorporated into our management and review process to ensure that each business benefits from the experience of others.

7. Strategic planning process. We utilize a consistent strategic planning process to determine the major issues facing our operating units. Short-term and long-term goals are reviewed and agreed upon, barriers are discussed and solutions are developed. Progress in achieving goals is monitored to ensure that we successfully execute our strategy and adapt to changes in our markets.

**Seasonality**

Certain segments of the Company's operations are subject to seasonal variations. The Commercial Real Estate Services operation generates peak revenues and earnings in the month of December followed by a low in January and February as a result of the timing of closings on commercial real estate brokerage transactions. Revenues and earnings during the balance of the year are relatively even. These brokerage operations comprise approximately 35% of consolidated revenues.

The demand for exterior painting (Property Services segment) and swimming pool management in the northern United States and Canada (Residential Property Management segment) is highest during late spring, summer and early fall and very low during winter. These operations generate most of their annual revenues and earnings between April and September and comprise approximately 5% of consolidated revenues.

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

**Trademarks**

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

In our Property Services unit, four franchise systems – California Closets, Paul Davis Restoration, Pillar to Post Home Inspection, and Handyman Connection – have trademarks to which value has been ascribed in the consolidated financial statements. These franchise systems have franchises in significant population centers in the United States. The value of these trademarks is derived from the recognition they enjoy among the target audiences for the respective property services. These trademarks have been in existence for many years, and their prominence among consumers has grown over time through the addition of franchisees and the ongoing marketing programs conducted by both franchisees and the Company.

In our Commercial Real Estate Services unit, the Colliers International trademark was identified as an acquired intangible asset. The Colliers International trademark is highly recognized in the commercial real estate industry.

**Employees**
We have approximately 18,000 employees, rising to a total of approximately 23,000 with seasonal employees in the spring and summer months.

**Minority interests**
We own a majority interest in substantially all of our operations, while operating management of each subsidiary owns the remaining shares. This structure was designed to maintain control at FirstService while providing significant risks and rewards of equity ownership to management at the operating businesses. In all cases, we have the right to “call” management’s shares, usually payable at our option with any combination of Subordinate Voting Shares or cash. We may also be obligated to acquire certain of these minority interests in the event of death, disability or cessation of employment of the employee or if the shares are “put” by the employee, subject to annual limitations on these puts imposed by the relevant shareholder agreements. These arrangements provide significant flexibility to us in connection with management succession planning and shareholder liquidity matters.

**Dividends and dividend policy**
Our Preferred Shares have a fixed annual dividend of US$1.75 per Preferred Share payable on or about the last day of each quarter to holders of record generally on or about the fifteenth day of the last month in each quarter, subject to declaration by the Board of Directors of the Company. The Preferred Shares were initially issued on August 1, 2007 and since such date, dividends were paid on the Preferred Shares as follows:

- US$0.2877 per Preferred Share for the period of August 1, 2007 to but excluding September 30, 2007, which dividend was payable on October 1, 2007 to holders of Preferred Shares of record at the close of business on September 19, 2007;

- US$0.4375 per Preferred Share for the period of September 30, 2007 to but excluding December 31, 2007, which dividend was payable on December 31, 2007 to holders of Preferred Shares of record at the close of business on December 18, 2007;

- US$0.4375 per Preferred Share for the period of December 31, 2007 to but excluding March 31, 2008, which dividend was payable on March 31, 2008 to holders of Preferred Shares of record at the close of business on March 18, 2008;

- US$0.4375 per Preferred Share for the period of March 31, 2008 to but excluding June 30, 2008, which dividend was payable on June 30, 2008 to holders of Preferred Shares of record at the close of business on June 19, 2008;

- US$0.4375 per Preferred Share for the period of June 30, 2008 to but excluding September 30, 2008, which dividend was payable on September 30, 2008 to holders of Preferred Shares of record at the close of business on September 25, 2008; and

- US$0.4375 per Preferred Share for the period of September 30, 2008 to but excluding December 31, 2008, which dividend was payable on December 31, 2008 to holders of Preferred Shares of record at the close of business on December 29, 2008.

The payment of dividends on the Common Shares is at the discretion of the Board of Directors of the Company, which considers earnings, capital requirements and the financial condition of the Company, among other relevant factors. If dividends were declared on the Common Shares, they could be payable in either US or Canadian dollars. The Company has not paid any cash dividends on the Common Shares during the last three fiscal years.

Under the terms of the Company's amended and restated credit facility, the Company is not permitted to pay dividends, whether in cash or *in specie*, in the circumstances of an event of default thereunder occurring and continuing or an event of default occurring as a consequence thereof. See "Material contracts" below.

**Capital structure**

The authorized capital of the Company consists of an unlimited number of preference shares, issuable in series, at the discretion of the Board of Directors of the Company, of which are authorized an unlimited number of Preferred Shares, an unlimited number of Subordinate Voting Shares and an unlimited number of convertible Multiple Voting Shares. As of February 27, 2009, there were 28,007,790 Subordinate Voting Shares, 1,325,694 Multiple Voting Shares and 5,772,274 Preferred Shares issued and outstanding.

The holders of Subordinate Voting Shares are entitled to one (1) 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 (20) votes in respect of each Multiple Voting Share held at all meetings of the shareholders of the Company. Each Multiple Voting Share is convertible into one Subordinate Voting Share at the option of the holder. Effective December 15, 2004, a stock dividend was declared, effectively achieving a 2-for-1 stock split for all outstanding Subordinate and Multiple Voting Shares.

On August 1, 2007 a stock dividend occurred in the amount of one Preferred Share for every five Common Shares. The Preferred Shares have a stated value of US$25.00, carry a fixed cumulative annual dividend of US$1.75 payable quarterly and are redeemable, in whole or in part, for cash or Subordinate Voting Shares at the option 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 preference shares as a class, to receive notice of, attend or vote at any meeting of the shareholders of the Company.

A summary of certain rights attaching to the Subordinate Voting Shares is set out in the section entitled “Certain Rights of Holders of Subordinate Voting Shares” contained in the Company’s Management Information Circular (the "Circular") to be filed in connection with the Company’s annual meeting of shareholders to be held on April 16, 2009, which section is incorporated herein by reference.

**Rating of Preferred Shares**

Our Preferred Shares are rated by DBRS Ltd. (“DBRS”). As of the date of this AIF, the rating was “Pfd-3 (low)”. DBRS rates preferred shares with ratings ranging from “Pfd-1” to “Pfd-5”, with “Pfd-1” representing the highest rating. To show relative rankings with the categories, DBRS may modify them by the addition of “high” or “low”. The rating of our Preferred Shares is not a recommendation to purchase, hold or sell the Preferred Shares and does not comment as to market price or suitability for a particular investor. There can be no assurance that the rating shown above will remain in effect for any given period of time or that the rating will not be revised or withdrawn in its entirety by DBRS in the future if, in its judgment, circumstances so warrant.

**Market for securities**

The Company’s Subordinate Voting Shares are listed for trading on the TSX and NASDAQ. The Company’s Preferred Shares are listed for trading on the TSX, and trade in US$. The Company’s Multiple Voting Shares are not listed and do not trade on any public market or quotation system.

The table below details the price ranges and volumes traded of Subordinate Voting Shares on NASDAQ in US dollars, and the TSX in Canadian dollars and of Preferred Shares on the TSX in US dollars, in each case, on a monthly basis, during the nine month period ended December 31, 2008:

| | *Subordinate Voting Shares* | | | | | | *Preferred Shares* | | |
|---|---|---|---|---|---|---|---|---|---|
| | NASDAQ | | | TSX | | | TSX | | |
| Month | High Price (US$) | Low Price (US$) | Volume Traded | High Price (C$) | Low Price (C$) | Volume Traded | High Price (US$) | Low Price (US$) | Volume Traded |
| April 2008 | 24,68 | 21.75 | 359,100 | 24.89 | 22.30 | 1,436,400 | 19.50 | 18.75 | 127,100 |
| May 2008 | 24.69 | 16.13 | 676,100 | 25.00 | 16.00 | 2,049,100 | 19.91 | 18.98 | 36,700 |
| June 2008 | 17.25 | 14.08 | 1,290,000 | 17.22 | 14.43 | 4,086,500 | 20.20 | 18.70 | 143,000 |
| July 2008 | 17.65 | 12.00 | 787,500 | 18.08 | 12.01 | 2,950,200 | 19.37 | 17.54 | 67,900 |
| August 2008 | 17.35 | 15.29 | 305,400 | 18.60 | 16.06 | 1,167,300 | 18.90 | 18.05 | 36,700 |
| September 2008 | 16.88 | 13.72 | 713,100 | 17.50 | 14.10 | 3,457,300 | 18.90 | 18.00 | 371,800 |
| October 2008 | 14.86 | 9.65 | 577,400 | 15.85 | 12.51 | 2,981,000 | 18.00 | 13.50 | 44,900 |
| November 2008 | 14.61 | 10.99 | 358,100 | 17.99 | 14.32 | 3,981,000 | 15.25 | 14.20 | 187,300 |
| December 2008 | 14.62 | 12.03 | 698,500 | 18.27 | 14.61 | 2,173,400 | 15.25 | 13.50 | 64,700 |

**Transfer agents and registrars**

The transfer agent and registrar for the Subordinate Voting Shares and Preferred Shares is Equity Transfer and Trust Company, 200 University Ave., Suite 200, Toronto, Ontario, M5H 4H1. The transfer agent and registrar for the Multiple Voting Shares is the Company at 1140 Bay Street, Suite 4000, Toronto, Ontario, M5S 2B4.

**Directors and officers**

***Directors*** – The following are the directors of the Company as at February 27, 2009:

| Name and province/country of residence | Age | Present position and tenure | Principal occupation during last five years |
|---|---|---|---|
| David R. Beatty [1,2,3] *Ontario, Canada* | 67 | Director since May 15, 2001 | Corporate Director; Chair and CEO, Beatinvest Limited (an investment company); formerly the Managing Director of the Canadian Coalition for Good Governance; Director of the Institute of Corporate Directors; Director of the Clarkson Centre for Business Ethics and Board Effectiveness and Professor of Strategic Management at The Rotman School of Management, University of Toronto |
| Brendan Calder [2,3] *Ontario, Canada* | 62 | Director since June 14, 1996 | Corporate Director; Effective Executive in Residence & Adjunct Professor of Strategic Management at the Rotman School of Management, University of Toronto; Chair of Rotman's Desautels Centre for Integrative Thinking; formerly the founding Chair of the Rotman International Centre for Pension Management |
| Peter F. Cohen [1,3] *Ontario, Canada* | 56 | Director since March 30, 1990; Chair of the Board since May 2005 | President, Dawsco Group (an Ontario-based real estate and investment company) |
| Bernard I. Ghert [1] *Ontario, Canada* | 69 | Director since June 23, 2004 | Corporate Director; Chairman of the Independent Review Committee of the Middlefield Group of Funds; President of the B.I. Ghert Family Foundation |
| Jay S. Hennick *Ontario, Canada* | 52 | Chief Executive Officer and Director since May 30, 1988 | Founder and Chief Executive Officer of the Company |
| Steven S. Rogers *Ontario, Canada* | 52 | Director since August 30, 1989 | President and Chief Executive Officer, The Franchise Company, Inc. (subsidiary of the Company) |
| Michael D. Harris [2] *Ontario, Canada* | 64 | Director since June 26, 2006 | Senior Business Advisor, Goodmans LLP; President of own consulting firm, Steane Consulting Ltd.; Corporate Director; Senior Fellow, The Fraser Institute Former Premier of the Province of Ontario |

1. Member of Audit Committee
2. Member of Executive Compensation Committee
3. Member of Nominating and Corporate Governance Committee

Each director remains in office until the following annual shareholders' meeting of the Company or until the election or appointment of his successor, unless he resigns, his office becomes vacant or he becomes disqualified to act as a director. All directors stand for election or re-election annually.

Further background information regarding the directors of the Company is set out in the sections entitled "Business of the Meeting – Election of Directors" and "Statement of Corporate Governance Practices" contained in the Circular, which sections are incorporated herein by reference.

***Officers*** – The following are the executive officers of the Company as at February 27, 2009:

| **Name and province/country of residence** | **Age** | **Present position with the Company** | **First became an officer** |
|---|---|---|---|
| Jay S. Hennick<br>*Ontario, Canada* | 52 | Founder and Chief Executive Officer (Chair of the Board until May 2005 and President until October 2005) | 1988 |
| D. Scott Patterson<br>*Ontario, Canada* | 48 | President and Chief Operating Officer (Executive Vice-President and President of Business Services until September 2005) | 1995 |
| John B. Friedrichsen<br>*Ontario, Canada* | 47 | Senior Vice President and Chief Financial Officer | 1998 |
| Roman Kocur<br>*Ontario, Canada* | 48 | Senior Vice President, Strategy and Corporate Development | 2003 |
| Michael Natale<br>*Ontario, Canada* | 49 | Vice President, Performance & Risk Management | 2005 |
| Douglas G. Cooke<br>*Ontario, Canada* | 49 | Vice President, Corporate Controller and Corporate Secretary | 1995 |
| Elias Mulamoottil<br>*Ontario, Canada* | 39 | Vice President, Strategy and Corporate Development | 2007 |

The directors and executive officers of the Company, as a group, own or control 2,903,855 Subordinate Voting Shares, which represents 10.4% of the total Subordinate Voting Shares outstanding. The directors and officers, as a group, control 54.0% of the total voting rights when all Multiple Voting Shares and Subordinate Voting Shares are considered. Mr. Hennick controls all of the Company's Multiple Voting Shares.

Mr. Rogers controls a 5.26% voting interest in The Franchise Company Inc., a subsidiary of the Company.

**Legal proceedings and regulatory actions**

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.

We have responded to the information requests of our primary securities regulator, the Ontario Securities Commission, and the TSX with respect to the Special Committee of our Board of Directors' review of our historical stock option granting processes and the related accounting for the 13-year period from 1995 to 2007 and the measures taken in response. We will continue to co-operate with the Ontario Securities Commission, the TSX and any further information requests in connection with the inquiry. Until further notified by the TSX, all grants of stock options by us require the prior consent of the TSX.

**Properties**

The following chart provides a summary of the properties occupied by the Company and its subsidiaries as at December 31, 2008:

| (square feet) | **United States (leased)** | **United States (owned)** | **Canada (leased)** | **Canada (owned)** | **International (leased)** | **International (owned)** |
|---|---|---|---|---|---|---|
| Commercial Real Estate Services | 510,000 | - | 240,000 | - | 395,000 | - |
| Residential Property Management | 575,000 | 312,000 | 8,000 | - | - | - |
| Property Services | 340,000 | - | 35,000 | - | - | - |
| Corporate | - | - | - | 20,000 | - | - |

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

| | Nine months ended December 31 | | Year ended March 31 | | | |
|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2006** | **2005** |
| **OPERATIONS** | | | | | | |
| Revenues | $1,322,680 | $1,180,582 | $1,549,713 | $1,152,821 | $918,668 | $508,115 |
| Operating earnings | 83,130 | 89,925 | 78,122 | 77,005 | 61,087 | 27,838 |
| Net earnings from continuing operations | 11,508 | 42,354 | 35,474 | 34,963 | 26,757 | 12,172 |
| Net earnings from discontinued operations | 50,528 | 1,406 | (1,075) | 1,253 | 42,740 | 11,035 |
| Net earnings | 62,036 | 43,760 | 34,399 | 34,863 | 69,497 | 23,207 |
| | | | | | | |
| **FINANCIAL POSITION** | | | | | | |
| Total assets | $ 990,637 | $1,059,461 | $1,089,343 | $ 816,998 | $711,004 | $626,728 |
| Long-term debt | 266,369 | 331,348 | 356,030 | 235,131 | 248,686 | 220,015 |
| Shareholders' equity | 345,839 | 312,161 | 305,685 | 264,875 | 237,752 | 185,871 |
| Book value per common share | 6.87 | 5.44 | 5.19 | 8.85 | 7.91 | 6.15 |
| | | | | | | |
| **COMMON SHARE DATA** | | | | | | |
| Net earnings per common share: | | | | | | |
| Basic | | | | | | |
| Continuing operations | $ 0.13 | $ 1.27 | $ 0.95 | $ 1.17 | $ 0.89 | $ 0.41 |
| Discontinued operations | 1.71 | 0.05 | (0.03) | 0.04 | 1.41 | 0.37 |
| Cumulative effect adjustment | - | - | - | (0.04) | - | - |
| | 1.83 | 1.32 | 0.92 | 1.17 | 2.30 | 0.78 |
| Diluted | | | | | | |
| Continuing operations | $ 0.11 | $ 1.17 | $ 0.89 | $ 1.08 | 0.83 | 0.38 |
| Discontinued operations | 1.70 | 0.05 | (0.04) | 0.04 | 1.38 | 0.36 |
| Cumulative effect adjustment | - | - | - | (0.04) | - | - |
| | 1.81 | 1.22 | 0.85 | 1.08 | 2.21 | 0.74 |
| Weighted average common shares (thousands) | | | | | | |
| Basic | 29,584 | 29,879 | 29,905 | 29,903 | 30,171 | 29,777 |
| Diluted | 29,755 | 30,417 | 30,547 | 30,354 | 30,896 | 30,467 |
| Cash dividends per common share | - | - | - | - | - | - |
| | | | | | | |
| **PREFERRED SHARE DATA** | | | | | | |
| Number outstanding (thousands) | 5,772 | 5,979 | 5,979 | - | - | - |
| Cash dividends per preferred share | $ 1.31 | $ 0.72 | $ 1.16 | - | - | - |
| | | | | | | |
| **OTHER DATA** | | | | | | |
| EBITDA | $ 124,361 | $ 123,230 | $ 123,614 | $ 107,983 | $ 84,319 | $ 47,814 |
| Adjusted diluted net earnings per share from continuing operations | 1.09 | 1.48 | 1.32 | 1.17 | 0.75 | 0.26 |

**Quarterly results – fiscal periods ended December 31, 2008, March 31, 2008 and 2007**
**(in thousands of US$, except per share amounts)**

| Fiscal period | Q1 | Q2 | Q3 | Q4 | Period |
|---|---|---|---|---|---|
| **Nine-month period ended December 31, 2008** | | | | | |
| Revenues | $454,769 | $450,051 | $417,860 | NA | $1,322,680 |
| Operating earnings | 35,278 | 35,442 | 12,410 | | 83,130 |
| Net earnings (loss) from continuing operations | 17,240 | 13,250 | (18,982) | | 11,508 |
| Net earnings (loss) from discontinued operations | 625 | 68,073 | (18,170) | | 50,528 |
| Net earnings (loss) | 17,865 | 81,323 | (37,152) | | 62,036 |
| Net earnings (loss) per common share: | | | | | |
| Basic | 0.51 | 2.68 | (1.36) | | 1.83 |
| Diluted | 0.47 | 2.66 | (1.36) | | 1.81 |
| | | | | | |
| **Fiscal year ended March 31, 2008** | | | | | |
| Revenues | $359,661 | $373,287 | $447,634 | $369,131 | $1,549,713 |
| Operating earnings (loss) | 33,449 | 32,833 | 23,643 | (11,803) | 78,122 |
| Net earnings (loss) from continuing operations | 14,958 | 16,314 | 11,082 | (6,880) | 35,474 |
| Net earnings (loss) from discontinued operations | 3,124 | 1,379 | (3,097) | (2,481) | (1,075) |
| Net earnings (loss) | 18,082 | 17,693 | 7,985 | (9,361) | 34,399 |
| Net earnings (loss) per common share: | | | | | |
| Basic | 0.61 | 0.53 | 0.18 | (0.40) | 0.92 |
| Diluted | 0.56 | 0.50 | 0.15 | (0.40) | 0.85 |
| | | | | | |
| **Fiscal year ended March 31, 2007** | | | | | |
| Revenues | $275,326 | $289,792 | $316,983 | $270,721 | $1,152,822 |
| Operating earnings | 26,036 | 24,957 | 15,176 | 10,836 | 77,005 |
| Net earnings from continuing operations | 11,926 | 12,711 | 7,069 | 3,258 | 34,963 |
| Net earnings (loss) from discontinued operations | 2,207 | (738) | 688 | (905) | 1,253 |
| Net earnings | 12,780 | 11,973 | 7,757 | 2,353 | 34,863 |
| Net earnings per common share: | | | | | |
| Basic | 0.43 | 0.40 | 0.26 | 0.08 | 1.17 |
| Diluted | 0.39 | 0.38 | 0.25 | 0.06 | 1.08 |
| | | | | | |
| **OTHER DATA** | | | | | |
| EBITDA - Period ended December 31, 2008 | $ 47,113 | $ 47,451 | $ 29,797 | NA | 124,361 |
| EBITDA - Year ended March 31, 2008 | 41,509 | 42,760 | 38,961 | 384 | 123,614 |
| EBITDA - Year ended March 31, 2007 | 32,736 | 30,966 | 23,526 | 20,755 | 107,983 |

Notes
1. A reconciliation of net earnings from continuing operations to EBITDA appears below.

| (in thousands of US$) | Nine months ended December 31 | | Year ended March 31 | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2008 | 2007 | 2006 |
| Net earnings from continuing operations | **$ 11,508** | $ 42,354 | $ 35,474 | $ 34,963 | $26,757 |
| Minority interest | **14,519** | 16,112 | 16,803 | 15,282 | 11,778 |
| Income taxes | **30,878** | 25,740 | 17,108 | 20,367 | 16,084 |
| Other income, net | **(2,422)** | (3,824) | (4,650) | (4,589) | (3,766) |
| Interest expense, net | **8,252** | 9,543 | 13,387 | 7,843 | 10,234 |
| Impairment loss on available-for-sale securities | **14,680** | - | - | 3,139 | - |
| Integrated Security division divestiture bonus | **5,715** | - | - | - | - |
| Operating earnings | **83,130** | 89,925 | 78,122 | 77,005 | 61,087 |
| Depreciation and amortization | **31,746** | 26,861 | 37,673 | 26,022 | 20,921 |
| Stock-based compensation expense | **2,551** | 6,444 | 7,819 | 4,956 | 2,311 |
| Cost containment | **6,934** | - | - | - | - |
| EBITDA | **$124,361** | $123,230 | $123,614 | $107,983 | $84,319 |

2. Adjusted diluted earnings per share from continuing operations is defined as diluted net earnings per share from continuing operations plus the effect, after income taxes, of: (i) amortization of intangible assets acquired in connection with acquisitions; (ii) non-cash impairment loss on available-for-sale securities; (iii) a non-recurring bonus paid to management upon the divestiture of the Integrated Security division; (iv) stock-based compensation expense; and (v) a cost containment charge. The Company believes this measure is useful because: (i) amortization expense is a non-cash charge that impacts the earnings of acquisitive companies and reduces comparability with non-acquisitive companies; (ii) it eliminates the effect of a non-cash impairment of securities; (iii) the divesture bonus was a payment made in connection with a discontinued operation; (iv) stock-based compensation expense is a non-cash charge that is effectively double-counted, as the dilutive effects of stock options are factored into the diluted share count; and (v) the charge to contain future operating costs is non-recurring. This is not a recognized measure of financial performance under GAAP, and should not be considered as a substitute for diluted net earnings per share from continuing operations, as determined in accordance with GAAP. The Company's method of calculating this measure may differ from other issuers and, accordingly, this measure may not be comparable to measures used by other issuers. A reconciliation appears below.

| (in US$) | Nine months ended December 31 | | Year ended March 31 | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2008 | 2007 | 2006 |
| Diluted net earnings per common share from continuing operations | **$ 0.11** | $ 1.17 | $ 0.89 | $ 1.08 | $ 0.83 |
| Pro forma impact of dividends on preferred shares | **-** | (0.12) | (0.12) | (0.35) | (0.34) |
| Amortization, net of tax | **0.25** | 0.24 | 0.33 | 0.23 | 0.20 |
| Impairment loss on available-for-sale securities, net of tax | **0.41** | - | - | 0.09 | - |
| Integrated Security division divestiture bonus, net of tax | **0.12** | - | - | - | - |
| Stock-based compensation expense, net of tax | **0.05** | 0.19 | 0.22 | 0.12 | 0.06 |
| Cost containment, net of tax | **0.15** | - | - | - | - |
| Adjusted diluted net earnings per common share from continuing operations | **$ 1.09** | $ 1.48 | $ 1.32 | $ 1.17 | $ 0.75 |

**Risk factors**

*Investors in the Company's shares should carefully consider the following risks, as well as the other information contained in this Annual Information Form, and Management's Discussion and Analysis of Financial Condition and Results of Operations for the nine months ended December 31, 2008. If any of the following risks actually occurs, the Company's business could be materially harmed. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties, including those of which the Company is currently unaware or the Company currently deems immaterial, may also adversely affect the Company's business.*

**Economic conditions, especially as they relate to credit conditions and consumer spending**

During periods of economic slowdown or contraction, our business is impacted directly. Credit conditions affect commercial real estate transactions, which reduces the demand for our services. Consumer spending directly impacts our franchising and branchising businesses because as consumers spend less on property services, our revenues decline. These factors could also negatively impact the timing or the ultimate collection of accounts receivable, which would negatively impact our operating revenues, profitability and cash flow.

