Creating Value One Step at a Time

2004 ANNUAL REPORT

www.firstservice.com

Corporate Profile FirstService is a North American leader in the rapidly growing service sector providing services to commercial and residential customers in the following four areas: Residential Property Management; Integrated Security Systems; Franchise Services; and Business Services. FirstService's revenue run rate is approximately US $650 million and total system-wide sales including revenues generated by franchisees are approximately US $1.3 billion.

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

President's
MESSAGE

JAY HENNICK FOUNDER, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Fiscal 2004 marked another successful year for FirstService.

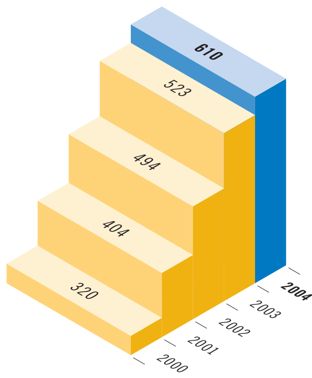
Operationally, we finished the year on a strong note with fourth quarter earnings per share up 57% over the prior year. For the full year, revenues, earnings and earnings per share were all at record levels with earnings per share reaching $1.30 - the top end of our range. At $35 million, cash flow from operations was also at an all-time high, up 18% over the prior year, our previous best.

We also announced an increase in our earnings per share range for fiscal 2005 to between $1.43 and $1.53 after taking into account the sale of our profitable lawn care business, which we completed at the outset of the year.

Overall, we are very excited about what is going on and confident that fiscal 2005 will be another year of robust growth for FirstService.

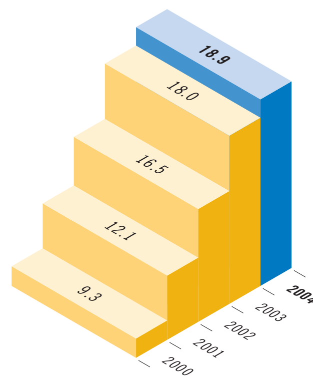
Our goal is to be a well-managed service company that delivers consistent growth in earnings and shareholder value. As we say on the cover of this annual report, we strive to achieve that goal by "creating value, one step at a time". And this past year was no exception. In fact, fiscal 2004 marked the eleventh consecutive year in which we grew our revenues, earnings and earnings per share over the prior year. It's an achievement of which we are very proud.

As I have said in the past, our ability to continue to achieve growth, year after year, is a testimony to our solid fundamentals, way of doing business, and our strong management teams.



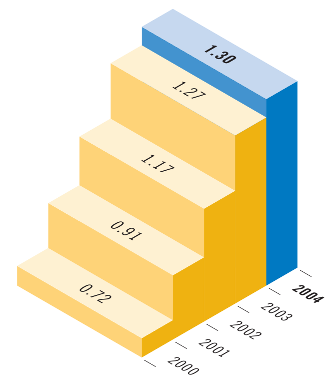
Revenue[1] ($US MILLIONS)

The 5 year compound annual growth rate for revenue is 20.3% reflecting a combination of consistent organic growth and sound acquisitions.



Net Earnings[1] ($US MILLIONS)

Net earnings have grown at a compound annual growth rate of 23.4% during the 5 year period.



Diluted Earnings Per Share ($US)

Diluted earnings per share has grown at a compound annual growth rate of 19.2% during the 5 year period.

1 Continuing operations only. The Company sold the Canadian lawn care business in April, 2004.

The Year in Review

All segments of our business contributed to our solid financial performance for the year.

Consumer Services delivered record results for the year with exceptional revenue and profit growth. Integrated Security Services also contributed solid results, while Residential Property Management finished the year very strongly with revenues and profits both up, based on margin gains of almost 100 basis points. In Business Services, results were better than expected, with contribution up over last year, after adjusting for the one-time gain in insurance proceeds recorded in fiscal 2003.

Corporate Highlights

Fiscal 2004 marked a busy year in terms of new corporate initiatives. Here are some of the highlights:

- On October 1, 2003, we completed the private placement of $50 million of senior notes due in 2015. This new issue reflects the investment grade rating of our previous issue of $100 million and our continuing success as a company. More importantly, it further strengthened our balance sheet and provided us with the long-term capital we need to continue to grow. To complement this financing we updated our revolving credit facilities with our banking syndicate and have in place $90 million of availability.

- In Consumer Services we added two franchise systems during the year. The first was Pillar to Post, North America's largest franchiser of property inspection services, with more than 400 franchises in the United States and Canada. Pillar to Post was recently awarded the top ranking for Home Inspection in Entrepreneur Magazine's 2003 list of Top Franchisers in North America. The second was Floor Coverings International, a leading provider of mobile "shop at home" services for floor and window coverings. FCI operates a network of more than 100 franchises throughout the United States, Canada and England.

- We added two highly successful franchises to our growing group of California Closets "branchise" operations. We now have a total of six company-owned operations generating about $25 million in annual revenue.

- We completed three acquisitions in Residential Property Management, two of which were core management companies in Vero Beach and Wellington, Florida. The third, concluded just after year-end, was a property services company also based in South Florida. Together, these acquisitions added about 18,000 residential units to our portfolio and about $12 million in annual revenue.

- Integrated Security Services acquired Innovative Security Services Inc., a leading security systems integrator headquartered in West Palm Beach, Florida and with branch offices in Orlando, Florida and Houston, Texas. Innovative provides comprehensive security solutions to large corporations and government agencies in the US Southeast and further expands the reach of our U.S. operations.

LEFT TO RIGHT: JOHN FRIEDRICHSEN, ROMAN KOCUR, JAY HENNICK, DOUG COOKE, AND SCOTT PATTERSON

Five Year Growth Record

Year Ended March 31	**2004**	**2003**	**2002**[4]	**2001**	**2000**
Operations					
Revenues[1]	**$ 609,794**	$ 523,127	$ 493,551	$ 404,233	$ 320,246
EBITDA[1,2]	**54,294**	50,988	55,240	45,310	35,669
Operating earnings[1]	**39,071**	37,703	43,287	34,033	26,707
Net earnings from continuing operations	**18,864**	18,026	16,482	12,056	9,297
Net earnings	**19,024**	18,440	17,029	12,631	9,792
Financial Position					
Total assets	**$ 437,553**	$ 389,031	$ 365,929	$ 305,137	$ 230,887
Long-term debt[3]	**153,581**	155,610	160,488	149,374	102,177
Shareholders' equity	**155,101**	123,406	99,221	79,220	68,338
Book value per share	**10.52**	8.71	7.20	6.02	5.26
Share Data					
Net earnings per share					
Basic	**$ 1.33**	$ 1.