**Commercial real estate property values, vacancy rates and general conditions of financial liquidity for real estate transactions**

Since our Commercial Real Estate segment accounted for 44% of our revenues and 25% of our EBITDA in 2008, factors affecting the commercial real estate industry have a direct impact on our operations. Property values have a direct impact on the commissions earned on sales transactions. Vacancy rates affect the market lease rates that are the basis of leasing commissions earned. Both property values and vacancy rates can influence the number of sales transactions that occur.

**Extreme weather conditions impact demand for our services or our ability to perform those services**
Natural disasters, such as hurricanes, can have a direct impact in our Property Services and Residential Property Management segments. These events damage property, which require various services that our companies offer such as restoration and large-scale landscaping. They may also harm our employees, facilities and franchisees, resulting in an inability to serve clients and generate revenues.

**Economic deterioration impacts our ability to recover goodwill and other intangible assets**
During 2008, we experienced a decline in the operating performance of some of our businesses. Expectations of future earnings drive the recoverability of goodwill and other intangible assets, which are tested, at least, on an annual basis. Although as of December 31, 2008, we have not recorded any substantial impairment to our goodwill or intangible assets, further deterioration of operating performance may necessitate a non-cash impairment charge.

**Ability to generate cash from our businesses to fund future acquisitions and meet our debt obligations**
We rely on our businesses to generate the necessary cash to service our financial obligations. As at December 31, 2008, we have $266.4 million of debt outstanding ($186.7 million net of cash) that will be required to be refinanced or repaid over the next seven years. We also have $134.2 million of available un-drawn credit at December 31, 2008, committed to September 2012. To date, we have been able to meet all of our debt obligations, however with a decline in performance in some of our businesses, surplus cash may not be available to be remitted which may result in the inability to meet a debt repayment.

An important component of our growth strategy is strategic and selective acquisitions, which we tend to complete with cash. Although we have a revolving credit facility available to us as noted above, we also rely on surplus cash on hand to fund acquisitions. If cash on hand is not available and the credit facility is fully utilized, then future acquisitions may not be possible.

**The effects of changes in foreign exchange rates in relation to the US dollar on our Canadian dollar, Australian dollar and Euro denominated revenues and expenses**
In our Commercial Real Estate segment, we generate 70% of our revenues outside of the United States. Consequently, our consolidated results are impacted directly by fluctuations in the relative strength of the US dollar versus the Canadian dollar, Australian dollar and Euro currencies.

In the future, in our Commercial Real Estate segment, we expect to acquire additional international operations. As a consequence, the impact of foreign currency exchange rate fluctuations may increase.

**Competition in the markets served by the Company**
We operate in highly competitive markets. Changes in the source and intensity of competition in the markets served by us impact the demand for our services and may result in additional pricing pressures. The relatively low capital cost of entry to certain of our businesses has led to strong competitive markets, including regional and local owner-operated companies. Regional and local competitors operating in a limited geographic area may have lower labour, benefits and overhead costs. The principal methods of competition in our businesses include name recognition, quality and speed of service, pricing, customer satisfaction and reputation. No assurance can be given that we will be able to compete successfully against current or future competitors and that the competitive pressures that we face will not result in reduced market share or negatively impact our financial performance.

**Labour and franchisee shortages or increases in wage and benefit costs**
As a services company, our primary asset is the human capital that comprises our workforce. In particular, we rely on property managers, real estate brokers, franchisees and other skilled staff

to generate revenues. A shortage, or increase in wage and benefit costs, of this human capital could reduce our revenues and profitability.

**The effects of changes in interest rates on our cost of borrowing**
As at December 31, 2008, we had $201.0 million of debt that is at fixed interest rates and $65.4 million of debt at variable interest rates. As a result, changes in base rates such as LIBOR will affect our interest expense as these base rates fluctuate. On our fixed rate debt, we have from time-to-time entered into fixed-for-floating interest rate swaps, where advantageous, to convert the fixed interest payments to floating. These swaps are intended to manage interest rate sensitivity and reduce overall interest costs.

**Continued compliance with the financial covenants under our debt agreements, or our ability to negotiate a waiver of certain covenants with our lenders**
Although we have always been in compliance with our financial covenants, a prolonged decline in our earnings performance could result in a non-compliance with one or more financial covenants. While we maintain good relationships with our lenders, the current economic climate may test our relationships especially if a covenant is breached. If the Company fails to meet its payment or other obligations under its amended and restated credit facility, the lenders will be entitled to demand immediate repayment of all amounts owing and thereafter, if unpaid, exercise their secured creditor rights.

**Unexpected increases in operating costs, such as insurance, workers' compensation, health care and fuel prices**
As a services company, the costs of providing services to our customers can fluctuate. Certain operating costs, such as fuel prices, are based on market rates which we cannot control and, absent an offsetting price increase in our services, have a direct impact on our operating margins.

**Changes in the frequency or severity of insurance incidents relative to our historical experience**
Adverse changes in claims experience could increase our insurance costs and/or increase the risk of being unable to renew insurance coverage at our operations. In our Residential Property Management and Property Services segments, we effectively self-insure certain risks, with a layer of third-party insurance for catastrophic claims. An increase in the frequency or severity of claims in these areas could materially affect our financial position and results of operations. There can be no assurance that we will be able to obtain insurance coverage on favourable economic terms in the future.

**Our ability to make acquisitions at reasonable prices and successfully integrate acquired operations**
As an acquisitive organization, we actively pursue acquisitions to expand our global footprint and services offerings as well as supplement existing businesses. Not only does our acquisition strategy depend on the continued availability of suitable targets, it also depends on the ability to negotiate favorable terms and conditions. Another risk with acquisitions is the ability to integrate the acquired business into an existing service line.

**Declaration of dividends on the Preferred Shares**
Future dividends on the Preferred Shares will depend on the Company's results of operations, financial condition, capital requirements, general business conditions and other factors that the Company's Board of Directors may deem relevant. Additionally, under the Company's amended and restated credit facility, the Company is not permitted to pay dividends, whether in cash or *in specie*, in the circumstances of an event of default thereunder occurring and continuing or an event of default occurring as a consequence thereof.

**Risks arising from any regulatory review and litigation**
As discussed in under "Statement of Corporate Governance Practices – Board Committees – Special Committee" in the Management Information Circular of the Company dated May 14,

2008, during fiscal 2007, the Board of Directors established a Special Committee of independent directors to conduct a comprehensive review of historical stock option granting processes and the related accounting for the 13 year period from 1995 to 2007, to make recommendations to the Board on same and otherwise to attend to regulatory and other matters in respect thereof. The results of the Special Committee's review and a summary of its report are set out in the Company's Management Information Circular dated May 14, 2008 which is available on SEDAR at www.sedar.com. During fiscal 2008, the Special Committee's existence continued solely for the purposes of co-operating with, and answering any requests of, securities regulators and others related to its mandate. While management is not currently aware of any formal regulatory reviews or investigations, the commencement of any such reviews or investigations may result in the diversion of significant management attention and resources and, if the securities regulators determine that a violation of securities or other laws may have occurred, or has occurred, the Company or its officers and directors may receive notices regarding potential enforcement action or prosecution and could be subject to civil or criminal penalties or other remedies. For example, the Company or its officers could be required to pay substantial damages, fines or other penalties, the regulators could seek an injunction against the Company or seek to ban an officer or director of the Company from acting as such, any of which actions would have a material adverse effect on the Company.

**Intellectual property and other proprietary rights that are material to our business**

Our ability to compete effectively depends in part on our rights to service marks, trademarks, trade names and other intellectual property rights we own or license (including "Colliers"). We have not sought to register every one of our marks in every country in which they are used. Furthermore, because of the differences in foreign trademark, patent and other intellectual property or proprietary rights laws, we may not receive the same protection in other countries as we would in Canada or the United States. If we are unable to protect our proprietary information and brand names, we could suffer a material adverse effect on our business, financial condition or results of operations. Litigation may be necessary to enforce our intellectual property rights and protect our proprietary information, or to defend against claims by third parties that our products or services infringe their intellectual property rights. Any litigation or claims brought by or against us could result in substantial costs and diversion of our resources. A successful claim of trademark, patent or other intellectual property infringement against us, or any other successful challenge to the use of our intellectual property, could subject us to damages or prevent us from providing certain services under our recognized brand names, which could have a material adverse effect on our business, financial condition or results of operations.

**Disruptions or security failures in our information technology systems**

Our information technology systems facilitate our ability to monitor, operate and control our operations. While we have disaster recovery plans in place, any disruption in these plans or the failure of our information technology systems to operate as expected could, depending on the magnitude of the problem, adversely affect our operating results by limiting, among other things, our capacity to monitor, operate and control our operations effectively. In addition, because our systems contain information about individuals and businesses, our failure to maintain the security of the data we hold, whether the result of our own error or the malfeasance or errors of others, could harm our reputation or give rise to legal liabilities relating to violations of privacy laws or otherwise, which may lead to lower revenues, increased costs and other material adverse effects on our results of operations.

**Colliers International**

A key area of competitive advantage for the Commercial Real Estate Services unit is derived from its membership in CIPC. In the event that the Commercial Real Estate Services unit were to lose the license for Colliers International, its prospects could be adversely affected. However, as the Commercial Real Estate Services unit is currently the largest member firm of the Colliers International network, we believe that this is unlikely.

**Multiple voting shares and a change of control**
The existence of the Multiple Voting Shares results in various impediments on the ability or desire of a third party to acquire control of the Company. This may discourage, delay or prevent a change of control of the Company or an acquisition of the Company at a price that shareholders may find attractive. The existence of the Multiple Voting Shares also may discourage proxy contests and make it difficult or impossible for the Company's holders of Subordinate Voting Shares to elect directors and take other corporate actions.

**Blank cheque preference shares**
The Company has the right to issue so-called "blank cheque" preference shares which may affect the voting and liquidation rights of holders of Common Shares. The Company's Board of Director's is authorized, without any further shareholder approval, to issue one or more additional series of preference shares in an unlimited number and to set the rights, privileges, restrictions and conditions attached thereto.

**Political conditions, including any outbreak or escalation of terrorism or hostilities and the impact thereof on our business**
Political events and situations can have an effect on our Company because of our global operations. Events could occur that may hamper our ability to manage operations, extract cash and implement FirstService policies in certain regions, particularly in developing countries that have had a recent history of political and economic instability.

**Changes in government policies at the federal, state/provincial or local level that may adversely impact our businesses**
As a multinational company, changes in laws and regulation at the different jurisdictional levels can have direct effect on our operations. It is difficult to predict the future impact of the legislative and regulatory requirements affecting our businesses. The laws and regulations applicable to our businesses will likely change in the future and affect our operations and financial performance. In addition, if we were to fail to comply with any applicable law or regulation, we could be subject to substantial fines or damages, be involved in litigation, suffer losses to our reputation and suffer the loss of licenses or penalties that may affect how our business is operated, which, in turn, would have a material adverse effect on our business, financial condition and results of operations.

**Management's discussion and analysis**
The section entitled "Management's Discussion and Analysis of Results of Operations and Financial Condition" within the Company's December 31, 2008 annual report is incorporated herein by reference.

**Interest of management and others in material transactions**
There are no material interests, direct or indirect, of directors or executive officers of the Company, any shareholder who beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the outstanding shares of the Company, or any known associate or affiliate of such persons in any transactions within the three most recently completed financial years of the Company or during the current financial year which has materially affected, or is reasonably expected to materially affect, the Company.

**Material contracts**
On February 1, 2004, the Company, upon the review, report and recommendation of the Executive Compensation Committee of the Board of Directors of the Company, entered into a management services agreement (the "Management Services Agreement") with Jayset Capital Corp. ("Jayset") and Jay S. Hennick. Mr. Hennick is the sole officer, director and shareholder of

Jayset. The particulars of the Management Services Agreement are set out in the sections entitled "Executive Compensation – Management Contract" and " Incentive Award Plans – Sale of Control Agreement" contained in the Circular, which sections are incorporated herein by reference.

On September 10, 2007, the Company successfully completed an amended and restated credit facility, increasing the amount to $225 million from the then current amount of $110 million. The new facility also increased the term to 5 years from 3 years and included an "accordion feature" providing an additional $50 million in financing under the same terms if required, bringing the total financing capacity of the facility to $275 million. The lead arranger for the financing was TD Securities. The syndicate of banks included incumbents, The Toronto-Dominion Bank, The Bank of Nova Scotia, Royal Bank of Canada, JP Morgan Chase Bank, HSBC Bank, as well as new participants United Overseas Bank, Bank of Montreal and Bank of America. A copy of the amended and restated credit facility is available on SEDAR at www.sedar.com.

The Company entered into a: (i) Note and Guarantee Agreement dated as of April 1, 2005 among the Company, FirstService Delaware, LP and others in respect of the Company's 5.44% Guaranteed Senior Secured Notes due 2015; (ii) Note and Guarantee Agreement dated as of June 21, 2001 among the Company, FirstService Delaware, LP and others in respect of the Corporation's 8.06% Guaranteed Senior Secured Notes due 2011; and (iii) Note and Guarantee Agreement dated as of September 29, 2003 among the Company, FirstService Delaware, LP and others in respect of the Corporation's 6.40% Guaranteed Secured Notes due 2015. The foregoing Note and Guarantee Agreements were entered into in connection with the Company's issuance of guaranteed senior secured notes on the dates indicated.

On April 14, 2008, the Company entered into a share purchase agreement with ADT Security Services Canada, Inc. ("ADT") pursuant to which it agreed to sell its Integrated Security Services division, FirstService Security, to ADT, a unit of Tyco International (NYSE: TYC). The sale was completed in July 2008 and, pursuant to the terms of the agreement, ADT acquired 100% of the shares of FirstService Security from the Company for gross cash proceeds of approximately $187.5 million.

**Cease trade orders, bankruptcies, penalties or sanctions**

To the best of the knowledge of the Company:

(A) none of the directors or executive officers of the Company is, as at the date of this AIF, or has been, within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including the Company) that: (i) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;

(B) none of the directors or executive officers of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control the Company: (a) is, as at the date of this AIF, or has been, within 10 years before the date of this AIF, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or

become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder;

except for: (i) David R. Beatty who was a director of Thistle Mining Inc. ("Thistle") when Thistle announced on December 21, 2004 that it intended to undertake a restructuring under the *Companies' Creditors Arrangement Act*. While Thistle completed the restructuring on June 30, 2005, its common shares were suspended from trading on the Alternative Investment Market from June 30, 2005 to July 13, 2005 and its common shares were suspended from trading on the TSX on December 31, 2004 due to the restructuring until Thistle delisted in February 2006. Mr. Beatty is no longer a director of Thistle Mining Inc.; and (ii) Michael D. Harris who was a director of Naturade, Inc., a company publicly traded in the United States, from December 2005 until August 2006, which company, within a year after Mr. Harris' resignation as a director, filed for reorganization under Chapter 11 of the US Bankruptcy Code.

**Conflicts of interest**

Certain directors and officers of the Company are engaged in and will continue to engage in activities outside the Company, and as a result, certain directors and officers of the Company may become subject to conflicts of interest. The *Business Corporations Act* (Ontario) provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the *Business Corporations Act* (Ontario). To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the *Business Corporations Act* (Ontario).

As at the date hereof, the Company is not aware of any existing or potential material conflicts of interest between the Company and a director or officer of the Company.

**Experts**

The Company's independent auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have issued an integrated auditors' report dated February 27, 2009 in respect of the Company's consolidated financial statements as at December 31, 2008, March 31, 2008 and 2007 and for the nine months ended December 31, 2008 and for each year in the three year period ending March 31, 2008, and on the effectiveness of the Company's internal control over financial reporting as at December 31, 2008. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario and the rules of the US Securities and Exchange Commission.

**Audit Committee**

The Audit Committee is comprised of three members who are each "independent" and "financially literate" as required by Multilateral Instrument 52-110 *Audit Committees* (the "Audit Committee Rule"). The members of the Audit Committee during the year ended December 31, 2008 were Messrs. Ghert - Chair, Beatty and Cohen. Mr. Ghert was appointed Chair of the Audit Committee in May 2005. Mr. Beatty was appointed to the Audit Committee in August 2007, replacing Mr. Calder. The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the external auditors as well as to anyone in the Company. The Audit Committee has the ability to retain, at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties. The Audit Committee meets at least four times annually, or more frequently as circumstances dictate.

The Audit Committee reviews the annual and interim financial statements intended for circulation among shareholders and reports upon these to the Board of Directors of the Company (the "Board") prior to their approval by the full Board. The Audit Committee is also responsible for the oversight of the integrity of the Company's internal accounting and control systems. The Audit Committee communicates directly with the Company's external auditors in order to discuss audit and related matters whenever appropriate. In addition, the Board may defer to the Audit Committee on other matters and questions relating to the financial position of the Company and its affiliates. All reports made to the Corporation's ethics hotline are reviewed by the Audit Committee at it next meeting. The Board has adopted an Audit Committee mandate, a copy of which is annexed as Exhibit "A" hereto. The Audit Committee mandate is also published on the Company's website (www.firstservice.com).

The education and related experience of each of the members of the Audit Committee that is relevant to the performance by such members of their responsibilities on such committee is described below.

**Bernard I. Ghert** (Chair) – Mr. Ghert has a Masters degree in Business Administration (MBA). Mr. Ghert was previously President and Chief Executive Officer of the Cadillac Fairview Corporation Limited from 1981 to 1987 and President of Stelworth Investments Inc. from 1987 to 1992. Mr. Ghert has been a director of many organizations in the private and public sectors, including Cadillac Fairview, Stelworth, CT Financial and Canada Trust, Wellington Insurance and the Canada Deposit Insurance Corporation. Mr. Ghert has served as Director of the Managers of several Middlefield Funds, President of the Canadian Institute of Public Real Estate Companies and was a former member of the Advisory Board of the Office of the Superintendent of Financial Institutions. Mr. Ghert currently is Chairman of the Independent Review Committee of the Middlefield Group of Funds, President of the B.I. Ghert Family Foundation and Immediate Past Chair of the Mount Sinai Hospital Board of Directors.

**Peter F. Cohen** – Mr. Cohen is a Chartered Accountant and a former partner in an audit practice of a public accounting firm. Mr. Cohen is currently the Chair of the Board of the Company and President and Chief Executive Officer of the Dawsco Group, a private real estate and investment company owned by Mr. Cohen and his family. Mr. Cohen was a co-founder and Chair and Chief Executive Officer of Centrefund Realty Corporation, a publicly traded shopping center investment company until August 2000 when control of the company was sold. Mr. Cohen is a member of the boards of a number of private companies and charities.

**David Beatty** – Mr. Beatty is currently the Chairman and Chief Executive Officer of Beatinvest Limited (an investment company), Director of the Institute of Corporate Directors, Director of the Clarkson Centre for Business Ethics and Board Effectiveness and Professor of Strategic Management at The Rotman School of Management, University of Toronto. Mr. Beatty was previously the founding Managing Director of the Canadian Coalition for Good Governance, founding Chairman of Orogen Minerals Limited, Chairman and Chief Executive Officer of Old Canada Investment Corporation Limited and President of Weston Foods. Mr. Beatty is Honorary Consul to Canada for the Government of Papua New Guinea and in 1993 was awarded the O.B.E. A graduate in economics from the University of Toronto (Trinity College), he was a Nuffield Scholar at the University of Cambridge (Queens' College) where he obtained an M.A. in Economics.

The Audit Committee Rule requires the Company to disclose whether its Audit Committee has adopted specific policies and procedures for the engagement of non-audit services and to prepare a summary of these policies and procedures. The mandate of the Audit Committee provides that it is such committee's responsibility to: (a) approve the appointment and, when circumstances warrant, discharge of the external auditor and monitor its qualifications, performance and independence; (b) approve and oversee the disclosure of all audit services

provided by the external auditor to the Company or any of its subsidiaries, determining which non-audit services the external auditor are prohibited from providing and, exceptionally, pre-approve and oversee the disclosure of permitted non-audit services to be performed by the external auditor, in accordance with applicable laws and regulations; and (c) approve the basis and amount of the external auditor's fees and other significant compensation. The Audit Committee has adopted a pre-approval policy pursuant to which the Company may not engage the Company's external auditor to carry out certain non-audit services that are deemed inconsistent with the independence of auditors under US and Canadian applicable laws. The Audit Committee must pre-approve all audit services as well as permitted non-audit services. The Audit Committee has delegated to the Chair of the Audit Committee, who is independent, the authority to act on behalf of the Audit Committee with respect to the pre-approval of all audit and permitted non-audit services provided by its external auditors from time to time. Any approvals by the Chair are reported to the full Audit Committee at its next meeting.

In addition to performing the audit of the Company's annual consolidated financial statements, PricewaterhouseCoopers LLP provided other services to the Company and they billed the Company the following fees for each of the Company's two most recently completed fiscal periods:

| (in US$) | Nine months ended December 31, 2008 | Year ended March 31, 2008 |
|---|---|---|
| Audit fees (note 1) | $ 1,590,000 | $ 2,020,700 |
| Audit-related fees (note 2) | 220,000 | 324,500 |
| Tax fees (note 3) | 271,000 | 254,800 |
| All other fees | - | - |
| | **$ 2,081,000** | **$ 2,600,000** |

**Notes:**

1. Refers to the aggregate fees billed by the Company's external auditor for audit services, including statutory and subsidiary audits. In the year ended March 31, 2008, audit fees included $242,000 of fees related to the divestiture of the Integrated Security Services segment.
2. Refers to the aggregate fees billed for assurance and related services by the Company's external auditor that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under (1) above, including professional services rendered by the Company's external auditor for accounting consultations on proposed transactions and consultations related to accounting and reporting standards. Such fees included fees incurred in respect of: due diligence and other work related to the disposition and acquisition of businesses, such work being unrelated to the audit of the Company's financial statements; accounting consultations with respect to proposed transactions; as well as other audit-related services.
3. Refers to the aggregate fees billed for professional services rendered by the Company's external auditor for tax compliance, tax advice and tax planning.

**Additional information**

Additional information, including the directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and options to purchase securities, where applicable, is contained in the Circular.

Copies of publicly filed documents of the Company, including those incorporated herein by reference, can be found through the SEDAR web site at www.sedar.com. Additional financial information is provided in the Company's consolidated financial statements and Management's Discussion and Analysis for the nine months ended December 31, 2008.

Upon request, the Corporate Secretary of the Company will provide to any person or company:

(a) when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities:

(i) one copy of the current AIF of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the AIF;

(ii) one copy of the comparative consolidated financial statements of the Company for its most recently completed financial year for which financial statements have been filed together with the accompanying reports of the auditors and one copy of the most recent interim consolidated financial statements of the Company that have been filed, if any, for any period after the end of its most recently completed financial year;

(iii) one copy of the information circular of the Company in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared instead of that information circular, as appropriate; and

(iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above.

(b) at any other time, one copy of any document referred to in (a)(i), (ii) and (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person or company who is not a shareholder of the Company.

**EXHIBIT "A"**

**AUDIT COMMITTEE MANDATE**

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**Purpose**

The Audit Committee (the "Committee") is appointed by and shall assist the Board of Directors (the "Board") of FirstService Corporation (the "Company") in fulfilling its oversight responsibilities in the following principal areas: (i) accounting policies and practices, (ii) the financial reporting process, (iii) financial statements provided by the Company to the public, (iv) risk management including systems of accounting and financial controls, (v) appointing, overseeing and evaluating the work and independence of the external auditors, and (vi) compliance with applicable legal and regulatory requirements. In addition to the responsibilities specifically enumerated in this Mandate, the Board may refer to the Committee such matters and questions relating to the financial position and operations of the Company and its subsidiaries as the Board may from time to time see fit.

**Membership**

The Committee shall consist of at least three directors appointed annually by the Board and selected based upon the following, in accordance with applicable laws, rules and regulations: Independence. Each member shall be independent in accordance with applicable legal and regulatory requirements and in such regard shall have no direct or indirect material relationship with the Company which could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment.

Financially Literate. Each member shall be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the Committee. For these purposes, an individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

Commitment. In addition to being a member of the Committee, if a member is also on the audit committee or board of directors of other public companies or organizations, the Board shall determine that such simultaneous service does not impair the ability of such member to serve effectively on the Committee.

**Chair and Secretary**

The Chair of the Committee shall be selected by the Board. If the Chair is not present, the members of the Committee may designate a Chair for the meeting by majority vote of the members present. The Secretary of the Company shall be the Secretary of the Committee, provided that if the Secretary is not present, the Chair of the meeting may appoint a secretary for the meeting with the consent of the other Committee members who are present.

**Meetings**

The times and locations of meetings of the Committee and the calling of and procedures at such meetings, shall be determined from time to time by the Chair of the Committee, in consultation with management when necessary, provided that there shall be a minimum of four meetings per year. The Committee shall have sufficient notice in order to prepare for each meeting. Notice of each meeting shall also be given to the external auditors of the Company, and meetings shall be convened whenever requested by the external auditors or any member of the Committee in accordance with applicable law.

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**Meetings Agendas**

Agendas for meetings of the Committee shall be developed by the Chair of the Committee in consultation with management and the corporate secretary, and shall be circulated to the Committee members prior to any meetings.

**Resources and Authority**

The Committee shall have the resources and the authority to discharge its responsibilities, including the authority to engage, at the expense of the Company, outside consultants, independent legal counsel and other advisors as it determines necessary to carry out its duties, without seeking approval of the Board or management.

The Committee shall have the authority to conduct any investigation necessary and appropriate to fulfilling its responsibilities, and has direct access and authority to communicate directly with the external auditors, legal counsel and officers and employees of the Company.

The members of the Committee have the right, for the purpose of performing their duties, to inspect the books and records of the Company and to discuss such accounts and records and any matters relating to the financial position, risk management and internal controls of the Company with the officers and external auditors of the Company.

**Responsibilities**

The Company's management is responsible for preparing the Company's financial statements while the external auditors are responsible for auditing those financial statements. The Committee is responsible for overseeing the conduct of those activities by the Company's management and external auditors, and overseeing the activities of any internal audit initiatives. The Company's external auditors are accountable to the Committee as representatives of the Company's shareholders.

It is recognized that members of the Committee are not full-time employees of the Company and do not represent themselves to be accountants or auditors by profession or experts in the fields of accounting or auditing or the preparation of financial statements. It is not the duty or responsibility of the Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures. Each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Company from whom it receives information, and (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary.

The specific responsibilities of the Committee are as follows:

*Financial Reporting Process and Financial Statements*
In consultation with the external auditors and management, review the integrity of the Company's financial reporting process, both internal and external, and any major issues as to the adequacy of the internal controls and any special audit procedures adopted in light of any material control deficiencies; Review all material transactions and contracts entered into by the Company with any insider or related party of the Company, other than director, officer or employee compensation which is approved by the Compensation Committee; Review with management and the external auditors the Company's annual audited consolidated financial statements and discuss with the external auditors all matters required to be discussed by generally accepted auditing standards (GAAS) in Canada and the United States. This would include reviewing an annual report prepared by the external auditors describing: (i) all critical accounting policies used by the Company, (ii) any material alternative accounting treatments within generally accepted accounting principles (GAAP) that have been discussed with management of the Company, including the ramifications of the use of such alternative treatments and disclosures, and (iii) any other material written communications between the external auditors and management; Following

completion of the annual audit, review with management and the external auditors any significant issues, concerns or difficulties encountered and resolve any disagreements between management and the external auditors; Review the interim quarterly and annual financial statements and annual and interim press releases prior to the release of earnings information, including earnings guidance provided to analysts; Review and be satisfied that adequate procedures are in place for the review of the public disclosure of financial information by the Company extracted or derived from the Company's financial statements, other than as referred to in (f), and periodically assess the adequacy of those procedures; and Meet separately with management and with the external auditors, including at the time of the annual audit plan review with management and the external auditors.

**External Auditors**

The Committee shall require the external auditor to report directly to it and is responsible for the selection, nomination, compensation, retention, termination and oversight of the work of the external auditors engaged for the purpose of issuing an auditor's report or performing other audit, review or attest services for the Company, and in such regard recommend to the Board the external auditors to be nominated for approval by the shareholders; Pre-approve all audit engagements and the provision by the external auditors of all non-audit services, including fees and terms for all audit and non-audit engagements, and in such regard the Committee may establish the types of non-audit services the external auditors shall be prohibited from providing and shall establish the types of audit, audit related and non-audit services for which the Committee will retain the external auditors. The Committee may delegate the responsibility to pre-approve non-audit services to one of its members and any such delegated pre-approvals shall be presented to the Committee at its next scheduled meeting ; Review and approve the Company's policies for the hiring of partners and employees and former partners and employees of the external auditing firm; Consider, assess and report to the Board with regard to the independence and performance of the external auditors; and Request and review annually a report by the external auditors regarding the auditing firm's internal quality-control procedures, any material issues raised by the most recent internal quality-control review of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the past five years.

**Internal Controls and Risk Management**

Oversee management's design, implementation and evaluation of the Company's internal controls over financial reporting, including compliance with the requirements of the Sarbanes-Oxley Act. Receive and review reports from management and the external auditors with regard to the reliability and effective operation of the Company's accounting systems and internal controls; Discuss with management the Company's approach to risk assessment and management, controls over fraud and assessment of the need for internal auditing; Establish policies and procedures for the confidential, anonymous submission by employees of the Company of any concerns regarding questionable accounting or other acts and for the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls or auditing matters.

**Legal and Regulatory Requirements**

Receive and review timely analysis by management of significant issues relating to public disclosure and reporting, including, prior to finalization, the Management's Discussion and Analysis and Annual Information Form; Prepare the report of the Committee required to be included with the Company's periodic filings; and Assist the Board in the oversight of compliance with legal and regulatory matters.

**Additional Responsibilities**

Report regularly to the Board, including on matters such as the quality and integrity of the Company's financial statements, compliance with legal and regulatory requirements, the results

of any internal audit initiatives, including evaluation of internal controls over financial reporting for purposes of compliance with Sarbanes-Oxley, and the performance and independence of the external auditors; and Reassess annually the adequacy of the Committee's Mandate and prepare and review with the Board an annual performance evaluation of the Committee.

## EXHIBIT 2

**FIRSTSERVICE CORPORATION**

**MANAGEMENT'S REPORTS**

**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 auditors of the Company by the shareholders. As auditors, PricewaterhouseCoopers LLP obtain an understanding of the Company's internal controls and procedures for financial reporting to plan and conduct such audit procedures as they consider necessary to express their 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, 2008. The total assets and total revenues of these majority-owned entities of the Company represent 1.6% and 1.4%, respectively, of the related consolidated financial statement amounts including discontinued operations as at and for the nine-month period ended December 31, 2008.

Management has assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2008, based on the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as at December 31, 2008, 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, 2008, has been audited by PricewaterhouseCoopers LLP, the Company's independent auditors as stated in their report which appears herein.

*/s/ Jay S. Hennick*
Chief Executive Officer
February 27, 2009

*/s/ John B. Friedrichsen*
Chief Financial Officer

**INDEPENDENT AUDITORS' REPORT**

To the Shareholders of FirstService Corporation

We have completed integrated audits of FirstService Corporation's December 31, 2008 and March 31, 2008 consolidated financial statements and of its internal control over financial reporting as at December 31, 2008 and audits of its 2007 and 2006 consolidated financial statements. Our opinions, based on our audits, are presented below.

**Consolidated financial statements**
We have audited the accompanying consolidated balance sheets of FirstService Corporation as at December 31, 2008, March 31, 2008 and March 31, 2007, and the related consolidated statements of earnings, shareholders' equity and cash flows for the nine-month period ended December 31, 2008 and each of the years in the three-year period ended March 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of the Company's financial statements as at December 31, 2008 and March 31, 2008 and for the nine months and year then ended in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). We conducted our audits of the Company's financial statements as at March 31, 2007 and March 31, 2006 and for the years then ended in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. A financial statement audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2008, March 31, 2008 and March 31, 2007 and the results of its operations and its cash flows for nine-month period ended December 31, 2008 and each of the years in the three-year period ended March 31, 2008 in accordance with accounting principles generally accepted in the United States of America.

**Internal control over financial reporting**
We have also audited FirstService Corporation's internal control over financial reporting as at December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible 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 the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and

performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 individually insignificant entities acquired by the Company from its assessment of internal control over financial reporting as at December 31, 2008 because these entities were acquired by the Company in purchase business combinations during the nine-month period ended December 31, 2008. The total assets and total revenues of these majority owned entities represent 1.6% and 1.4%, respectively, of the related consolidated financial statement amounts including discontinued operations as at and for the nine months ended December 31, 2008.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2008 based on criteria established in *Internal Control — Integrated Framework* issued by COSO.

*/s/ PricewaterhouseCoopers LLP*
Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 27, 2009

**Comments by auditor for U.S. readers on Canada-U.S. reporting differences**
In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the Company's consolidated financial statements, such as the change from the adoption of a new accounting standard on April 1, 2007 described in note 14 to the consolidated financial statements. Our report to the shareholders dated February 27, 2009 is expressed in accordance with Canadian reporting standards which do not require a reference to such a change in accounting principles in the Auditors' Report when the change is properly accounted for and adequately disclosed in the consolidated financial statements.

*/s/ PricewaterhouseCoopers LLP*
Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 27, 2009

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

| | Nine months ended December 31, 2008 | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| enues | | | | |
| rvices | **$ 1,280,167** | $1,486,972 | $1,043,768 | $855,572 |
| ducts | **42,513** | 62,741 | 109,053 | 63,096 |
| l revenues | **1,322,680** | 1,549,713 | 1,152,821 | 918,668 |
| t of revenues (exclusive of depreciation shown below) | | | | |
| rvices | **779,305** | 884,976 | 632,926 | 539,855 |
| ducts | **22,116** | 32,851 | 75,688 | 34,309 |
| ng, general and administrative expenses | **406,383** | 516,091 | 341,180 | 262,496 |
| reciation | **18,814** | 19,727 | 13,707 | 9,873 |
| rtization of intangible assets other than brokerage backlog | **11,229** | 12,730 | 6,161 | 3,494 |
| rtization of brokerage backlog | **1,703** | 5,216 | 6,154 | 7,554 |
| | **83,130** | 78,122 | 77,005 | 61,087 |
| est expense | **11,107** | 16,859 | 13,151 | 11,272 |
| est income | **(2,855)** | (3,472) | (5,308) | (1,038) |
| r income, net (note 5) | **(2,422)** | (4,650) | (4,589) | (3,766) |
| grated Security division divestiture bonus | **5,715** | - | - | - |
| airment loss on available-for-sale securities (note 7) | **14,680** | - | 3,139 | - |
| ings before income taxes and minority interest | **56,905** | 69,385 | 70,612 | 54,619 |
| me taxes (note 14) | **30,878** | 17,108 | 20,367 | 16,084 |
| ings before minority interest | **26,027** | 52,277 | 50,245 | 38,535 |
| rity interest share of earnings | **14,519** | 16,803 | 15,282 | 11,778 |
| earnings from continuing operations | **11,508** | 35,474 | 34,963 | 26,757 |
| earnings (loss) from discontinued operations, net of come taxes (note 4) | **50,528** | (1,075) | 1,253 | 42,740 |
| earnings before cumulative effect of change in accounting inciple | **62,036** | 34,399 | 36,216 | 69,497 |
| ulative effect of change in accounting principle, net of come taxes (note 2) | **-** | - | (1,353) | - |
| earnings | **$ 62,036** | $ 34,399 | $ 34,863 | $ 69,497 |
| erred share dividends | **7,760** | 6,952 | - | - |
| earnings available to common shareholders | **$ 54,276** | $ 27,447 | $ 34,863 | $ 69,497 |
| earnings (loss) per common share (note 15) | | | | |
| ic | | | | |
| ntinuing operations | **$ 0.12** | $ 0.95 | $ 1.17 | $ 0.89 |
| scontinued operations | **1.71** | (0.03) | 0.04 | 1.41 |
| umulative effect of change in accounting principle | **-** | - | (0.04) | - |
| | **$ 1.83** | $ 0.92 | $ 1.17 | $ 2.30 |
| ted | | | | |
| ntinuing operations | **$ 0.11** | $ 0.89 | $ 1.08 | $ 0.83 |
| scontinued operations | **1.70** | (0.04) | 0.04 | 1.38 |
| umulative effect of change in accounting principle | **-** | - | (0.04) | - |
| | **$ 1.81** | $ 0.85 | $ 1.08 | $ 2.21 |

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

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

| | December 31, 2008 | March 31, 2008 | March 31, 2007 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | **$ 79,642** | $ 75,371 | $ 97,191 |
| Restricted cash | **10,240** | 8,858 | 16,930 |
| Accounts receivable, net of an allowance of $12,817 (March 31, 2008 - $10,716; March 31, 2007 - $7,543) | **175,520** | 185,384 | 128,568 |
| Income taxes recoverable | **18,080** | 16,887 | 9,968 |
| Inventories (note 6) | **10,572** | 11,178 | 10,124 |
| Prepaid expenses and other current assets | **20,876** | 20,748 | 15,508 |
| Deferred income taxes (note 14) | **11,718** | 19,540 | 10,430 |
| Assets held for sale (note 4) | **14,210** | 90,849 | 73,638 |
| | **340,858** | 428,815 | 362,357 |
| Other receivables | **16,832** | 4,445 | 6,599 |
| Other assets (note 7) | **12,459** | 29,383 | 28,942 |
| Fixed assets (note 8) | **76,789** | 79,949 | 60,880 |
| Deferred income taxes (note 14) | **10,072** | 12,194 | 2,684 |
| Intangible assets (note 9) | **178,227** | 163,220 | 92,064 |
| Goodwill (note 10) | **348,897** | 311,413 | 209,652 |
| Assets held for sale (note 4) | **6,503** | 59,924 | 53,820 |
| | **649,779** | 660,528 | 454,641 |
| | **$ 990,637** | $1,089,343 | $ 816,998 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable | **$ 58,172** | $ 49,465 | $ 28,905 |
| Accrued liabilities (note 6) | **157,820** | 188,130 | 150,313 |
| Income taxes payable | **7,567** | 36 | 4,390 |
| Unearned revenues | **27,600** | 23,846 | 17,282 |
| Long-term debt – current (note 11) | **20,899** | 24,777 | 22,101 |
| Deferred income taxes (note 14) | **75** | 411 | 3,318 |
| Liabilities related to assets held for sale (note 4) | **12,946** | 46,977 | 30,518 |
| | **285,079** | 333,642 | 256,827 |
| Long-term debt – non-current (note 11) | **245,470** | 331,253 | 213,030 |
| Other liabilities | **21,832** | 17,914 | 4,506 |
| Deferred income taxes (note 14) | **42,072** | 41,618 | 29,084 |
| Liabilities related to assets held for sale (note 4) | **278** | 763 | 370 |
| Minority interest | **50,067** | 58,468 | 48,306 |
| | **359,719** | 450,016 | 295,296 |
| **Shareholders' equity** | | | |
| Preferred shares (note 12) | **144,307** | 149,477 | - |
| Common shares (note 12) | **86,913** | 88,919 | 80,108 |
| Contributed surplus | **25,899** | 13,135 | 6,557 |
| Receivables pursuant to share purchase plan | **-** | (765) | (1,232) |
| Retained earnings | **88,349** | 43,415 | 175,346 |
| Accumulated other comprehensive earnings | **371** | 11,504 | 4,096 |
| | **345,839** | 305,685 | 264,875 |
| | **$ 990,637** | $1,089,343 | $ 816,998 |

**Commitments and contingencies (notes 12 and 18)**

**The accompanying notes are an integral part of these consolidated 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 amounts)

| | Preferred shares | | Common shares | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued and out-standing shares (note 12) | Amount | Issued and outstanding shares (note 12) | Amount | Contri-buted surplus | Receivables pursuant to share purchase plan | Retained earnings | Accumulated other comprehen-sive earnings (loss) | Total shareholders' equity |
| Balance, March 31, 2005 | - | - | 30,192,788 | $73,542 | $ 805 | $ (2,148) | $103,011 | $ 10,661 | $ 185,871 |
| Comprehensive earnings: | | | | | | | | | |
| Net earnings | - | - | - | - | - | - | 69,497 | - | 69,497 |
| Foreign currency translation adjustments | - | - | - | - | - | - | - | (7,988) | (7,988) |
| Unrealized loss on available for-sale equity securities, net of income taxes of $335 | - | - | - | - | - | - | - | (1,528) | (1,528) |
| Comprehensive earnings | | | | | | | | | 59,981 |
| Subordinate Voting Shares: | | | | | | | | | |
| Stock option expense | - | - | - | - | 1,380 | - | - | - | 1,380 |
| Stock options exercised | - | - | 434,650 | 3,740 | (22) | - | - | - | 3,718 |
| Purchased for cancellation | - | - | (571,650) | (1,595) | - | - | (12,116) | - | (13,711) |
| Cash payments received | - | - | - | - | - | 513 | - | - | 513 |
| Balance, March 31, 2006 | - | - | 30,055,788 | 75,687 | 2,163 | (1,635) | 160,392 | 1,145 | 237,752 |
| SAB 108 adjustment (note 22) | - | - | - | - | - | - | (5,377) | - | (5,377) |
| Comprehensive earnings: | | | | | | | | | |
| Net earnings | - | - | - | - | - | - | 34,863 | - | 34,863 |
| Foreign currency translation adjustments | - | - | - | - | - | - | - | 1,423 | 1,423 |
| Reclass to earnings of unrealized loss on available-for-sale equity securities, net of income taxes of $335 | - | - | - | - | - | - | - | 1,528 | 1,528 |
| Comprehensive earnings | | | | | | | | | 37,814 |
| Subsidiaries' equity transactions | - | - | - | - | 2,562 | - | - | - | 2,562 |
| Subordinate Voting Shares: | | | | | | | | | |
| Stock option expense | - | - | - | - | 1,879 | - | - | - | 1,879 |
| Stock options exercised | - | - | 564,800 | 6,482 | (47) | - | - | - | 6,435 |
| Purchased for cancellation | - | - | (697,700) | (2,061) | - | - | (14,532) | - | (16,593) |
| Cash payments received | - | - | - | - | - | 403 | - | - | 403 |
| Balance, March 31, 2007 | - | - | 29,922,888 | 80,108 | 6,557 | (1,232) | 175,346 | 4,096 | 264,875 |

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands of US dollars, except share amounts)

| | Preferred shares | | Common shares | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued and out-standing shares (note 12) | Amount | Issued and outstanding shares (note 12) | Amount | Contri-buted surplus | Receivables pursuant to share purchase plan | Retained earnings | Accumulated other comprehen-sive earnings (loss) | Total shareholders' equity |
| Balance, March 31, 2007 | - | - | 29,922,888 | 80,108 | 6,557 | (1,232) | 175,346 | 4,096 | 264,875 |
| FIN 48 adjustment (note 14) | - | - | - | - | - | - | (4,200) | - | (4,200) |
| Comprehensive earnings: | | | | | | | | | |
| Net earnings | - | - | - | - | - | - | 34,399 | - | 34,399 |
| Foreign currency translation adjustments | - | - | - | - | - | - | - | 7,497 | 7,497 |
| Unrealized loss on available-for-sale equity securities, net of income taxes of $20 | - | - | - | - | - | - | - | (89) | (89) |
| Comprehensive earnings | | | | | | | | | 41,807 |
| Subsidiaries' equity transactions | - | - | - | - | 1,634 | - | - | - | 1,634 |
| Subordinate Voting Shares: | | | | | | | | | |
| Issued for purchase of minority interest | - | - | 282,649 | 5,868 | - | - | - | - | 5,868 |
| Stock option expense | - | - | - | 2,440 | 3,498 | - | - | - | 5,938 |
| Stock options exercised | - | - | 159,550 | 1,372 | (198) | - | - | - | 1,174 |
| Purchased for cancellation | - | - | (252,500) | (869) | - | - | (5,701) | - | (6,570) |
| Cash payments received | - | - | - | - | 1,644 | 467 | - | - | 2,111 |
| Stock dividend (note 12) | 5,979,074 | 149,477 | - | - | - | - | (149,477) | - | - |
| Preferred Shares: | | | | | | | | | |
| Dividends (note 12) | - | - | - | - | - | - | (6,952) | - | (6,952) |
| Balance, March 31, 2008 | 5,979,074 | 149,477 | 30,112,587 | 88,919 | 13,135 | (765) | 43,415 | 11,504 | 305,685 |
| Comprehensive earnings: | | | | | | | | | |
| Net earnings | - | - | - | - | - | - | 62,036 | - | 62,036 |
| Foreign currency translation adjustments | - | - | - | - | - | - | - | (11,222) | (11,222) |
| Reclass to earnings of unrealized loss on available-for-sale equity securities, net of income taxes of $20 | - | - | - | - | - | - | - | 89 | 89 |
| Comprehensive earnings | | | | | | | | | 50,903 |
| Subsidiaries' equity transactions | - | - | - | - | 11,268 | - | - | - | 11,268 |
| Subordinate Voting Shares: | | | | | | | | | |
| Issued for purchase of minority interest | - | - | 23,952 | 263 | - | - | - | - | 263 |
| Stock option expense | - | - | - | - | 1,723 | - | - | - | 1,723 |
| Tax benefit on options exercised | - | - | - | - | 376 | - | - | - | 376 |
| Stock options exercised | - | - | 157,245 | 1,388 | (603) | - | - | - | 785 |
| Purchased for cancellation | - | - | (960,300) | (3,657) | - | - | (11,123) | - | (14,780) |
| Cash payments received | - | - | - | - | - | 765 | - | - | 765 |
| Preferred Shares: | | | | | | | | | |
| Purchased for cancellation | (206,800) | (5,170) | - | - | - | - | 1,781 | - | (3,389) |
| Dividends (note 12) | - | - | - | - | - | - | (7,760) | - | (7,760) |
| **Balance, December 31, 2008** | **5,772,274** | **$144,307** | **29,333,484** | **$86,913** | **$25,899** | **$ -** | **$ 88,349** | **$ 371** | **$ 345,839** |

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

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

| **Cash provided by (used in)** | **Nine months ended December 31, 2008** | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net earnings | **$ 62,036** | $ 34,399 | $ 34,863 | $ 69,497 |
| Cumulative effect of change in accounting principle | **-** | - | 1,353 | - |
| Net (earnings) loss from discontinued operations | **(50,528)** | 1,075 | (1,253) | (42,740) |
| Items not affecting cash: | | | | |
| Depreciation and amortization | **31,746** | 37,673 | 26,022 | 20,921 |
| Deferred income taxes | **10,125** | (19,860) | (7,142) | (3,970) |
| Minority interest share of earnings | **14,519** | 16,803 | 15,282 | 11,778 |
| Stock option expense | **1,620** | 7,446 | 3,707 | 1,932 |
| Impairment loss on available-for-sale securities | **14,680** | - | 3,139 | - |
| Other | **822** | 2,446 | (1,036) | 716 |
| Incremental tax benefit on stock options exercised | **(5,184)** | - | - | - |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | **16,584** | (23,222) | (14,116) | (12,664) |
| Inventories | **(61)** | (915) | (3,022) | (3,124) |
| Prepaid expenses and other assets | **1,397** | (3,431) | (1,459) | (2,658) |
| Accounts payable | **13,144** | 1,058 | (9,932) | 7,425 |
| Accrued liabilities | **(55,268)** | 23,409 | 28,912 | 13,531 |
| Income taxes | **1,858** | (22,095) | (6,612) | (5,047) |
| Unearned revenues | **(917)** | 3,994 | 293 | 190 |
| Other liabilities | **11,622** | - | - | - |
| Discontinued operations | **(1,815)** | (1,610) | (9,209) | 3,562 |
| Net cash provided by operating activities | **66,380** | 57,170 | 59,790 | 59,349 |
| **Investing activities** | | | | |
| Acquisitions of businesses, net of cash acquired | **(36,494)** | (152,529) | (66,617) | (14,105) |
| Purchases of minority shareholders' interests in subsidiaries | **(38,463)** | (6,773) | (6,437) | (11,625) |
| Sales of interests in subsidiaries to minority shareholders | **168** | 3,294 | 3,167 | - |
| Purchases of fixed assets | **(14,719)** | (31,624) | (25,095) | (16,242) |
| Proceeds on sale of equity securities | **-** | - | 4,875 | - |
| Changes in restricted cash | **(1,381)** | 8,071 | (9,797) | - |
| Other investing activities | **(2,679)** | 3,790 | (78) | (383) |
| Discontinued operations | **153,682** | (3,794) | (2,163) | 98,837 |
| Net cash provided by (used in) investing activities | **60,114** | (179,565) | (102,145) | 56,482 |
| **Financing activities** | | | | |
| Increase in long-term debt | **89,238** | 206,924 | 5,935 | 102,614 |
| Repayment of long-term debt | **(180,033)** | (87,386) | (21,430) | (74,100) |
| Financing fees paid | **-** | (544) | (150) | (1,396) |
| Proceeds received on exercise of stock options | **785** | 1,174 | 6,435 | 3,740 |
| Incremental tax benefit on stock options exercised | **5,184** | - | - | - |
| Repurchase of Subordinate Voting Shares | **(14,780)** | (6,570) | (16,593) | (13,711) |
| Repurchase of Preferred Shares | **(3,389)** | - | - | - |
| Collection of receivables pursuant to share purchase plan | **765** | 467 | 403 | 513 |
| Capital contributions | **-** | 1,644 | - | - |
| Dividends paid to preferred shareholders | **(7,760)** | (6,952) | - | - |
| Distributions paid to minority shareholders of subsidiaries | **(11,379)** | (6,878) | (3,296) | (1,939) |
| Discontinued operations | **-** | (5,184) | 4,904 | - |
| Net cash (used in) provided by financing activities | **(121,369)** | 96,695 | (23,792) | 15,721 |
| Effect of exchange rate changes on cash and cash equivalents | **(5,742)** | 2,196 | 2,379 | (1,072) |
| (Decrease) increase in cash and cash equivalents during the period | **(617)** | (23,504) | (63,768) | 130,480 |
| Cash and cash equivalents, beginning of period | **$ 75,371** | $ 97,191 | $ 164,407 | $ 30,511 |
| Amount held by discontinued operations | **5,295** | 6,979 | 3,531 | 6,947 |
| | **80,666** | 104,170 | 167,938 | 37,458 |
| Cash and cash equivalents, end of period | **$ 79,642** | $ 75,371 | $ 97,191 | $164,407 |
| Amount held by discontinued operations | **407** | 5,295 | 6,979 | 3,531 |
| | **80,049** | 80,666 | 104,170 | 167,938 |

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

## 1. Description of the business

FirstService Corporation (the "Company") is a provider of real estate-related services to commercial, institutional and residential customers in North America and various countries around the world. The Company's operations are conducted in three segments: Commercial Real Estate Services, Residential Property Management and Property Services. As described in note 4, the Company reported two former segments in discontinued operations: (i) Integrated Security Services segment, which was sold on July 1, 2008 and (ii) Business Services segment, which was disposed in March 2006.

On May 14, 2008, the Company's Board of Directors approved a change in the Company's fiscal year-end from March 31 to December 31. Accordingly, these consolidated financial statements have been prepared for the nine-month period ended December 31, 2008. See note 21 for unaudited comparative prior period results for the nine-month period.

## 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 fair value determination of assets acquired and liabilities assumed in business combinations, impairment testing of fair values of goodwill and intangible assets, the collectibility of accounts receivable and determination of deferred income taxes. 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 and cash equivalents over which the Company has legal ownership but is restricted as to its availability or intended use, including funds restricted by statutory deposit requirements and funds held on behalf of clients.

**Inventories**
Inventories are carried at the lower of cost and net realizable value. Cost is determined by the weighted average or first in, first out methods.

**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 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 as a component of other assets. Investments in available-for-sale marketable equity securities are carried at fair value with unrealized gains and losses included in other comprehensive earnings on an after-tax basis. Other-than-temporary impairment losses are recorded in current period earnings. Investments in held-to-maturity marketable debt securities are carried at amortized cost and are subject to impairment testing. Investments in other equity securities are accounted for using the equity method or cost method, as applicable, and are subject to impairment testing. Realized gains or losses and equity earnings or losses are recorded in other income.

**Fair value**

On April 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. As a result of FASB Staff Position No. 157-2, the application of SFAS 157 is delayed to January 1, 2009 for all non-financial assets and liabilities that are recognized or disclosed at fair value on a non-recurring basis.

The adoption of SFAS 157 did not have a material effect on the Company's results of operations or financial position, however additional disclosures are now required (see note 17). Financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy. A financial 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

**Financing fees**

Financing fees related to the revolving credit facility and Senior Notes 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 cost and, where lives are finite, are amortized over their estimated useful lives as follows:

| | |
|---|---|
| Customer lists and relationships | straight-line over 4 to 25 years |
| Franchise rights | by pattern of use, currently estimated at 2.5% to 15% per year |
| Trademarks and trade names: | |
| Indefinite life | not amortized |

| | | |
|---|---|---|
| | Finite life | 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 or more frequently if events or changes in circumstances indicate the asset might be impaired, in which case the carrying amount of the asset is written down to fair value. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a discounted cash flow approach. If the carrying amount of the reporting unit exceeds its fair value, then a second step is performed to measure the amount of impairment loss, if any. Impairment of indefinite life intangible assets is tested by comparing the carrying amount to fair value on an individual intangible asset basis.

**Revenue recognition and unearned revenue**

*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 generally 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 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 or the product is shipped. Revenues from painting, restoration and real estate project management and appraisal projects in process are recognized on the percentage of completion method, generally 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**

On April 1, 2006, the Company adopted SFAS No. 123R, *Share Based Payment*, ("SFAS 123R") using the modified prospective approach. The aggregate cumulative effect of the change in accounting principle upon adoption of this standard, net of income taxes of nil, was $1,353.

SFAS 123R requires that, 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 ten year term and vest after 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 fair 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 the consolidated statement of earnings and the liability is recorded in accrued liabilities on the consolidated balance sheet.

**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 cumulative 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 taxes**

Income taxes have 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 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.

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

On April 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109*, ("FIN 48") which clarifies the accounting and reporting for uncertainties in income tax law (see note 14). In

accordance with FIN 48, the Company classifies interest and penalties associated with income tax positions in income tax expense.

**Prior period comparative information**
In prior periods, earned but unbilled revenues related to staffing services were classified within inventory. These amounts are classified within accounts receivable as at December 31, 2008. Comparative figures have been adjusted for this classification change in the amounts of $9,340 as of March 31, 2008 (March 31, 2007 - $5,169).

## 3. Acquisitions

*Nine months ended December 31, 2008 acquisitions:*
The Company completed six individually insignificant acquisitions across the three operating segments during the nine-month period ended December 31, 2008. The Company acquired minority interests from shareholders in all operating segments.

Certain of the purchase price allocations for these acquisitions are preliminary pending finalization of analyses of the assets acquired and liabilities assumed. Details of these acquisitions are as follows:

| | Nine months ended December 31, 2008 | |
|---|---|---|
| | Aggregate acquisitions | Purchases of minority shareholders' interests |
| Current assets | $ 7,897 | $ - |
| Long-term assets | 286 | 619 |
| Current liabilities | (3,919) | - |
| Long-term liabilities | (1,901) | (5,447) |
| Minority interest | (2,472) | 8,398 |
| | (109) | 3,570 |
| Subordinate Voting Share consideration | $ - | $ 263 |
| Cash consideration | $ 31,760 | $ 38,463 |
| Acquired intangible assets | 13,652 | 17,149 |
| Goodwill | 18,217 | 18,007 |

*Year ended March 31, 2008 acquisitions:*
On October 1, 2007, the Company acquired 80% of the shares of Field Asset Services, Inc., a provider of property services to foreclosed residential properties on behalf of its financial institution clients, headquartered in Austin, Texas. The Company also completed 14 individually insignificant acquisitions in its Commercial Real Estate Services, Residential Property Management and Property Services segments during the year ended March 31, 2008. The Company acquired minority interests from shareholders in all operating segments.

Details of the initial acquisition allocations are as follows:

| | Year ended March 31, 2008 | | |
|---|---|---|---|
| | Field Asset Services, Inc. | Aggregate other acquisitions | Purchases of minority shareholders' interests |
| Current assets | $ 9,012 | $ 26,894 | $ 92 |
| Long-term assets | 564 | 9,052 | (695) |
| Current liabilities | (10,855) | (41,135) | (276) |
| Long-term liabilities | - | (16,880) | (2,321) |
| Minority interest | (89) | (3,109) | 4,253 |
| | (1,368) | (25,178) | 1,053 |
| Subordinate Voting Share consideration | $ - | $ - | $ 5,868 |
| Cash consideration | $ 43,337 | $ 102,226 | $ 6,773 |
| Acquired intangible assets | 22,080 | 59,277 | 6,069 |
| Goodwill | 22,625 | 68,127 | 5,519 |

*Year ended March 31, 2007 acquisitions:*

On May 19, 2006, the Company acquired all of the shares of PRDnationwide Group, a commercial real estate services business headquartered in Brisbane, Australia. The Company also completed 12 individually insignificant acquisitions in all three operating segments during the year ended March 31, 2007. The Company also acquired minority interests from shareholders in all segments, but primarily in Commercial Real Estate Services.

Details of the initial acquisition allocations are as follows:

| | Year ended March 31, 2007 | | |
|---|---|---|---|
| | PRDnationwide Group | Aggregate other acquisitions | Purchases of minority shareholders' interests |
| Current assets | $ 2,134 | $ 16,390 | $ - |
| Long-term assets | 2,627 | 22,162 | (1,561) |
| Current liabilities | (4,796) | (34,096) | 201 |
| Long-term liabilities | (4,892) | (7,074) | (48) |
| Minority interest | (223) | (6,200) | 645 |
| | (5,150) | (8,818) | (763) |
| Note consideration | $ - | $ 2,522 | $ 1,044 |
| Cash consideration | $ 21,475 | $ 43,604 | $ 6,603 |
| Acquired intangible assets | 9,519 | 29,156 | 2,376 |
| Goodwill | 17,106 | 25,788 | 6,034 |

*Year ended March 31, 2006 acquisitions:*

During the year ended March 31, 2006, the Company completed six individually insignificant acquisitions in all three operating segments. The Company also acquired minority interests from shareholders in all segments.

Details of the initial acquisition allocations are as follows:

| | Year ended March 31, 2006 | |
|---|---|---|
| | Aggregate acquisitions | Purchases of minority shareholders' interests |
| Current assets | $ 5,915 | $ - |
| Long-term assets | 2,257 | - |
| Current liabilities | (11,931) | - |
| Long-term liabilities | (5,899) | (2,254) |
| Minority interest | (840) | 2,679 |
| | (10,498) | 425 |
| Note consideration | $ 3,050 | $ - |
| Cash consideration | $ 11,346 | $ 11,998 |
| Acquired intangible assets | 14,854 | 6,213 |
| Goodwill | 10,040 | 5,360 |

The purchase prices 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 nine-month period ended December 31, 2008, goodwill in the amount of $9,575 is deductible for income tax purposes (year ended March 31, 2008 - $49,410; year ended March 31, 2007 - $6,814; year ended March 31, 2006 - nil).

Certain vendors, at the time of acquisition, are entitled to receive contingent consideration if the acquired businesses achieve specified earnings levels during the one- to four-year periods following the dates of acquisition. Such contingent consideration is paid in cash at the expiration of the contingency period. As at December 31, 2008, there was contingent consideration outstanding of up to $51,800 (March 31, 2008 - $53,600; March 31, 2007 - $14,800). The contingencies will expire during the period extending to February 2012. The contingent consideration 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, including interest, if any, as additional costs of the acquired businesses. Total contingent consideration recognized for the nine-month period ended December 31, 2008 was $10,242, net of income tax of nil (year ended March 31, 2008 - $2,864, net of income tax of $1; year ended March 31, 2007 - $5,732, net of income tax of $342; year ended March 31, 2006 - $2,759 net of income tax of $90). Contingent consideration paid during the nine-month period ended December 31, 2008 was $4,734 (year ended March 31, 2008 - $6,848; year ended March 31, 2007 - $1,747) and the amount payable as at December 31, 2008 was $5,508 (March 31, 2008 - nil; March 31, 2007 - $4,306); see note 6.

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 nine-month period ended December 31, 2008 was financed from cash on hand and borrowings on the Company's revolving credit facility.

Following are the Company's unaudited consolidated pro forma results assuming the acquisitions occurred on the first day of the period of acquisition. The year immediately prior to the period of acquisition also includes the pro forma results of the acquisitions.

| (unaudited) | Nine months ended December 31, 2008 | Year ended March 31, 2008 |
|---|---|---|
| Pro forma revenues | $ 1,356,153 | $1,761,163 |
| Pro forma net earnings from continuing operations | 12,587 | 41,198 |
| | | |
| Pro forma net earnings per share from continuing operations | | |
| Basic | $ 0.16 | $ 1.15 |
| Diluted | 0.14 | 1.07 |

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

**4. Dispositions**

On July 1, 2008, the Company completed the sale of the businesses comprising its Integrated Security Services ("ISS") segment. As a condition to closing, the Company was required to acquire the minority interests of its non-wholly owned ISS subsidiaries. The Company received aggregate cash consideration of $162,385 ($155,031 net of cash sold). The pre-tax gain on the disposal was $80,497, before current income taxes of $10,788, resulting in a net gain of $69,709. The net gain on disposal included the realization of a gain of $6,792 related to cumulative foreign currency translation. The ISS segment has been reported as discontinued operations for all periods presented.

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. USMB is classified as held for sale as of December 31, 2008, and its operating results are reported as discontinued operations for all periods presented. 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 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 and related taxes and interest rate derivative contracts. The mortgage assets are expected to be sold as soon as practicable. This operation has been reported as discontinued operations for all periods presented.

On March 17, 2006, the Company sold its 88.3% interest in Resolve Corporation ("Resolve"), its Business Services segment, to a subsidiary of Resolve Business Outsourcing Income Fund ("RBO Fund") upon the initial public offering of RBO Fund. The Company received aggregate consideration of $137,393, comprised of $116,972 in the form of cash ($110,476 net of cash sold) and $20,421 in the form of equity securities of a subsidiary of RBO Fund, which are exchangeable for publicly traded units of RBO Fund. These securities are classified as available-for-sale (note 7). The pre-tax gain on the disposal was $44,082, before current income taxes of $4,693 and deferred income taxes of $3,570, resulting in a net gain of $35,819. The net gain on disposal included the realization of a gain of $5,487 related to cumulative foreign currency translation. Resolve is reported as discontinued operations for all periods presented.

During the year ended March 31, 2008, a gain was recognized in connection with the settlement of a liability related to the Resolve disposal. The settlement resulted in a cash

payment to the purchaser of the disposed operation in the amount of $1,036 and a gain on settlement in the amount of $2,265 (including an income tax benefit of $187).

The operating results of the discontinued operations are as follows:

| **Operating results** | **Nine months ended December 31, 2008** | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Revenues | | | | |
| ISS | **$ 47,158** | $208,430 | $176,475 | $149,064 |
| USMB | **8,840** | 23,502 | 28,169 | - |
| CCMS | **(6,407)** | (9,064) | 2,221 | 402 |
| Resolve | **-** | - | - | 160,204 |
| | **49,591** | 222,868 | 206,865 | 309,670 |
| Operating earnings (loss) before income taxes | | | | |
| ISS | **$ 1,595** | $ 10,174 | $ 5,337 | $ 3,217 |
| USMB | **(5,566)** | (3,322) | (1,038) | - |
| CCMS | **(5,651)** | (11,413) | (1,205) | (816) |
| Resolve | **-** | 2,078 | (728) | 7,429 |
| | **(9,622)** | (2,483) | 2,366 | 9,830 |
| (Recovery of) provision for income taxes | **(1,462)** | (1,408) | 1,113 | 2,909 |
| Net operating (loss) earnings from discontinued operations | **(8,160)** | (1,075) | 1,253 | 6,921 |
| Net gain on disposal | **69,709** | - | - | 35,819 |
| Net loss on write down of USMB | **(11,021)** | - | - | - |
| Net earnings (loss) from discontinued operations | **$ 50,528** | $ (1,075) | $ 1,253 | $ 42,740 |
| Net earnings (loss) per share from discontinued operations | | | | |
| Basic | **$ 1.71** | $ (0.03) | $ 0.04 | $ 1.41 |
| Diluted | **1.70** | (0.04) | 0.04 | 1.38 |

The assets and liabilities of ISS are classified as held for sale and are as follows:

| **Balance sheets** | **December 31, 2008** | March 31, 2008 | March 31, 2007 |
|---|---|---|---|
| **Assets held for sale** | | | |
| Cash and cash equivalents | **$ -** | $ 3,834 | $ 1,210 |
| Accounts receivable, net | **-** | 46,937 | 38,900 |
| Inventories | **-** | 15,164 | 16,475 |
| Prepaid expenses and other current assets | **-** | 856 | 1,158 |
| Fixed assets | **-** | 5,153 | 4,500 |
| Goodwill | **-** | 30,630 | 30,784 |
| Other | **-** | 2,671 | 2,272 |
| Total | **$ -** | $ 105,245 | $ 95,299 |
| | | | |
| **Liabilities held for sale** | | | |
| Bank overdraft | **$ -** | $ - | $ 5,132 |
| Accounts payable | **-** | 11,765 | 6,516 |
| Accrued liabilities | **-** | 18,048 | 15,139 |
| Unearned revenues | **-** | 3,585 | 3,001 |
| Other | **-** | 472 | 18 |
| Total | **$ -** | $ 33,870 | $ 29,806 |

The assets and liabilities of USMB are classified as held for sale and are as follows:

| Balance sheets | December 31, 2008 | March 31, 2008 | March 31, 2007 |
|---|---|---|---|
| **Assets held for sale** | | | |
| Cash and cash equivalents | **$ 406** | $ 1,447 | $ 5,615 |
| Accounts receivable, net | **714** | 1,005 | 1,268 |
| Deferred income taxes | **-** | 1,888 | 963 |
| Fixed assets | **594** | 1,042 | 812 |
| Goodwill | **-** | 10,682 | 10,694 |
| Intangible assets | **1,886** | 2,699 | 3,177 |
| Other | **294** | 244 | 266 |
| Total | **$ 3,894** | $ 19,007 | $ 22,795 |
| | | | |
| **Liabilities held for sale** | | | |
| Accrued liabilities | **$ 1,790** | $ 1,219 | $ 4,041 |
| Other | **278** | 321 | 1,209 |
| Total | **$ 2,068** | $ 1,540 | $ 5,250 |

The assets and liabilities of CCMS are classified as held for sale and are as follows:

| Balance sheets | December 31, 2008 | March 31, 2008 | March 31, 2007 |
|---|---|---|---|
| **Assets held for sale** | | | |
| Cash and cash equivalents | **$ 1** | $ 14 | $ 154 |
| Mortgage loans receivable | **12,679** | 20,809 | 13,716 |
| Deferred income taxes | **3,945** | 6,803 | 503 |
| Other | **194** | 642 | 124 |
| Total | **$ 16,819** | 28,268 | $ 14,497 |
| | | | |
| **Liabilities held for sale** | | | |
| Interest rate derivative contracts | **$ 10,820** | $ 11,724 | $ 368 |
| Other | **336** | 2,354 | 595 |
| Total | **$ 11,156** | $ 14,078 | $ 963 |

CCMS has fixed-rate commercial mortgage loans receivable. The mortgages were funded under co-lending agreements whereby CCMS advanced 20% or less of the principal amount. The co-lenders advanced 80% or more of the principal amount directly to the borrowers. The CCMS interest in the mortgages is subordinate to the co-lenders' interests. CCMS has the right to purchase the co-lenders' interest in any mortgage at any time at par value and the co-lenders have the right to purchase the CCMS interest in the mortgages after six months at par value. Mortgage loans receivable are carried on an individual basis at the lower of cost and market, which is calculated based on contractually established commitments from investors or current investor yield requirements.

When CCMS sells mortgage loans, the mortgage loans are removed from the balance sheet and a gain or loss is recognized in current period earnings immediately, based on the carrying values of the mortgage loans transferred. Servicing rights are sold with the mortgages and it is CCMS policy not to retain a residual interest in the mortgages sold.

CCMS entered into interest rate derivative contracts to cover the full value of the mortgages written, including the portion funded by a co-lender which CCMS has the right and intention to call, while mortgages await sale. The contracts are recorded on the consolidated balance sheets as assets or liabilities and carried at fair value. Changes in the fair value of contracts are recognized in net earnings from discontinued operations. The contracts effectively convert the fixed-rate mortgage loans to floating rates. Hedge

accounting has not been accorded to the portion of the contracts that match the mortgages held for sale as the contracts do not meet the criteria for hedge accounting.

As at December 31, 2008, CCMS had interest rate derivative contracts to convert $60,344 of fixed-rate mortgage loans receivable to floating rates (March 31, 2008 - $143,500; March 31, 2007 - $167,807) with a fair value loss of $10,758 (March 31, 2008 - $11,724; March 31, 2007 – gain of $368). The derivative contracts expire on March 31, 2009. The fair values of derivative contracts are determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date.

For the nine-month period ended December 31, 2008 a loss of $6,407 was recorded in discontinued operations relating to the derivative contracts, which was comprised of $875 unrealized losses (year ended March 31, 2008 - unrealized losses of $11,278; year ended March 31, 2007 - unrealized gains of $3,245) on outstanding contracts and $5,532 of realized losses (year ended March 31, 2008 - realized gains of $1,812; year ended March 31, 2007 - realized losses of $3,613) on the settlement of the contracts.

During the nine-month period ended December 31, 2008, CCMS recognized pre-tax gains (after realized gains on derivatives contracts) of nil (year ended March 31, 2008 - $2,516; year ended March 31, 2007 - $2,120) on the securitization of mortgage loans with unpaid principal balances of nil (year ended March 31, 2008 - - $195,903; year ended March 31, 2007 - $39,208). In connection with the sale of mortgages, CCMS is obligated to cure or repurchase any mortgage sold that has a breach or defect related to the origination and underwriting process. As at December 31, 2008, the Company determined that the fair value of future payments under this obligation was nil. The fair value was initially measured based on a the present value of the expected cash flows in conjunction with considering the premium that would be required to issue a similar guarantee in a standalone arm's length transaction with an unrelated party.

**5. Other income**

| | **Nine months ended December 31, 2008** | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Earnings from available-for-sale securities | **$ 1,268** | $ 2,292 | $ 2,078 | $ - |
| Earnings from equity method investments | **207** | 2,006 | 1,625 | 1,329 |
| Net gain on sale of equity securities | **-** | - | 886 | 2,211 |
| Other | **947** | 352 | - | 226 |
| | **$ 2,422** | $ 4,650 | $ 4,589 | $ 3,766 |

**6. Components of working capital accounts**

| | December 31, 2008 | March 31, 2008 | March 31, 2007 |
|---|---|---|---|
| **Inventories** | | | |
| Work-in-progress | **$ 4,465** | $ 3,530 | $ 3,295 |
| Finished goods | **2,797** | 4,251 | 4,350 |
| Supplies and other | **3,310** | 3,397 | 2,479 |
| | **$ 10,572** | $ 11,178 | $ 10,124 |
| | | | |
| **Accrued liabilities** | | | |
| Accrued payroll, commission and benefits | **$ 107,756** | $ 159,696 | $ 92,668 |
| Accrued interest | **2,160** | 3,871 | 4,159 |
| Customer advances | **3,161** | 2,937 | 9,713 |
| Contingent acquisition consideration payable | **5,508** | - | 4,306 |
| Liabilities in connection with Resolve operation | **-** | - | 2,912 |
| Other | **39,235** | 21,626 | 36,555 |
| | **$ 157,820** | $ 188,130 | $ 150,313 |

**7. Other assets**

| | December 31, 2008 | March 31, 2008 | March 31, 2007 |
|---|---|---|---|
| Available-for-sale equity securities | **$ 2,720** | $ 17,291 | $ 17,419 |
| Equity method investments | **2,703** | 5,086 | 5,046 |
| Held-to-maturity debt securities | **2,446** | 2,280 | 3,763 |
| Financing fees, net of accumulated amortization of $1,655 (March 31, 2008 - $1,703; March 31, 2007 - $1,554) | **1,223** | 1,754 | 1,690 |
| Other | **3,367** | 2,972 | 1,024 |
| | **$ 12,459** | $ 29,383 | $ 28,942 |

The Company's available-for-sale equity securities consist of securities of a subsidiary of RBO Fund (see note 4). During the nine-month period ended December 31, 2008, the Company's available-for-sale securities were deemed to be other-than-temporarily impaired and a non-cash charge of $14,680 ($12,038 net of income taxes) was recorded in the statement of earnings as of December 31, 2008.

**8. Fixed assets**

| **December 31, 2008** | Cost | Accumulated depreciation | **Net** |
|---|---|---|---|
| Land | $ 3,070 | $ - | **3,070** |
| Buildings | 11,683 | 2,717 | **8,966** |
| Vehicles | 22,158 | 14,842 | **7,316** |
| Furniture and equipment | 51,713 | 28,678 | **23,035** |
| Computer equipment and software | 47,457 | 25,100 | **22,357** |
| Leasehold improvements | 27,814 | 15,769 | **12,045** |
| | 163,895 | 87,106 | **76,789** |

| March 31, 2008 | Cost | Accumulated depreciation | Net |
|---|---|---|---|
| Land | $ 3,070 | $ - | $ 3,070 |
| Buildings | 11,683 | 2,517 | 9,166 |
| Vehicles | 21,217 | 13,050 | 8,167 |
| Furniture and equipment | 46,327 | 21,850 | 24,477 |
| Computer equipment and software | 40,462 | 18,681 | 21,781 |
| Leasehold improvements | 24,874 | 11,586 | 13,288 |
| | $147,633 | $ 67,684 | $79,949 |

| March 31, 2007 | Cost | Accumulated depreciation | Net |
|---|---|---|---|
| Land | $ 3,070 | $ - | $ 3,070 |
| Buildings | 11,225 | 2,093 | 9,132 |
| Vehicles | 18,425 | 10,742 | 7,683 |
| Furniture and equipment | 31,486 | 13,910 | 17,576 |
| Computer equipment and software | 26,060 | 11,452 | 14,608 |
| Leasehold improvements | 16,138 | 7,327 | 8,811 |
| | $106,404 | $ 45,524 | $60,880 |

Included in fixed assets are vehicles and computer equipment under capital lease at a cost of $11,750 (March 31, 2008 - $11,510; March 31, 2007 - $9,385) and net book value of $4,773 (March 31, 2008 - $5,518; March 31, 2007 - $4,937).

**9. Intangible assets**

| **December 31, 2008** | Gross carrying amount | Accumulated amortization | **Net** |
|---|---|---|---|
| Customer lists and relationships | $115,585 | $ 23,157 | **$ 92,428** |
| Franchise rights | 34,266 | 9,154 | **25,112** |
| Trademarks and trade names: | | | |
| Indefinite life | 20,907 | - | **20,907** |
| Finite life | 35,369 | 4,425 | **30,944** |
| Management contracts and other | 10,641 | 4,285 | **6,356** |
| Brokerage backlog | 7,054 | 4,574 | **2,480** |
| | $223,822 | $ 45,595 | **$178,227** |

| March 31, 2008 | Gross carrying amount | Accumulated amortization | Net |
|---|---|---|---|
| Customer lists and relationships | $ 99,005 | $ 15,126 | $ 83,879 |
| Franchise rights | 31,682 | 7,941 | 23,741 |
| Trademarks and trade names: | | | |
| Indefinite life | 18,559 | - | 18,559 |
| Finite life | 30,155 | 3,833 | 26,322 |
| Management contracts and other | 11,850 | 3,518 | 8,332 |
| Brokerage backlog | 5,608 | 3,221 | 2,387 |
| | $196,859 | $ 33,639 | $163,220 |

| March 31, 2007 | Gross carrying amount | Accumulated amortization | Net |
|---|---|---|---|
| Customer lists and relationships | $ 41,308 | $ 6,638 | $34,670 |
| Franchise rights | 26,862 | 6,597 | 20,265 |
| Trademarks and trade names: | | | |
| Indefinite life | 15,696 | - | 15,696 |
| Finite life | 18,000 | 2,742 | 15,258 |
| Management contracts and other | 6,502 | 1,520 | 4,982 |
| Brokerage backlog | 6,936 | 5,743 | 1,193 |
| | $115,304 | $ 23,240 | $92,064 |

During the nine-month period ended December 31, 2008, the Company acquired the following intangible assets:

| | Amount | Estimated weighted average amortization period (years) |
|---|---|---|
| Customer lists and relationships | $20,140 | 10.3 |
| Franchise rights | 1,951 | 19.2 |
| Trademarks and trade names | 6,867 | 19.4 |
| Brokerage backlog | 1,843 | 0.9 |
| | $30,801 | 10.9 |

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

| | |
|---|---|
| 2009 | $ 17,922 |
| 2010 | 14,730 |
| 2011 | 13,160 |
| 2012 | 11,862 |
| 2013 | 10,551 |

During the nine-month period ended December 31, 2008, charges of $275 (year ended March 31, 2008 - $1,149; year ended March 31, 2007 - $437; year ended March 31, 2006 - nil) were recognized in connection with impairments of intangible assets. In all three periods, the impairments were attributable to faster than expected erosion of customer relationships in the Commercial Real Estate and Residential Property Management segments. The charges were recorded in amortization expense. The fair value of the intangible assets and the asset groups they are components of were estimated using discounted expected future cash flows.

**10. Goodwill**

| | Commercial Real Estate Services | Residential Property Management | Property Services | Consolidated |
|---|---|---|---|---|
| Balance, March 31, 2006 | $ 51,867 | $ 71,297 | $ 43,245 | $ 166,409 |
| Adjustments to goodwill resulting from adjustments to purchase price allocations | 363 | - | (566) | (203) |
| Goodwill resulting from contingent acquisition consideration | - | 5,654 | - | 5,654 |
| Goodwill resulting from purchases of minority shareholders' interests | 4,985 | - | 883 | 5,868 |
| Goodwill acquired during period | 29,695 | 1,296 | 1,209 | 32,200 |
| Goodwill disposed during period | - | - | (836) | (836) |
| Foreign exchange | 560 | - | - | 560 |
| Balance, March 31, 2007 | 87,470 | 78,247 | 43,935 | 209,652 |
| Adjustments to goodwill resulting from adjustments to purchase price allocations | 27 | (594) | 71 | (496) |
| Goodwill resulting from contingent acquisition consideration | 2,757 | 26 | 81 | 2,864 |
| Goodwill resulting from purchases of minority shareholders' interests | 2,228 | 1,109 | 2,212 | 5,549 |
| Goodwill acquired during period | 39,103 | 29,024 | 22,625 | 90,752 |
| Goodwill disposed during period | (421) | - | - | (421) |
| Foreign exchange | 3,332 | 11 | 170 | 3,513 |
| Balance, March 31, 2008 | 134,496 | 107,823 | 69,094 | 311,413 |
| Adjustments to goodwill resulting from adjustments to purchase price allocations | (1,838) | (2,239) | 4,500 | 423 |
| Goodwill resulting from contingent acquisition consideration | 1,898 | 6,477 | - | 8,375 |
| Goodwill resulting from purchases of minority shareholders' interests | 4,842 | 10,024 | 3,141 | 18,007 |
| Goodwill acquired during period | 16,681 | 297 | 1,239 | 18,217 |
| Foreign exchange | (7,391) | (62) | (85) | (7,538) |
| **Balance, December 31, 2008** | **$ 148,688** | **$ 122,320** | **$ 77,889** | **$ 348,897** |

Goodwill in the amount of $10,682 related to the USMB discontinued operation was written off as of December 31, 2008.

**11. Long-term debt**

| | **December 31, 2008** | March 31, 2008 | March 31, 2007 |
|---|---|---|---|
| Revolving credit facility | **$ 62,482** | $ 132,500 | $ - |
| 8.06% Senior Notes | **42,856** | 57,142 | 71,428 |
| 6.40% Senior Notes | **50,000** | 50,000 | 50,000 |
| 5.44% Senior Notes | **100,000** | 100,000 | 100,000 |
| Capital leases bearing interest ranging from 5% to 10%, maturing at various dates through 2013 | **4,460** | 5,589 | 4,455 |
| Other long-term debt bearing interest at 4% to 10%, maturing at various dates through 2014 | **6,571** | 10,799 | 9,248 |
| | **266,369** | 356,030 | 235,131 |
| Less: current portion | **20,899** | 24,777 | 22,101 |
| | **$ 245,470** | $ 331,253 | $ 213,030 |

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 senior revolving credit facility with a five-year term. 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 revolving credit facility had $134,236 of available un-drawn credit as at December 31, 2008 ($70,700 was un-drawn at March 31, 2008; nil was drawn at March 31, 2007). As of December 31, 2008, letters of credit in the amount of $5,782 were outstanding ($4,300 as at March 31, 2008; $4,900 as at March 31, 2007). The revolving credit facility requires a commitment fee of 0.25% to 0.50% of the unused portion, depending on certain leverage ratios, and also includes an uncommitted accordion provision providing an additional $50,000 of borrowing capacity under certain circumstances.

The Company has outstanding $42,856 of 8.06% fixed-rate Senior Notes (the “8.06% Notes”) (March 31, 2008 - $57,142; March 31, 2007 - $71,428). The 8.06% Notes have a final maturity of June 29, 2011, with seven equal annual principal repayments which began on June 29, 2005. The Company also 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 $100,000 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 beginning on April 1, 2011.

The Company has indemnified the holders of the 8.06% Notes, 6.40% Notes and 5.44% Notes (collectively, the “Notes”) from all withholding taxes that are or may become applicable to any payments made by the Company on the Notes. The Company believes this exposure is not material as of December 31, 2008.

The revolving credit facility and the Notes rank equally in terms of seniority. The Company has granted these lenders collateral including the following: an interest in all of the assets of the Company including the shares of the Company’s subsidiaries; an assignment of material contracts; and an assignment of the Company’s “call” rights with respect to shares of the subsidiaries held by minority interests (note 18(b)).

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 effective interest rate on the Company’s debt is 5.4%. 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:

| | |
|---|---|
| 2009 | $ 20,899 |
| 2010 | 16,655 |
| 2011 | 35,126 |
| 2012 | 95,236 |
| 2013 | 32,655 |
| Thereafter | 65,798 |

## 12. 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, March 31, 2007 | - | $ - | 28,597,194 | $ 79,735 | 1,325,694 | $ 373 | 29,922,888 | $ 80,108 |
| Balance, March 31, 2008 | 5,979,074 | 149,477 | 28,786,893 | 88,546 | 1,325,694 | 373 | 30,112,587 | 88,919 |
| **Balance, December 31, 2008** | **5,772,274** | **144,307** | **28,007,790** | **86,540** | **1,325,694** | **373** | **29,333,484** | **86,913** |

On August 1, 2007, the Company issued a stock dividend in the form of 7% Cumulative Preference Shares, Series 1 (the “Preferred Shares”) to holders of Subordinate Voting Shares and Multiple Voting Shares (together the “Common Shares”). One Preferred Share was issued for every five outstanding Common Shares. The stock dividend resulted in the issuance of 5,979,074 Preferred Shares, with an aggregate par value of $149,477. Each Preferred Share has a stated amount of $25.00. Preferred dividends are payable quarterly on or about the last day of each quarter.

As at December 31, 2008, the Company may redeem each Preferred Share for $25.75 payable in cash, or alternatively the Company may convert each Preferred Share into Subordinate Voting Shares based on a price of $25.75. The redemption or conversion price is scheduled to decline in annual increments of $0.25 such that the price will be fixed at $25.00 on and after August 1, 2011. Holders of the Preferred Shares have no redemption or conversion rights.

The following table provides the pro forma impact on diluted earnings per common share of the preferred dividends on the comparative periods.

| | **Nine months ended December 31, 2008** | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Diluted earnings per common share from continuing operations: | | | | |
| As reported | **$ 0.11** | $ 0.89 | $ 1.08 | $ 0.83 |
| Impact of preferred dividends on comparative periods | **-** | (0.12) | (0.35) | (0.35) |
| Pro forma | **$ 0.11** | $ 0.77 | $ 0.73 | $ 0.48 |

During the nine-month period ended December 31, 2008, the Company repurchased 960,300 (year ended March 31, 2008 - 252,500; year ended March 31, 2007 - 697,700) Subordinate Voting Shares for cancellation under a Normal Course Issuer Bid filed with the Toronto Stock Exchange, which allowed the Company to repurchase up to 5% of its outstanding shares on the open market during a twelve-month period. The repurchase cost is allocated to common shares for the weighted average book value and to retained earnings for any excess.

During the nine-month period ended December 31, 2008, the Company repurchased 206,800 (years ended March 31, 2008 and 2007 - nil) Preferred Shares for cancellation under a Normal Course Issuer Bid filed with the Toronto Stock Exchange, which allowed the Company to repurchase up to 5% of its outstanding shares on the open market during a twelve-month period. The repurchase cost is allocated to preferred shares for the weighted average book value and to retained earnings for any deficiency.

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.

## 13. Stock-based compensation

The following table provides a summary of stock-based compensation expense:

| | **Nine months ended December 31, 2008** | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Stock option expense – Company plan | **$ 1,723** | $ 5,938 | $ 1,916 | $ 1,380 |
| Stock option expense – subsidiary plan | **(103)** | 1,508 | 1,791 | 552 |
| Notional value appreciation plans – subsidiaries | **931** | 373 | 1,249 | 379 |
| | **$ 2,551** | $ 7,819 | $ 4,956 | $ 2,311 |

**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 and expires five years from the date granted and allows for the purchase of one Subordinate Voting Share. All Subordinate Voting Shares issued under the plan are new shares. As at December 31, 2008, there were 854,000 options available for future grants (March 31, 2008 - 338,000; March 31, 2007 - 506,000).

Grants under the Company's stock option plan are equity classified awards under SFAS 123R. Stock option activity for the three years ended March 31, 2008 and nine-month period ended December 31, 2008 was as follows:

| | Number of options | Weighted average exercise price | Weighted average remaining contractual life (years) | Aggregate intrinsic value |
|---|---|---|---|---|
| Shares issuable under options – March 31, 2005 | 1,844,000 | $ 9.72 | | |
| Granted | 328,000 | 19.61 | | |
| Exercised | (434,650) | 8.60 | | |
| Forfeited | (21,000) | 9.38 | | |
| Shares issuable under options – March 31, 2006 | 1,716,350 | $ 11.96 | | |
| Granted | 305,000 | 20.65 | | |
| Exercised | (564,800) | 11.40 | | |
| Forfeited | (11,000) | 13.43 | | |
| Shares issuable under options – March 31, 2007 | 1,445,550 | 14.12 | | |
| Granted | 175,500 | 32.24 | | |
| Exercised | (159,550) | 7.28 | | |
| Forfeited | (7,500) | 27.81 | | |
| Shares issuable under options – March 31, 2008 | 1,454,000 | 16.94 | | |
| Granted | 349,000 | 17.10 | | |
| Exercised | (157,245) | 4.76 | | |
| Forfeited | (65,000) | 15.54 | | |
| Shares issuable under options – December 31, 2008 | 1,580,755 | $ 18.24 | 2.61 | $ 753 |
| Options exercisable – December 31, 2008 | 676,055 | $ 15.61 | 1.70 | $ 752 |

As at December 31, 2008, the range of option exercise prices was $5.59 to $33.25 per share. Also as at December 31, 2008, the aggregate intrinsic value and weighted average remaining contractual life for in-the-money options vested and expected to vest were $753 and 0.9 years, respectively.

The following table summarizes information about option exercises during the nine-month period ended December 31, 2008 and three years ended March 31, 2008:

| | **Nine months ended December 31, 2008** | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Number of options exercised | **157,245** | 159,550 | 564,800 | 434,650 |
| Aggregate fair value | **$ 2,342** | $ 4,885 | $ 13,266 | $ 10,784 |
| Intrinsic value | **1,593** | 3,711 | 6,831 | 7,044 |
| Amount of cash received | **$ 749** | $ 1,174 | $ 6,435 | $ 3,740 |
| Tax benefit recognized | **$ 542** | $ - | $ - | $ - |

As at December 31, 2008, there was $2,343 of unrecognized compensation cost related to non-vested awards which is expected to be recognized over the next 4.0 years. During the nine-month period ended December 31, 2008, the fair value of options vested

was $682 (year ended March 31, 2008 - $1,734; year ended March 31, 2007 - $1,220; year ended March 31, 2006 - $739).

In October 2007, the Company received an inquiry from the Ontario Securities Commission related to granting of Company stock options. A comprehensive review of historical stock option granting processes and the related accounting for the 13-year period from 1995 to 2007 was conducted by a Special Committee of the Company's Board of Directors comprised of independent directors. As a result of the review, the Special Committee found that the practice followed by the Company in granting stock options was not accounted for correctly and recommended the measurement dates of certain option grants be revised for accounting purposes. As a result, $3,278 of incremental non-cash compensation expense was recorded in the year ended March 31, 2008 to correct the error and exercise prices of outstanding unexercised options were revised. In addition, cash payments of $1,644 were received in the year ended March 31, 2008 on account of adjustments to exercise prices of previously exercised options and recorded as contributed surplus.

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:

| | **Nine months ended December 31, 2008** | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Risk-free interest rate | **2.2%** | 4.8% | 4.3% | 4.7% |
| Expected life in years | **4.70** | 3.75 | 3.75 | 4.40 |
| Expected volatility | **30.5%** | 26.4% | 25.2% | 30.0% |
| Dividend yield | **0%** | 0% | 0% | 0% |
| | | | | |
| Weighted average fair value per option granted | **$ 4.53** | $ 9.31 | $ 6.70 | $ 7.65 |

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 term represents the estimated period of time until exercise and is based on historical experience. Prior to January 1, 2008, the expected term was calculated using the simplified method under SAB 107. The expected volatility is based on the historical prices of the Company's shares. 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 plan**

The Company has a stock option plan at one of its subsidiaries. Grants under the subsidiary stock option plan are equity classified awards and liability classified awards under SFAS 123R. The impact of potential dilution from this plan is reflected in the Company's diluted earnings per common share (note 15).

**14. Income taxes**

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

| | Nine months ended December 31, 2008 | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Income tax expense using combined statutory rate of 34% (March 31, 2008 – 35%; March 31, 2007 - 36%; March 31, 2006 – 36%) | **$ 19,062** | $24,588 | $25,504 | $19,728 |
| Permanent differences | **(1,117)** | 70 | 1,023 | (917) |
| Adjustments in tax liabilities of prior periods | **(2,405)** | 522 | (1,790) | - |
| Effects of changes in enacted tax rates | **1,495** | (420) | (451) | - |
| Changes in provisions for uncertain tax positions | **2,629** | 1,733 | - | - |
| Stock-based compensation | **(645)** | (1,290) | 1,353 | 834 |
| Foreign tax rate differential | **(4,498)** | (9,373) | (5,272) | (3,561) |
| Withholding taxes | **476** | - | - | - |
| Other taxes | **254** | - | - | |
| Losses not recognized – valuation allowance | **15,627** | 1,278 | - | |
| Provision for income taxes as reported | **$ 30,878** | $17,108 | $20,367 | $16,084 |

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

| | Nine months ended December 31, 2008 | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Canada | **$ 17,399** | $15,515 | $ 3,340 | $ 1,075 |
| United States | **18,043** | 32,154 | 45,892 | 41,401 |
| Foreign | **21,463** | 21,716 | 21,380 | 12,143 |
| Total | **$ 56,905** | $69,385 | $70,612 | $54,619 |

The provision for income taxes comprises the following:

| | Nine months ended December 31, 2008 | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Current | | | | |
| Canada | **$ 3,554** | $ 8,839 | $ (1,494) | $ 328 |
| United States | **22,496** | 18,063 | 19,912 | 14,936 |
| Foreign | **7,989** | 12,743 | 7,343 | 4,482 |
| | **34,039** | 39,645 | 25,761 | 19,746 |
| Deferred | | | | |
| Canada | **(6,553)** | (10,829) | (713) | (1,235) |
| United States | **4,596** | (8,319) | (3,094) | (2,146) |
| Foreign | **(1,204)** | (3,389) | (1,587) | (281) |
| | **(3,161)** | (22,537) | (5,394) | (3,662) |
| Total | **$ 30,878** | $ 17,108 | $20,367 | $16,084 |

The significant components of deferred income taxes are as follows:

| | December 31, 2008 | March 31, 2008 | March 31, 2007 |
|---|---|---|---|
| Deferred income tax assets | | | |
| Loss carry-forwards | **$ 8,117** | $ 24,106 | $ 4,819 |
| Expenses not currently deductible | **8,641** | 3,155 | 7,605 |
| Stock-based compensation | **1,942** | 3,284 | - |
| Provision for doubtful accounts | **2,566** | 1,092 | 649 |
| Inventory and other reserves | **524** | 97 | 41 |
| | **21,790** | 31,734 | 13,114 |
| Deferred income tax liabilities | | | |
| Depreciation and amortization | **39,956** | 34,172 | 28,365 |
| Unrealized foreign exchange gains | **1,428** | 4,582 | 1,010 |
| Investments | **526** | 2,717 | 2,397 |
| Prepaid and other expenses deducted for tax purposes | **132** | 448 | 458 |
| Financing fees | **105** | 110 | 172 |
| | **42,147** | 42,029 | 32,402 |
| Net deferred income tax liability | **$ (20,357)** | $ (10,295) | $ (19,288) |

As at December 31, 2008, the Company had Canadian net operating loss carry-forward balances of approximately $26,235 (March 31, 2008 - $41,432; March 31, 2007 - $15,515) prior to a valuation allowance of nil (March 31, 2008 - $3,950; March 31, 2007 - $3,950). These amounts are available to reduce future federal and provincial income taxes. Net operating loss carry-forward balances attributable to Canada and the United States expire over the next 20 years. The Company also had foreign net operating loss carry-forward balances as at December 31, 2008 of approximately $58,633 (March 31, 2008 - $43,582; March 31, 2007 - $17,619), prior to a valuation allowance of $57,457 (March 31, 2008 - $19,062; March 31, 2007 - $15,416). Foreign capital loss carry-forward balances amounted to $8,017 (March 31, 2008 - $9,870; March 31, 2007 - $9,870) as at December 31, 2008 prior to a valuation allowance of $8,017 (March 31, 2008 - $9,870; March 31, 2007 - $9,870). Additional net operating loss and capital loss carry-forward balances of $15,416 as at December 31, 2008 (March 31, 2008 - $15,416; March 31, 2007 - $15,416) and $8,017 (March 31, 2008 - $9,870; March 31, 2007 - $9,870) respectively relate to losses acquired in the 2004 CMN acquisition. Any benefit realized with respect to these losses would be recorded as a reduction in goodwill.

Cumulative unremitted earnings of US and foreign subsidiaries approximated $141,730 as at December 31, 2008 (March 31, 2008 - $145,014; March 31, 2007 - $110,898).

The cumulative effect of the adoption of FIN 48 was an increase in tax provisions of $3,800, including $700 of accrued interest, which was accounted for as a reduction to retained earnings as at April 1, 2007 of $4,200 and a reduction in goodwill of $400. The liability for income taxes associated with uncertain tax positions was $4,735 as at April 1, 2007, $10,671 as at March 31, 2008 and $12,903 as at December 31, 2008.

A reconciliation of the beginning and ending amounts of gross unrecognized tax benefit is as follows:

| | |
|---|---|
| Balance, April 1, 2007 | **$ 4,735** |
| Increases based on tax positions related to the current period | **445** |
| Increases for tax positions of prior periods | **1,470** |
| Decreases for tax positions of prior periods | **(490)** |
| Increases from acquisitions | **4,511** |
| Balance, March 31, 2008 | **$10,671** |
| Increases based on tax positions related to the current period | **2,459** |
| Increases for tax positions of prior periods | **603** |
| Decreases for tax positions of prior periods (including lapses in statutes of limitations) | **(830)** |
| Balance, December 31, 2008 | **$12,903** |

Of the $12,903 (March 31, 2008 - $10,671) in gross unrecognized tax benefits, $8,062, (March 31, 2008 - $5,341) would affect the Company's effective tax rate if recognized. For the nine-month period ended December 31, 2008, $554 of interest and penalties related to provisions for income taxes was recorded in income tax expense (year ended March 31, 2008 - $77). As at December 31, 2008, the Company had accrued $1,331 (March 31, 2008 - $777; March 31, 2007 - - $700) for potential income-tax related interest and penalties.

The Company's significant tax jurisdictions include the United States of America, 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.

Within the next twelve months, the Company believes it is reasonably possible that the total amount of unrecognized tax benefits associated with certain positions may be reduced due to lapses in the statutes of limitations. The Company estimates that the unrecognized tax benefits at December 31, 2008 could be reduced by approximately $753.

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 FIN 48 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.

**15. Earnings per common share**

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

| | | **Nine months ended December 31, 2008** | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Net earnings from continuing operations | **$** | **11,508** | $35,474 | $34,963 | $26,757 |
| Dilution of net earnings resulting from assumed exercise of stock options in subsidiaries | | **(530)** | (1,473) | (2,228) | (1,253) |
| Preferred Share dividends | | **(7,760)** | (6,952) | - | - |
| Net earnings from continuing operations for diluted earnings per share calculation purposes | **$** | **3,218** | $27,049 | $32,735 | $25,504 |
| | | | | | |
| Net earnings available to common shareholders | **$** | **54,276** | $27,447 | $34,863 | $69,497 |
| Dilution of net earnings resulting from assumed exercise of stock options in subsidiaries | | **(530)** | (1,473) | (2,228) | (1,253) |
| Net earnings for diluted earnings per share calculation purposes | **$** | **53,746** | $25,974 | $32,635 | $68,244 |

The Preferred Shares are anti-dilutive and thus not included in the denominator for diluted earnings per common share calculations. The following table reconciles the denominator used to calculate earnings per common share:

| | **Nine months ended December 31, 2008** | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Shares issued and outstanding at beginning of period | **30,112,587** | 29,922,888 | 30,055,788 | 30,192,788 |
| Weighted average number of shares: | | | | |
| Issued during the period | **63,469** | 106,139 | 210,843 | 137,943 |
| Repurchased during the period | **(592,113)** | (124,371) | (364,101) | (160,040) |
| | | | | |
| Weighted average number of shares used in computing basic earnings per share | **29,583,943** | 29,904,656 | 29,902,530 | 30,170,691 |
| Assumed exercise of stock options, net of shares assumed acquired under the Treasury Stock Method | **170,739** | 642,310 | 451,774 | 725,286 |
| Number of shares used in computing diluted earnings per share | **29,754,682** | 30,546,966 | 30,354,304 | 30,895,977 |

**16. Other supplemental information**

| | Nine months ended December 31, 2008 | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| **Franchisor operations** | | | | |
| Revenues | **$ 63,987** | $99,351 | $95,354 | $88,531 |
| Operating earnings | **17,308** | 26,199 | 21,163 | 16,728 |
| Initial franchise fee revenues | **3,887** | 5,606 | 5,571 | 3,482 |
| **Cash payments made during the period** | | | | |
| Income taxes | **$ 20,628** | $45,275 | $25,748 | $25,179 |
| Interest | **13,907** | 19,268 | 16,276 | 12,481 |
| **Non-cash financing activities** | | | | |
| Increases in capital lease obligations | **$ 1,403** | $ 4,115 | $ 1,502 | $ 3,284 |
| **Other expenses** | | | | |
| Rent expense | **$ 35,546** | $46,681 | $31,794 | $26,762 |

**17. 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 at December 31, 2008, March 31, 2008 and March 31, 2007, except as disclosed in note 4, the Company had no interest rate hedges.

**Fair values of financial instruments**

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

| | **December 31, 2008** | | March 31, 2008 | | March 31, 2007 | |
|---|---|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value | Carrying amount | Fair value |
| Other receivables | **$ 16,832** | **$ 16,832** | $ 4,445 | $ 4,445 | $ 6,599 | $ 6,599 |
| Held-to-maturity securities | **6,195** | **$ 6,199** | 4,773 | $ 4,833 | $ 5,592 | $ 5,561 |
| Available-for-sale securities | **2,720** | **2,720** | 17,291 | 17,291 | 17,419 | 17,419 |
| Long-term debt | **266,369** | **302,494** | 356,030 | 392,429 | 235,131 | 261,009 |

Other receivables include notes receivable from minority shareholders and from the sale of former subsidiaries. Held-to-maturity investments have various maturities through to

2013 and are included under the balance sheet captions “restricted cash”, “prepaid expenses and other current assets” and “other assets”. Available-for-sale securities consist of equity securities of a subsidiary of RBO Fund (see note 7).

The following table provides the financial assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2008:

| | Carrying value at December 31, 2008 | Fair value measurements at December 31, 2008 Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Available-for-sale securities | $ 2,720 | $ 2,720 | $ - | $ - |
| Interest rate derivative contracts (discontinued operations) | 10,758 | - | 10,758 | - |

The valuation technique used to measure the fair value for available-for-sale securities is the quoted market price. Interest rate derivative contracts are measured at fair value using a valuation model with market price inputs obtained from third parties.

The following table provides the financial assets and liabilities measured at fair value for impairment assessment as of December 31, 2008 and are subject to fair value adjustments in certain circumstances:

| | Carrying value at December 31, 2008 | Fair value measurements at December 31, 2008 Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Held-to-maturity securities | $ 6,195 | $ - | $ 6,199 | $ - |

Held-to-maturity investments are valued based on market prices obtained from third parties.

## 18. Commitments and contingencies

### (a) Lease commitments

Minimum operating lease payments are as follows:

| Year ending December 31 | |
|---|---|
| 2009 | $ 40,774 |
| 2010 | 38,418 |
| 2011 | 33,557 |
| 2012 | 28,127 |
| 2013 | 22,465 |
| Thereafter | 40,580 |

### (b) Minority shareholder agreements

The Company has shareholder agreements with the minority owners of its subsidiaries. These agreements allow the Company to “call” the minority position at fair value determined with the use of a formula price, which is usually equal to a multiple of average net earnings before extraordinary items, minority interest share of earnings, income taxes, interest, depreciation, and amortization for a defined period. The minority owners may also “put” their interest to the Company at the same price subject to certain limitations. The purchase price may be paid in cash or in Subordinate Voting Shares. Acquisitions of these non-controlling interests, if any, would be accounted for as a reduction in non-controlling interest (see note 23). The total obligation if all call or put

options were exercised as at December 31, 2008 was approximately $193,000 (March 31, 2008 - $233,000; March 31, 2007 - $154,000). As at December 31, 2008, the Company had $14,867 of loans receivable from minority shareholders secured by the shares and accordingly, the net obligation was $178,133. If all put or call options were settled with Subordinated Voting Shares as at December 31, 2008, approximately 13,975,000 such shares would be issued.

**(c) Contingencies**

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

**19. Related party transactions**

During the nine-month period ended December 31, 2008, the Company paid $2,640 (year ended March 31, 2008 - $2,579; year ended March 31, 2007 - $826; year ended March 31, 2006 - $775) in rent to entities controlled by minority shareholders of subsidiaries. In addition, $2,249 (year ended March 31, 2008 - $1,168; year ended March 31, 2007 - $388; year ended March 31, 2006 - $335) of service revenues were earned from entities controlled by minority shareholders of subsidiaries and $1,103 (year ended March 31, 2008 - $493; year ended March 31, 2007 - $66; year ended March 31, 2006 - $62) of expenses were paid to entities controlled by minority shareholders of subsidiaries. During the year ended March 31, 2008, the Company received $1,644 of cash payments from officers and directors on account of adjustments to exercise prices of previously exercised options.

As at December 31, 2008, the Company had $14,867 of loans receivable from minority shareholders (March 31, 2008 – $1,946; March 31, 2007 - $1,514).

**20. Segmented information**

*Operating segments*

The Company has three reportable operating segments. The segments are grouped with reference to the types of services provided and the types of clients that use those services. The Company assesses each segment's performance based on operating earnings or operating earnings before depreciation and amortization. Commercial Real Estate Services 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 the United States. Property Services operates franchise systems, a vendor network and Company-owned "branchise" stores with customers in the United States and Canada. Corporate includes the costs of operating the Company's corporate head office.

Included in total assets of the Commercial Real Estate Services segment at December 31, 2008 is $2,377 (March 31, 2008 - $3,342; March 31, 2007 - $4,667; March 31, 2006 - - $4,608) of investments in subsidiaries accounted for under the equity method.

| **Nine months ended December 31, 2008** | Commercial Real Estate Services | Residential Property Management | Property Services | Corporate | Consolidated |
|---|---|---|---|---|---|
| Revenues | $ 578,192 | $ 475,251 | $269,114 | $ 123 | $ 1,322,680 |
| Depreciation and amortization | 17,975 | 7,815 | 5,695 | 261 | 31,746 |
| Operating earnings | 17,442 | 36,436 | 36,278 | (7,026) | 83,130 |
| Other expense, net | | | | | (17,973) |
| Interest expense, net | | | | | (8,252) |
| Income taxes | | | | | (30,878) |
| Minority interest | | | | | (14,519) |
| Net earnings from continuing operations | | | | | 11,508 |
| Net earnings from discontinued operations | | | | | 50,528 |
| Net earnings | | | | | $ 62,036 |
| Total assets | $ 404,781 | $ 332,765 | $222,485 | $ 9,893 | $ 969,924 |
| Discontinued operations | | | | | 20,713 |
| | | | | | $ 990,637 |
| Total additions to long-lived assets | 21,501 | 21,068 | 7,395 | - | 49,964 |

| Year ended March 31, 2008 | Commercial Real Estate Services | Residential Property Management | Property Services | Corporate | Consolidated |
|---|---|---|---|---|---|
| Revenues | $ 787,467 | $ 544,926 | $216,972 | $ 348 | $ 1,549,713 |
| Depreciation and amortization | 21,219 | 10,450 | 5,654 | 350 | 37,673 |
| Operating earnings | 21,554 | 39,790 | 32,745 | (15,967) | 78,122 |
| Other income, net | | | | | 4,650 |
| Interest expense, net | | | | | (13,387) |
| Income taxes | | | | | (17,108) |
| Minority interest | | | | | (16,803) |
| Net earnings from continuing operations | | | | | 35,474 |
| Net loss from discontinued operations | | | | | (1,075) |
| Net earnings | | | | | $ 34,399 |
| Total assets | $ 407,850 | $ 290,692 | $191,553 | $ 48,475 | $ 938,570 |
| Discontinued operations | | | | | 150,773 |
| | | | | | $ 1,089,343 |
| Total additions to long-lived assets | 79,873 | 64,471 | 53,560 | 364 | 198,268 |

| Year ended March 31, 2007 | Commercial Real Estate Services | Residential Property Management | Property Services | Corporate | Consolidated |
|---|---|---|---|---|---|
| Revenues | $ 577,676 | $ 423,797 | $150,794 | $ 554 | $ 1,152,821 |
| Depreciation and amortization | 13,502 | 7,644 | 4,653 | 223 | 26,022 |
| Operating earnings | 33,250 | 32,622 | 25,911 | (14,778) | 77,005 |
| Other income, net | | | | | 1,450 |
| Interest expense, net | | | | | (7,843) |
| Income taxes | | | | | (20,367) |
| Minority interest | | | | | (15,282) |
| Net earnings from continuing operations | | | | | 34,963 |
| Net earnings from discontinued operations | | | | | 1,253 |
| Cumulative effect of change in accounting principle | | | | | (1,353) |
| Net earnings | | | | | $ 34,863 |
| Total assets | $ 292,708 | $ 206,977 | $123,832 | $ 66,023 | $ 689,540 |
| Discontinued operations | | | | | 127,458 |
| | | | | | 816,998 |
| Total additions to long-lived assets | 72,137 | 27,917 | 10,165 | 331 | 110,550 |

| Year ended March 31, 2006 | Commercial Real Estate Services | Residential Property Management | Property Services | Corporate | Consolidated |
|---|---|---|---|---|---|
| Revenues | $ 438,032 | $ 346,133 | $134,136 | $ 367 | $ 918,668 |
| Depreciation and amortization | 11,386 | 5,618 | 3,749 | 168 | 20,921 |
| Operating earnings | 25,940 | 25,767 | 22,016 | (12,636) | 61,087 |
| Other income, net | | | | | 3,766 |
| Interest expense, net | | | | | (10,234) |
| Income taxes | | | | | (16,084) |
| Minority interest | | | | | (11,778) |
| Net earnings from continuing operations | | | | | 26,757 |
| Net earnings from discontinued operations | | | | | 42,740 |
| Net earnings | | | | | $ 69,497 |
| Total assets | $ 204,042 | $ 150,641 | $114,188 | $ 149,375 | $ 618,246 |
| Discontinued operations | | | | | 92,758 |
| | | | | | 711,004 |
| Total additions to long-lived assets | 36,799 | 10,400 | 9,909 | 546 | 57,654 |

*Geographic information*

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

| | **Nine months ended December 31, 2008** | Year ended March 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| **United States** | | | | |
| Revenues | **$ 852,644** | $ 978,868 | $ 760,366 | $621,548 |
| Total long-lived assets | **444,192** | 394,168 | 253,077 | 211,853 |
| **Canada** | | | | |
| Revenues | **$ 210,048** | $ 227,249 | $ 177,940 | $148,249 |
| Total long-lived assets | **70,792** | 75,181 | 67,268 | 37,130 |
| **Australia** | | | | |
| Revenues | **$ 97,975** | $ 156,812 | $ 117,794 | $ 78,011 |
| Total long-lived assets | **30,658** | 32,629 | 29,514 | 15,273 |
| **Other** | | | | |
| Revenues | **$ 162,013** | $ 186,784 | $ 96,721 | $ 70,860 |
| Total long-lived assets | **58,271** | 52,604 | 12,737 | 13,874 |
| **Consolidated** | | | | |
| Revenues | **$ 1,322,680** | $1,549,713 | $1,152,821 | $918,668 |
| Total long-lived assets | **$ 603,913** | $ 554,582 | $ 362,596 | $278,130 |

**21. Transition period comparative data**

The following table presents certain financial information for the nine-month periods ended December 31, 2008 and 2007, respectively:

| | Nine months ended December 31, 2008 | Nine months ended December 31, 2007 (unaudited) |
|---|---|---|
| Revenues | $ 1,322,680 | $ 1,180,582 |
| Operating earnings | 83,130 | 89,925 |
| Earnings before income taxes and minority interest | 56,905 | 84,206 |
| Income taxes | 30,878 | 25,740 |
| Earnings before minority interest | 26,027 | 58,466 |
| Minority interest share of earnings | 14,519 | 16,112 |
| Net earnings from continuing operations | 11,508 | 42,354 |
| Net earnings from discontinued operations, net of income taxes | 50,528 | 1,406 |
| Net earnings | $ 62,036 | $ 43,760 |
| Net earnings per common share | | |
| Basic | $ 1.83 | $ 1.32 |
| Diluted | 1.81 | 1.21 |
| Weighed average common shares outstanding | | |
| Basic | 29,583,943 | 29,878,635 |
| Diluted | 29,754,682 | 30,417,231 |

**22. Application of Staff Accounting Bulletin No. 108**

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108 *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. Traditionally, the impacts of misstatements were evaluated under either an earnings-based ("rollover") approach or a balance sheet-based ("iron curtain") approach. The rollover approach focuses on the impact of misstatements on the statement of earnings, including the reversing impact of prior year misstatements, but its use can lead to the accumulation of misstatements on the balance sheet. The iron curtain approach focuses on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior years' errors on the statement of earnings. Prior to the application of SAB 108, the Company used the rollover approach for quantifying financial statement misstatements.

In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the Company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification of errors under both the rollover and iron curtain approaches.

The Company adopted the provisions of SAB 108 in connection with the annual consolidated financial statements for the year ended March 31, 2007. The provisions of

SAB 108 may be applied by either (i) restating prior financial statements as if the dual approach had always been applied, or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of April 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. The Company elected to record the effects of applying SAB 108 using the cumulative effect transition method (method (ii)). The following summarizes the effects of applying SAB 108 to errors previously considered immaterial under the rollover approach:

(a) In the Company's Commercial Real Estates Services operations, broker and management compensation vary during the calendar year based on exceeding pre-determined production or earnings thresholds. Since the time this segment was acquired in November 2004, the Company recorded compensation expense incrementally as thresholds were exceeded, but should have recorded compensation expense systematically on a basis approximating the expected average commission rate for the calendar year. As a result, the accrued compensation liability as of April 1, 2006 was understated by $7,951. The Company recorded a $7,951 increase in the liability as of April 1, 2006 with a corresponding reduction in retained earnings to correct this misstatement.
(b) In the Company's Residential Property Management operations, certain subsidiaries did not accrue vacation pay since the time they were acquired in 1996 and 1997. As a result, accrued vacation pay liability as of April 1, 2006 was understated by $1,607. The Company recorded a $1,607 increase in the liability as of April 1, 2006 with a corresponding reduction in retained earnings to correct this misstatement.
(c) In the Company's Residential Property Management operations, certain prepaid insurance expenses were not eliminated on consolidation. As a result, prepaid insurance as of April 1, 2006 was overstated by $467. The Company recorded a $467 decrease in the prepaid insurance as of April 1, 2006 with a corresponding reduction in retained earnings to correct this misstatement.

As a result of the misstatements described above, the provision for income taxes was cumulatively overstated by $3,599 as at April 1, 2006. The Company recorded an increase in deferred income tax asset in the amount of $3,599 with a corresponding increase in retained earnings to correct this misstatement. The Company also recorded a reduction in minority interest in the amount of $1,049 with a corresponding increase to retained earnings. Accordingly, the net reduction to retained earnings recorded as of April 1, 2006 to record the initial application of SAB 108 was $5,377.

**23. Impact of recently issued accounting standards**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS 141R"). SFAS 141R changes the method of accounting for business acquisitions at the acquisition date and in subsequent periods. This standard is effective prospectively for business combinations for which the acquisition date is on or after January 1, 2009. The Company has evaluated the impact of the adoption of SFAS 141R and the following changes in practice will be required for acquisitions completed under the standard: (i) transaction costs will be expensed, resulting in increases to selling, general and administrative expenses; (ii) contingent consideration will be recognized at the acquisition date, resulting in increases to goodwill and accrued liabilities; and (iii) the fair value of contingent consideration will be re-measured quarterly, resulting in increased volatility in earnings.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ("SFAS 160"). SFAS

160 changes the accounting and reporting for non-controlling (formerly referred to as minority interests). SFAS 160 also affects the guidance in EITF No. D-98, *Classification and Measurement of Redeemable Securities* ("EITF D-98"). SFAS 160 is effective for the Company as of January 1, 2009. The Company has evaluated the impact of the adoption of SFAS 160 as well as the changes to EITF-98. The following changes in practice will be required: (i) non-controlling interest will be presented in the "mezzanine" section of the balance sheet at the redemption value, resulting in a significant increase in non-controlling interest and (ii) purchases by the Company of non-controlling interest will be recorded as a reduction of non-controlling interest. Upon the initial adoption of SFAS 160 on January 1, 2009, the Company will increase non-controlling interest in the amount of approximately $143,000 and will record a corresponding decrease to retained earnings.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). SFAS 161 requires enhanced disclosures about the Company's derivative and hedging activities such as the objective for using derivative instruments, the method of accounting for derivative instruments and related hedged items under SFAS No. 133 and its related interpretations, and the effect of derivative instruments and related hedged items on the Company's financial position, financial performance, and cash flows. The Standard is effective for the Company as of January 1, 2009. The Company is currently evaluating the impact of the adoption of SFAS 161 on its financial statement note disclosures.

In April 2008, the FASB staff issued Statement of Position No. 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"). FSP 142-3 amends the factors used when considering the useful life of recognized intangible assets. The Standard is effective for the Company as of January 1, 2009. The Company is currently evaluating the impact of the adoption of FSP 142-3 on its financial position and results of operations.

## EXHIBIT 3

**FIRSTSERVICE CORPORATION**
**Management's discussion and analysis of results of operations and financial condition for the nine-month period ended December 31, 2008**
(in US dollars)
February 27, 2009

*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 (the "Company" or "FirstService") for the nine-month period ended December 31, 2008. 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 nine-month period ended December 31, 2008 and up to and including February 27, 2009.*

*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 (the "SEC") website at www.sec.gov.*

*In May 2008, the Company changed its financial year-end from March 31 to December 31. A Notice of Change in Year-End was filed with regulators by the Company, a copy of which can obtained at www.sedar.com.*

**Consolidated review**
The operating results for the nine-month period ended December 31, 2008 from two of our three operating segments were resilient, while our Commercial Real Estate Services segment was affected by the global economic slowdown and credit contraction. Revenues for the nine-month period were $1.32 billion, an increase of 12% over the same nine-month period one year ago primarily attributable to recently completed acquisitions. Our adjusted diluted earnings per share from continuing operations[1] were $1.09 for the nine-month period, versus $1.48 in the comparable prior year period (GAAP - $0.11 versus $1.17 in the comparable prior year period).

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[1] Adjusted diluted earnings per share from continuing operations is defined as diluted net earnings per share from continuing operations plus the effect, after income taxes, of: (i) amortization of intangible assets acquired in connection with acquisitions; (ii) non-cash impairment loss on available-for-sale securities; (iii) a non-recurring bonus paid to management upon the divestiture of the Integrated Security division; (iv) stock-based compensation expense; and (v) a cost containment charge. The Company believes this measure is useful because: (i) amortization expense is a non-cash charge that impacts the earnings of acquisitive companies and reduces comparability with non-acquisitive companies; (ii) it eliminates the effect of a non-cash impairment of securities; (iii) the divesture bonus was a payment made in connection with a discontinued operation; (iv) stock-based compensation expense is a non-cash charge that is effectively double-counted, as the dilutive effects of stock options are factored into the diluted share count; and (v) the charge to contain future operating costs is non-recurring. This is not a recognized measure of financial performance under GAAP, and should not be considered as a substitute for diluted net earnings per share from continuing operations, as determined in accordance with GAAP. The Company's method of calculating this measure may differ from other issuers and, accordingly, this measure may not be comparable to measures used by other issuers. A reconciliation appears below.

We completed six business acquisitions during the period. The aggregate purchase price for these acquisitions was $31.8 million, funded from cash on hand and borrowings on our revolving credit facility. The most significant acquisition occurred on October 16, 2008 in our Commercial Real Estate Services segment, where we acquired a 65% interest in Williams Real Estate (subsequently rebranded as FirstService Williams Real Estate), a New York-based provider of brokerage, management, consulting and advisory services. We also acquired five complementary regional operations, three in Commercial Real Estate, and one in each of Residential Property Management and Property Services.

On July 1, 2008, we completed our divesture of the Integrated Security Services segment. This divestiture intensified our strategic focus on real estate services and provided us with proceeds to fund our growth. The sale proceeds were $155.0 million and a net after-tax gain of $69.7 million was recorded. These operations have been classified as discontinued operations for all periods presented.

In December 2008, we decided sell our equity interest in our Chicago-based US commercial mortgage brokerage and servicing operation ("USMB") due to adverse credit market conditions. USMB was previously reported within the Commercial Real Estate Services segment. USMB is classified as held for sale as of December 31, 2008 and, by reason of its being held for sale, its operating results are reported as discontinued operations for all periods presented. We wrote our investment in USMB down to fair value less cost to sell as of December 31, 2008, resulting in an after-tax net loss of $11.0 million, also reported in discontinued operations.

**Results of operations – nine-month period ended December 31, 2008**

FirstService reported revenues from continuing operations of $1.32 billion for the nine-month period ended December 31, 2008, an increase of 12% relative to the comparable prior period. The increase was comprised of internal growth of 2%, impact of acquisitions of 12% and a 2% decline as a result of foreign exchange, as the US dollar appreciated against the local currencies at our global operations.

Operating earnings decreased 8% relative to the comparable prior period, to $83.1 million, while EBITDA [2] was up 1% to $124.4 million. The gap between the operating earnings

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| (in US$) | Nine months ended December 31 | | Year ended March 31 | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2008 | 2007 | 2006 |
| Diluted net earnings per common share from continuing operations | **$ 0.11** | $ 1.17 | $ 0.89 | $ 1.08 | $ 0.83 |
| Pro forma impact of dividends on preferred shares | **-** | (0.12) | (0.12) | (0.35) | (0.34) |
| Amortization, net of tax | **0.25** | 0.24 | 0.33 | 0.23 | 0.20 |
| Impairment loss on available-for-sale securities, net of tax | **0.41** | - | - | 0.09 | - |
| Integrated Security division divestiture bonus, net of tax | **0.12** | - | - | - | - |
| Stock-based compensation expense, net of tax | **0.05** | 0.19 | 0.22 | 0.12 | 0.06 |
| Cost containment, net of tax | **0.15** | - | - | - | - |
| Adjusted diluted net earnings per common share from continuing operations | **$ 1.09** | $ 1.48 | $ 1.32 | $ 1.17 | $ 0.75 |

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

and EBITDA performance relative to revenue growth is attributable to: (i) Property Services margin declines, due to service mix; and (ii) Commercial Real Estate Services brokerage transaction volume decreases. The gap between operating earnings and EBITDA is primarily the result of cost containment charges incurred in our Commercial Real Estate operations during the nine months ended December 31, 2008 and incremental depreciation resulting from capital spending on Commercial Real Estate office renovations and information technology during the past twelve months.

Depreciation and amortization expense was $31.7 million relative to $26.9 million in the comparable prior period. With regard to the recent Commercial Real Estate Services acquisitions, we recorded a short-lived intangible asset relating to the backlog of pending brokerage transactions that existed at the acquisition dates. The intangible is being amortized to coincide with the expected completion dates of the underlying brokerage transactions over the next twelve months. As of December 31, 2008, the net book value of unamortized backlog was $2.5 million. The increase in depreciation and amortization is the result of: (i) intangible assets recognized upon acquisitions during the past two years; and (ii) increases in fixed assets resulting from capital expenditures offset by (iii) a decrease in the amount of backlog amortization as a result of lower acquisition activity during the past twelve months.

Interest expense decreased to $11.1 million from $11.8 million in the comparable prior period. Our weighted average interest rate decreased to 5.4% from 7.1% in the comparable prior period. The $2.9 million of interest income earned during the period was attributable to cash on hand.

Other income for the current period includes distributions received on our investment in Resolve Business Outsourcing Income Fund (“Resolve”) and earnings from investments accounted for under the equity method in Commercial Real Estate Services.

We hold an investment in 2.4 million units of Resolve, representing a 7% stake. In November 2008, Resolve suspended the payment of its monthly distribution. We determined that as of September 30, 2008, and again at December 31, 2008, our investment in Resolve was other-than-temporarily impaired and recorded an aggregate non-cash impairment charge of $14.7 million during the period.

In July 2008, we paid a $5.7 million cash divestiture bonus to management in connection with the successful completion of and substantial gain on the sale of the Integrated Security division. Although the divestiture bonus related to a discontinued operation, under GAAP it was required to be reported in continuing operations.

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| (in thousands of US$) | Nine months ended December 31 | | Year ended March 31 | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2008 | 2007 | 2006 |
| Net earnings from continuing operations | **$ 11,508** | $ 42,354 | $ 35,474 | $ 34,963 | $26,757 |
| Minority interest | **14,519** | 16,112 | 16,803 | 15,282 | 11,778 |
| Income taxes | **30,878** | 25,740 | 17,108 | 20,367 | 16,084 |
| Other income, net | **(2,422)** | (3,824) | (4,650) | (4,589) | (3,766) |
| Interest expense, net | **8,252** | 9,543 | 13,387 | 7,843 | 10,234 |
| Impairment loss on available-for-sale securities | **14,680** | - | - | 3,139 | - |
| Integrated Security division divestiture bonus | **5,715** | - | - | - | - |
| Operating earnings | **83,130** | 89,925 | 78,122 | 77,005 | 61,087 |
| Depreciation and amortization | **31,746** | 26,861 | 37,673 | 26,022 | 20,921 |
| Stock-based compensation expense | **2,551** | 6,444 | 7,819 | 4,956 | 2,311 |
| Cost containment | **6,934** | - | - | - | - |
| EBITDA | **$124,361** | $123,230 | $123,614 | $107,983 | $84,319 |

Our consolidated income tax rate for the nine-month period ended December 31, 2008 was 54% versus 31% in the comparable prior period. The current period's tax rate was higher than expected due to 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. The loss carry-forwards have a statutory carry-forward period of 20 years. Our tax rate for both periods reflects the continuing benefit of cross-border financing structures first implemented in fiscal 2000.

Net earnings from continuing operations were $11.5 million, relative to $42.3 million in the comparable prior period. The majority of the decrease is attributable to the Resolve impairment loss and the Integrated Security divestiture bonus. Increases in operating earnings at our Property Services and Residential Property Management segments were more than offset by declines in our Commercial Real Estate Services segment.

The Commercial Real Estate Services segment reported revenues of $578.2 million during the current period, down 7% relative to $619.2 million in the comparable prior period. Internal revenues declined 11%, foreign exchange resulted in a revenue decline of 3% and growth of 7% was attributable to acquisitions in four markets including New York. EBITDA (before a cost containment charge) was $42.4 million, at a margin of 7.3%, versus the comparable prior period's EBITDA of $54.4 million at a margin of 8.8%. The margin decline was primarily a result of the following factors: (i) operating losses at certain US brokerage offices due to declines in investment and sales brokerage volumes; and (ii) compression due to revenue declines in all markets. During the year we took steps to contain costs and align our service capabilities with anticipated revenues. As a result, a $6.9 million cost containment charge was incurred relating to non-recurring severances and lease terminations.

In Residential Property Management, revenues increased 18% to $475.3 million. Internal growth, resulting from property management contract wins, was 9%, while recent business acquisitions accounted for the balance of the growth. Residential Property Management reported EBITDA of $44.3 million or 9.3% of revenues, up from $40.2 million or 9.9% of revenues in the comparable prior period.

The Property Services operations reported revenues of $269.1 million, an increase of 72% versus the comparable prior period. Of the increase, 37% was attributable to acquisitions, particularly Field Asset Services, while internal growth was 35%. Internal growth was led by growth in residential foreclosure management revenues at the Field Asset Services contractor network, offsetting a 12% decline at our consumer-oriented franchise systems. EBITDA for the period was $42.0 million, 19% higher than the comparable prior period, and the EBITDA margin decreased from 22.5% to 15.6%. The margin decrease was attributable to: (i) the impact of Field Asset Services, which operates at a lower margin than the remainder of the segment, on average; and (ii) royalty revenue declines at consumer-oriented franchise systems, which have a direct impact on earnings.

Corporate costs for the nine months were $6.8 million relative to $13.1 million in the comparable prior period. Costs in the current period benefited from a $0.8 million favorable foreign exchange impact, as most costs are incurred in Canadian dollars. Included in the prior period was $3.3 million of incremental stock option expense related to options granted during the period from 1995 to 2006.

Discontinued operations include: (i) the Integrated Security Services segment; (ii) USMB, formerly included in the Commercial Real Estate Services segment; (iii) the Canadian Commercial Mortgage Securitization ("CCMS") operation, formerly included in the Commercial Real Estate Services segment; and (iv) the Business Services segment, disposed in March 2006. Revenues from discontinued operations were $49.6 million and EBITDA was a loss of $8.3 million. Included in EBITDA was a loss of $6.7 million at CCMS, comprised of the settlement of a

portion of the hedging instruments and a mark-to-market loss on the remaining hedging instruments.

**Results of operations – year ended March 31, 2008**

FirstService reported revenues from continuing operations of $1.55 billion for the year ended March 31, 2008 ("fiscal 2008"), an increase of 34% relative to the prior year. The increase was comprised of internal growth of 10%, acquisitions of 21% and the impact of foreign exchange of 3%.

Operating earnings increased 1% relative to the prior year, to $78.1 million. EBITDA increased 15% to $123.6 million. The gap between the operating earnings decline relative to revenue and EBITDA growth was primarily the result of: (i) an increase in stock-based compensation expense; and (ii) the rapid amortization of brokerage backlog intangibles related to recent acquisitions in Commercial Real Estate Services, which has a significant impact on the first year after acquisition.

Depreciation and amortization expense was $37.7 million relative to $26.0 million in the prior year. With regard to the recent Commercial Real Estate Services acquisitions, we recorded a short-lived intangible asset relating to the backlog of pending brokerage transactions that existed at the acquisition dates. The intangible is being amortized to coincide with the expected completion dates of the underlying brokerage transactions. The balance of the increase in depreciation and amortization is the result of: (i) intangible assets recognized upon acquisitions during the past two years; and (ii) increases in fixed assets resulting from capital expenditures and acquisitions.

Interest expense increased to $16.9 million from $13.2 million in the prior year. Our weighted average interest rate increased slightly to 7.1% from 6.9% in the prior year. The $3.5 million of interest income earned during the year was attributable to cash on hand.

Other income for fiscal 2008 includes distributions received on our investment in Resolve and earnings from investments accounted for under the equity method in Commercial Real Estate Services.

Our consolidated income tax rate for fiscal 2008 was 25% versus 29% in the prior year. On January 1, 2008 we recognized a $2.3 million deferred tax asset relating to the deductibility, for tax purposes, of stock option expense. We had previously not recognized this tax benefit.

Net earnings from continuing operations were $35.5 million, up $0.5 million versus fiscal 2007. Increases in our Property Services and Residential Property Management segments were offset by declines in our Commercial Real Estate Services segment coupled with increased costs at Corporate, resulting in the decrease in net earnings.

Our Commercial Real Estate Services segment reported revenues of $787.5 million during fiscal 2008, up 36% relative to $577.7 million in the prior year. Internal growth was 10%, foreign exchange contributed 6% and the balance was attributable to acquisitions in several markets including South Eastern Europe, Boston and Hawaii. EBITDA was $42.8 million, at a margin of 5.4%, versus the prior year's EBITDA of $46.8 million at a margin of 8.1%. The margin decline was primarily a result of the following factors: (i) operating losses at certain US brokerage offices due to declines in investment and sales brokerage volumes; and (ii) lower margins at our Australian operations relative to the prior year. Margins in Canada, Eastern Europe, Asia and Latin America were generally consistent with those experienced in the prior year.

In Residential Property Management, revenues increased 29% to $545.0 million. Internal growth, resulting from property management contract wins, was 9%, while acquisitions in California, Texas and the Northeast accounted for the balance of the growth. Residential Property Management reported EBITDA of $50.2 million or 9.2% of revenues, up from $40.3

million or 9.5% of revenues in the prior year. The decrease in margin was primarily the result of a decrease in higher margin ancillary services.

The Property Services operations reported revenues of $217.0 million, an increase of 44% versus the prior year. Of the increase, 34% was attributable to acquisitions, particularly Field Asset Services, while internal growth was 9% and foreign exchange had an impact of 1%. Internal growth was led by increases in royalty revenues primarily at our CertaPro system. EBITDA for the year was $38.4 million, 26% higher than the prior year, and the EBITDA margin decreased from 20.3% to 17.7%. The margin decrease was attributable to: (i) the impact of Field Asset Services, which operates at a lower margin than the rest of the segment and (ii) unusually low expenses in the comparative year, due to bad debt recoveries and the deferral of a franchisees' conference.

Corporate costs rose to $15.6 million from $14.6 million in fiscal 2007. Included in the current year is a charge of $3.3 million related to additional stock-based compensation expense as a result of the stock option review completed in the third quarter. No senior management bonuses were accrued in fiscal 2008 under our performance-based incentive compensation plan.

Discontinued operations include: (i) the Integrated Security Services segment; (ii) USMB, formerly included in the Commercial Real Estate Services segment; (iii) CCMS, formerly included in the Commercial Real Estate Services segment and (iii) the Business Services segment, disposed in March 2006. Revenues from discontinued operations were $222.9 million. The Company realized a gain of $2.3 million in August 2007 on the settlement of a liability in connection with the March 2006 disposal of our Business Services operations. The net loss from discontinued operations was $1.1 million.

**Results of operations – year ended March 31, 2007**

FirstService reported revenues from continuing operations of $1.15 billion for the year ended March 31, 2007 ("fiscal 2007"), an increase of 25% relative to the prior year. The increase was comprised of internal growth of 12%, acquisitions of 13% and the impact of foreign exchange of 1%.

Operating earnings increased 26% relative to the prior year, to $77.0 million. EBITDA increased 28% to $108.0 million. There was a small gap between operating earnings growth relative to revenue and EBITDA growth composed of an increase in stock-based compensation expense largely offset by the rapid amortization of brokerage backlog intangibles related to recent acquisitions in Commercial Real Estate Services, which has a significant impact on the first year after acquisition.

Depreciation and amortization expense was $26.0 million relative to $20.9 million in the prior year. With regard to the recent commercial real estate services acquisitions, we recorded a short-lived intangible asset relating to the backlog of pending brokerage transactions that existed at the acquisition dates. The intangible is being amortized to coincide with the expected completion dates of the underlying brokerage transactions. The balance of the increase in depreciation and amortization is the result of: (i) intangible assets recognized upon acquisitions during the past two years and (ii) increases in fixed assets resulting from capital expenditures and acquisitions.

Interest expense increased to $13.2 million from $11.3 million in the prior year. Our weighted average interest rate increased to 6.9% versus 6.6% in the prior year as substantially all of our debt was at fixed interest rates during the year, versus a mix of fixed and floating in the prior year. The $5.3 million of interest income earned during the year was attributable to surplus cash on hand, including the $110.5 million received upon the sale of Resolve.

Other income for fiscal 2007 primarily includes distributions received on our investment in Resolve and earnings from investments accounted for under the equity method in commercial real estate services.

Our consolidated income tax rate for fiscal 2007 was 29% versus 29% in the prior year. The current and prior year's tax rate reflected the continuing benefit of cross-border financing structures first implemented in fiscal 2000. We also realized the benefit of a $1.8 million reduction in tax liability during the year related to resolution of tax matters from prior years.

Net earnings from continuing operations were $35.0 million, an increase of 31% relative to fiscal 2006. All of the Company's continuing operations contributed to the increase in net earnings.

The Commercial Real Estate Services segment reported revenues of $577.7 million during fiscal 2007, up 32% relative to $438.0 million in the prior year. Internal growth was 11%, foreign exchange contributed 1% and the balance of growth was the result of acquisitions completed during the past two years. EBITDA was $46.8 million, at a margin of 8.1%, versus the prior year's EBITDA of $37.3 million at a margin of 8.5%.

In Residential Property Management, revenues increased 22% to $423.8 million. After considering the 6% impact of acquisitions, internal growth was 16% and was attributable to significant property management contract wins and an increase in ancillary service revenues. Residential Property Management reported EBITDA of $40.3 million or 9.5% of revenues, up from $31.4 million or 9.1% of revenues in the prior year. The increase in margin was primarily the result of operating leverage.

The Property Services operations reported revenues of $150.8 million, an increase of 12% versus the prior year. Of the increase, 9% was attributable to internal growth, 2% to acquisitions and 1% to foreign exchange. Internal growth was led by increases in royalty revenues at our major franchise systems. EBITDA for the year was $30.6 million, 19% higher than the prior year, and the EBITDA margin increased 110 basis points to 20.3%. The margin increase was attributable to California Closets and Paul Davis Restoration, where revenue growth was coupled with reduced expenses, including the recovery of bad debts and the deferral of a franchisees' conference.

Corporate costs rose to $14.6 million from $12.5 million in fiscal 2006. Professional fees and performance-based incentive compensation were higher than the previous year. Also included in Corporate is $1.9 million in non-cash stock option expense, an increase of $0.5 million relative to the prior year.

Discontinued operations include: (i) the Integrated Security Services segment; (ii) USMB, formerly included in the Commercial Real Estate Services segment; (iii) CCMS, formerly included in the Commercial Real Estate Services segment and (iii) the Business Services segment, disposed in March 2006. Revenues from discontinued operations were $206.9 million. Net earnings from discontinued operations were $1.3 million.

**Canadian commercial mortgage securitization operations**

The CCMS operations were wound down in March 2008 and are classified as discontinued operations for all periods presented. The remaining mortgage assets are carried at the lower of cost and fair value less cost to sell and the related interest rate derivative contracts are carried at fair value. We expect to dispose of the mortgage loans receivable, along with the related derivative contracts, as soon as practicable.

As of December 31, 2008, we had $12.7 million (March 31, 2008 - $20.8 million; March 31, 2007 - $13.7 million) of mortgage loans receivable and a right to purchase $86.4 million (March 31, 2008 - $151.9 million; March 31, 2007 - $189.4 million) of mortgages from our co-

lenders. As at December 31, 2008, we had interest rate derivative contracts to convert $60.3 million of fixed-rate mortgage loans receivable to floating rates (March 31, 2008 - $143.5 million; March 31, 2007 - $167.8 million) with a fair value loss of $10.8 million (March 31, 2008 - $11.7; March 31, 2007 - gain of $0.4 million). The derivative contracts expire on March 31, 2009. Because the derivative contracts do not qualify as accounting hedges, changes in fair value are recognized in earnings from discontinued operations.

**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 Company stock options is determined 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 stock options and subsidiary notional value appreciation plans is re-measured quarterly. The following table sets out the period expense related to stock-based compensation:

| (in thousands of US$) | Nine months ended December 31 | | Year ended March 31 | | | |
|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2006** | **2005** |
| Stock option expense – Company | **$ 1,723** | $ 5,127 | $ 5,938 | $ 1,916 | $ 1,380 | $ 622 |
| Stock option expense – subsidiary | **(103)** | 994 | 1,508 | 1,791 | 552 | 177 |
| Notional value appreciation plans | **931** | 323 | 373 | 1,249 | 379 | 889 |
| Total expense | **$ 2,551** | $ 6,444 | $ 7,819 | $ 4,956 | $ 2,311 | $ 1,688 |

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

| | Nine months ended December 31 | | Year ended March 31 | | | |
|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2006** | **2005** |
| **OPERATIONS** | | | | | | |
| Revenues | **$1,322,680** | $1,180,582 | $1,549,713 | $1,152,821 | $918,668 | $508,115 |
| Operating earnings | **83,130** | 89,925 | 78,122 | 77,005 | 61,087 | 27,838 |
| Net earnings from continuing operations | **11,508** | 42,354 | 35,474 | 34,963 | 26,757 | 12,172 |
| Net earnings from discontinued operations | **50,528** | 1,406 | (1,075) | 1,253 | 42,740 | 11,035 |
| Net earnings | **62,036** | 43,760 | 34,399 | 34,863 | 69,497 | 23,207 |
| **FINANCIAL POSITION** | | | | | | |
| Total assets | **$ 990,637** | $1,059,461 | $1,089,343 | $ 816,998 | $711,004 | $626,728 |
| Long-term debt | **266,369** | 331,348 | 356,030 | 235,131 | 248,686 | 220,015 |
| Shareholders' equity | **345,839** | 312,161 | 305,685 | 264,875 | 237,752 | 185,871 |
| Book value per common share | **6.87** | 5.44 | 5.19 | 8.85 | 7.91 | 6.15 |
| **COMMON SHARE DATA** | | | | | | |
| Net earnings per common share: | | | | | | |
| Basic | | | | | | |
| Continuing operations | **$ 0.13** | $ 1.27 | $ 0.95 | $ 1.17 | $ 0.89 | $ 0.41 |
| Discontinued operations | **1.71** | 0.05 | (0.03) | 0.04 | 1.41 | 0.37 |
| Cumulative effect adjustment | **-** | - | - | (0.04) | - | - |
| | **1.83** | 1.32 | 0.92 | 1.17 | 2.30 | 0.78 |
| Diluted | | | | | | |
| Continuing operations | **$ 0.11** | $ 1.17 | $ 0.89 | $ 1.08 | 0.83 | 0.38 |
| Discontinued operations | **1.70** | 0.05 | (0.04) | 0.04 | 1.38 | 0.36 |
| Cumulative effect adjustment | **-** | - | - | (0.04) | - | - |
| | **1.81** | 1.22 | 0.85 | 1.08 | 2.21 | 0.74 |
| Weighted average common shares (thousands) | | | | | | |
| Basic | **29,584** | 29,879 | 29,905 | 29,903 | 30,171 | 29,777 |
| Diluted | **29,755** | 30,417 | 30,547 | 30,354 | 30,896 | 30,467 |
| Cash dividends per common share | **-** | - | - | - | - | - |
| **PREFERRED SHARE DATA** | | | | | | |
| Number outstanding (thousands) | **5,772** | 5,979 | 5,979 | - | - | - |
| Cash dividends per preferred share | **$ 1.31** | $ 0.72 | $ 1.16 | - | - | - |
| **OTHER DATA** | | | | | | |
| EBITDA | **$ 124,361** | $ 123,230 | $ 123,614 | $ 107,983 | $ 84,319 | $ 47,814 |
| Adjusted diluted net earnings per share from continuing operations | **1.09** | 1.48 | 1.32 | 1.17 | 0.75 | 0.26 |

**Seasonality and quarterly fluctuations**

Certain segments of the Company's operations are subject to seasonal variations. The Commercial Real Estate Services segment historically generates peak revenues and earnings in the month of December followed by a low in January to March 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 comprise approximately 35% of consolidated revenues. The demand for exterior painting (Property Services segment) and swimming pool management in the northern United States and Canada (Residential Property Management segment) is highest during late spring, summer and early fall and very low during winter. These operations generate most of their annual revenues and earnings between April and September and comprise approximately 5% of consolidated revenues.

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

**Quarterly results – fiscal periods ended December 31, 2008, March 31, 2008 and 2007**
**(in thousands of US$, except per share amounts)**

| Fiscal period | Q1 | Q2 | Q3 | Q4 | Period |
|---|---|---|---|---|---|
| **Nine-month period ended December 31, 2008** | | | | | |
| Revenues | $454,769 | $450,051 | $417,860 | NA | $1,322,680 |
| Operating earnings | 35,278 | 35,442 | 12,410 | | 83,130 |
| Net earnings (loss) from continuing operations | 17,240 | 13,250 | (18,982) | | 11,508 |
| Net earnings (loss) from discontinued operations | 625 | 68,073 | (18,170) | | 50,528 |
| Net earnings (loss) | 17,865 | 81,323 | (37,152) | | 62,036 |
| Net earnings (loss) per common share: | | | | | |
| Basic | 0.51 | 2.68 | (1.36) | | 1.83 |
| Diluted | 0.47 | 2.66 | (1.36) | | 1.81 |
| | | | | | |
| **Fiscal year ended March 31, 2008** | | | | | |
| Revenues | $359,661 | $373,287 | $447,634 | $369,131 | $1,549,713 |
| Operating earnings (loss) | 33,449 | 32,833 | 23,643 | (11,803) | 78,122 |
| Net earnings (loss) from continuing operations | 14,958 | 16,314 | 11,082 | (6,880) | 35,474 |
| Net earnings (loss) from discontinued operations | 3,124 | 1,379 | (3,097) | (2,481) | (1,075) |
| Net earnings (loss) | 18,082 | 17,693 | 7,985 | (9,361) | 34,399 |
| Net earnings (loss) per common share: | | | | | |
| Basic | 0.61 | 0.53 | 0.18 | (0.40) | 0.92 |
| Diluted | 0.56 | 0.50 | 0.15 | (0.40) | 0.85 |
| | | | | | |
| **Fiscal year ended March 31, 2007** | | | | | |
| Revenues | $275,326 | $289,792 | $316,983 | $270,721 | $1,152,822 |
| Operating earnings | 26,036 | 24,957 | 15,176 | 10,836 | 77,005 |
| Net earnings from continuing operations | 11,926 | 12,711 | 7,069 | 3,258 | 34,963 |
| Net earnings (loss) from discontinued operations | 2,207 | (738) | 688 | (905) | 1,253 |
| Net earnings | 12,780 | 11,973 | 7,757 | 2,353 | 34,863 |
| Net earnings per common share: | | | | | |
| Basic | 0.43 | 0.40 | 0.26 | 0.08 | 1.17 |
| Diluted | 0.39 | 0.38 | 0.25 | 0.06 | 1.08 |
| | | | | | |
| **OTHER DATA** | | | | | |
| EBITDA - Period ended December 31, 2008 | $ 47,113 | $ 47,451 | $ 29,797 | NA | 124,361 |
| EBITDA - Year ended March 31, 2008 | 41,509 | 42,760 | 38,961 | 384 | 123,614 |
| EBITDA - Year ended March 31, 2007 | 32,736 | 30,966 | 23,526 | 20,757 | 107,983 |

**Discussion of third quarter results**

Operating results for the third quarter ended December 31, 2008 were affected by the global financial slowdown, particularly in our Commercial Real Estate Services and Property Services segments. Commercial Real Estate revenues declined 28% versus the prior year quarter due to reduced brokerage transaction volume which was affected by reduced business confidence and the inavailability of credit for real estate transactions, and profit margins were negatively impacted. Property Services revenues were up 35% versus the prior year period, however within the segment, US residential property foreclosure services revenues doubled, while revenues from consumer-oriented franchise systems, particularly California Closets, declined 31%. Property Services profit margins declined due to mix change away from higher margin franchising revenues.

**Financial outlook**

We are committed to a long-term growth strategy that includes average internal revenue growth in the 8-10% range combined with acquisitions to build each of our service platforms, resulting in targeted average annual percentage growth in revenues, EBITDA and earnings per 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 2009 we expect modest revenue and earnings growth in our Residential Property Management and Property Services segments. We are presently unable to forecast operating results for 2009 for our Commercial Real Estate operations.

**Liquidity and capital resources**

The Company generated cash flow from operating activities, including discontinued operations, of $66.4 million for nine-month period ended December 31, 2008. Operating cash flow excluding the effect of discontinued operations, was $68.2 million, down 15% versus the comparable prior nine month period. The decrease in operating cash flow was attributable to investments in working capital, particularly accrued liabilities, and lower earnings. We believe that cash from operations and other existing resources will continue to be adequate to satisfy the ongoing working capital needs of the Company.

Net indebtedness as at December 31, 2008 was $186.7 million, versus $280.7 million at March 31, 2008 and $137.9 million at March 31, 2007. Net indebtedness is calculated as the current and non-current portions of long-term debt less cash and cash equivalents. During the nine-month period ended December 31, 2008, we received proceeds of $155.0 million on our Integrated Security division divestiture and we invested: (i) $36.5 million in business acquisitions; and (ii) $38.5 million in acquisitions of minority interests.

We are in compliance with the covenants required of our financing agreements as at December 31, 2008 and we expect to remain in compliance with such covenants going forward. We had $134.2 million of available revolving credit as of December 31, 2008.

On September 6, 2007, we entered into an amended and restated credit agreement with a syndicate of banks to provide a $225 million committed senior revolving credit facility with a five year term to replace the existing $110 million facility. The amended facility has an accordion feature allows for an additional $50 million of borrowings. The amended facility bears interest at 0.75% to 1.30% over floating reference rates, depending on the ratio of our net debt to adjusted EBITDA.

During the nine-month period ended December 31, 2008, we repurchased 960,300 Subordinate Voting Shares for cancellation under our approved normal course issuer bid at a cost of $14.8 million and 206,800 7% Cumulative Preference Shares, Series 1 (the "Preferred Shares") at a cost of $3.4 million.

Capital expenditures for the period were $14.7 million. The most significant expenditures were in the Commercial Real Estate Services segment, with additions to leaseholds, computer software, computer hardware and furniture totaling $7.9 million.

During the nine-month period ended December 31, 2008, we paid $7.8 million of dividends on the Preferred Shares. The annual Preferred Share dividend obligation, based on the number of Preferred Shares outstanding as of December 31, 2008, is $10.1 million. We also distributed $11.4 million to minority shareholders of subsidiaries during the same period, primarily to facilitate the payment of income taxes on account those subsidiaries organized as flow-through entities.

In relation to acquisitions completed during the past three fiscal periods, we have outstanding contingent consideration totaling $51.8 million as at December 31, 2008 (March 31, 2008 - $53.6 million; March 31, 2007 - $14.8 million) assuming all contingencies are satisfied and payment due in full. The amount of the contingent consideration is not recorded as a liability unless the outcome of the contingency is resolved and additional consideration is paid or payable. The contingent consideration is based on achieving specified earnings levels, and is paid or payable at the end of the contingency period, which extends to February 2012. We estimate that, based on current operating results, approximately 40% of the contingent consideration outstanding as of December 31, 2008 will ultimately be paid. When the contingencies are resolved and additional consideration is payable, we will record the fair value of the additional consideration as additional costs of the acquired businesses.

One of our subsidiaries has issued options to purchase shares to its operating managers. The numerators for our diluted earnings per share calculations are adjusted to account for potential dilution from stock options in the subsidiary. When stock options are exercised, the minority shareholders become party to a shareholders' agreement as described below.

All minority shareholders of our subsidiaries are party to shareholders' agreements. These agreements allow us to "call" the minority position at fair value determined with the use of a formula price, which is usually equal to a multiple of trailing two-year average earnings. Minority owners may also "put" their interest to the Company at the same price, with certain limitations. The total value of the minority shareholders' interests, as calculated in accordance with the shareholders' agreements, was approximately $193 million at December 31, 2008 (March 31, 2008 - $233 million; March 31, 2007 - - $154 million). As of December 31, 2008, we had $14.9 million of loans receivable from minority shareholders secured by the shares and accordingly, the net value of the minority shares is $178.1 million. The purchase price of minority interests may be paid in Subordinate Voting Shares of FirstService. While it is not our intention to acquire the outstanding minority interests, this step could materially increase net earnings.

The following table summarizes our contractual obligations as at December 31, 2008:

| **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 | $261,909 | $ 18,684 | $ 49,606 | $ 127,821 | $ 65,798 |
| Capital lease obligations | 4,460 | 2,215 | 2,175 | 70 | - |
| Operating leases | 203,921 | 40,774 | 71,975 | 50,592 | 40,580 |
| Unconditional purchase obligations | 14,955 | 14,955 | - | - | - |
| Other long-term obligations | - | - | - | - | - |
| Total contractual obligations | $485,245 | $ 76,628 | $ 123,756 | $ 178,483 | $ 106,378 |

At December 31, 2008, we had unconditional purchase obligations of $15.0 million with respect to stock "puts" exercised by minority shareholders. At December 31, 2008, we had commercial commitments totaling $5.8 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 long-term debt at a weighted average interest rate of 6.3%.

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

**Discussion of critical accounting estimates**

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

Annual goodwill impairment testing requires judgment on the part of management. Goodwill impairment testing involves making estimates concerning the fair value of reporting units and then comparing the fair value to the carrying amount of each unit. The determination of what constitutes a reporting unit requires significant management judgment. Estimates of fair value can be impacted by sudden changes in the business environment or prolonged economic downturns, declines in the market value of the Company's own shares and therefore require significant management judgment in their determination. A 10% decline in the fair value of each reporting unit as of December 31, 2008 would not result in an indication of impairment. A

sustained economic downturn could result in the impairment of goodwill and recognition of an impairment loss within the next year.

Acquisition purchase price allocations require use of estimates and judgment on the part of management, especially in the determination of intangible assets acquired. For example, if different assumptions were used regarding the profitability and expected lives of acquired customer contracts and relationships, different amounts of intangible assets and related amortization could be reported. A 10% increase in the amount allocated to intangible assets during the nine-month period ended December 31, 2008 would result in an increase to amortization expense for the period of $0.3 million.

Amortization of intangible assets requires management to make estimates of useful lives and to select methods of amortization. Useful lives and methods of amortization are determined at the time assets are initially acquired, and then are reevaluated each reporting period. Significant judgment is required to determine whether events and circumstances warrant a revision to remaining periods of amortization. Changes to estimated useful lives and methods of amortization could result in increases or decreases in amortization expense. A 10% reduction to the weighted average useful life of intangible assets, other than short-lived brokerage backlog, would result in an increase to the amortization expense for the period of $1.7 million.

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 $1.3 million.

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

**Transactions with related parties**

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

**Recently adopted accounting standards**

On April 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. As a result of FASB Staff Position No. 157-2, the application of SFAS 157 is delayed to January 1, 2009 for all non-financial assets and liabilities that are recognized or disclosed at fair value on a non-recurring basis. The adoption of SFAS 157 did not have a material effect on the Company’s results of operations or financial position, however additional disclosures are now required in the financial statements

**Impact of recently issued accounting standards**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (“SFAS 141R”). SFAS 141R changes the method of accounting for business acquisitions at the acquisition date and in subsequent periods. This standard is effective prospectively for business combinations for which the acquisition date is on or after January 1, 2009. The Company has evaluated the impact of the adoption of SFAS 141R and the following changes in practice will be required for acquisitions completed under the standard: (i) transaction

costs will be expensed, resulting in increases to selling, general and administrative expenses; (ii) contingent consideration will be recognized at the acquisition date, resulting in increases to goodwill and accrued liabilities; and (iii) the fair value of contingent consideration will be re-measured quarterly, resulting in increased volatility in earnings.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ("SFAS 160"). SFAS 160 changes the accounting and reporting for non-controlling (formerly referred to as minority interests). SFAS 160 also affects the guidance in EITF No. D-98, *Classification and Measurement of Redeemable Securities* ("EITF D-98"). SFAS 160 is effective for the Company as of January 1, 2009. The Company has evaluated the impact of the adoption of SFAS 160 as well as the changes to EITF-98. The following changes in practice will be required: (i) non-controlling interest will be presented in the "mezzanine" section of the balance sheet at the redemption value, resulting in a significant increase in non-controlling interest and (ii) purchases by the Company of non-controlling interest will be recorded as a reduction of non-controlling interest. Upon the initial adoption of SFAS 160 on January 1, 2009, the Company will increase non-controlling interest in the amount of approximately $135 million and will record a corresponding decrease to retained earnings.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). SFAS 161 requires enhanced disclosures about the Company's derivative and hedging activities such as the objective for using derivative instruments, the method of accounting for derivative instruments and related hedged items under SFAS No. 133 and its related interpretations, and the effect of derivative instruments and related hedged items on the Company's financial position, financial performance, and cash flows. The Standard is effective for the Company as of January 1, 2009. The Company is currently evaluating the impact of the adoption of SFAS 161 on its financial statement note disclosures.

In April 2008, the FASB staff issued Statement of Position No. 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"). FSP 142-3 amends the factors used when considering the useful life of recognized intangible assets. The Standard is effective for the Company as of January 1, 2009. The Company is currently evaluating the impact of the adoption of FSP 142-3 on its financial position and results of operations.

**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.

As of the date hereof, the Company has outstanding 28,007,790 Subordinate Voting Shares, 1,325,694 Multiple Voting Shares and 5,772,274 Preferred Shares. In addition, as at the date hereof, 1,580,755 Subordinate Voting Shares are issuable upon exercise of options granted under the Company's stock option plans.

**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, 2008 (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 by, or under the supervision of, the Company's principal executive and financial officers and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and the requirements of Canadian securities regulators and the SEC, as applicable, and 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 GAAP, and the requirements of Canadian securities regulators and the SEC, as applicable, 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.

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 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, 2008. The total assets and total revenues of these majority-owned entities of the Company represent 1.6% and 1.4%, respectively, of the related consolidated financial statement amounts including discontinued operations as at and for the nine-month period ended December 31, 2008.

Management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2008, based on the criteria set forth in *Internal Control – Integrated*

*Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as at December 31, 2008, 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, 2008, has been audited by PricewaterhouseCoopers LLP, the Company's independent auditors. The attestation report of PricewaterhouseCoopers LLP is included in PricewaterhouseCoopers LLP's report to the shareholders of the Company dated February 27, 2009, which accompanies the Company's audited consolidated financial statements for the nine-month period ended December 31, 2008.

**Changes in internal control over financial reporting**

During the nine-month period ended December 31, 2008, 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:

- Commercial real estate property values, vacancy rates and general conditions of financial liquidity for real estate transactions.
- Economic conditions, especially as they relate to consumer spending.
- Extreme weather conditions impacting demand for our services or our ability to perform those services.
- Political conditions, including any outbreak or escalation of terrorism or hostilities and the impact thereof on our business.
- Competition in the markets served by the Company.
- Labor shortages or increases in wage and benefit costs.
- The effects of changes in interest rates on our cost of borrowing.
- Unexpected increases in operating costs, such as insurance, workers' compensation, health care and fuel prices.
- Changes in the frequency or severity of insurance incidents relative to our historical experience.
- The effects of changes in 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.
- Changes in government policies at the federal, state/provincial or local level that may adversely impact our businesses.

The reader is cautioned against undue reliance on these forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what management currently believes to be reasonable assumptions, we cannot assure that actual results, performance or achievements will be consistent with such statements. The forward-looking statements are made as of the date of this MD&A and we do not intend, and do not assume any obligation to update or revise any such statements.

**EXHIBIT 23**

**CONSENT OF INDEPENDENT AUDITORS**

We hereby consent to the inclusion in the Annual Report on Form 40-F of FirstService Corporation (the "Company") of our report dated February 27, 2009 relating to the Company's consolidated financial statements and the effectiveness of internal control over financial reporting.

*/s/ PricewaterhouseCoopers LLP*
Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March 2, 2009

## EXHIBIT 31

**CERTIFICATION**
**PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Jay S. Hennick, certify that:

1. I have reviewed this annual report on Form 40-F of FirstService Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    (b) Designed such internal control over financial reporting, or cause such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with general accepted accounting principles;
    (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

February 27, 2009

*/s/ Jay S. Hennick*
Jay S. Hennick
Chief Executive Officer

**CERTIFICATION**
**PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

I, John B. Friedrichsen, certify that:

1. I have reviewed this annual report on Form 40-F of FirstService Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    (b) Designed such internal control over financial reporting, or cause such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with general accepted accounting principles;
    (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

February 27, 2009

*/s/ John B. Friedrichsen*
John B. Friedrichsen
Senior Vice President and Chief Financial Officer

## EXHIBIT 32

**CERTIFICATION**
**PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT**
**TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report on Form 40-F of FirstService Corporation (the "Company") for the nine month period ended December 31, 2008 (the "Report") filed with the United States Securities and Exchange Commission on the date hereof, I, Jay S. Hennick, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as enacted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 27, 2009

*/s/ Jay S. Hennick*
Jay S. Hennick
Chief Executive Officer

**CERTIFICATION**
**PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT**
**TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report on Form 40-F of FirstService Corporation (the "Company") for the nine months ended December 31, 2008 (the "Report") filed with the United States Securities and Exchange Commission on the date hereof, I, John B. Friedrichsen, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as enacted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 27, 2009

*/s/ John B. Friedrichsen*
John B. Friedrichsen
Senior Vice President and Chief Financial Officer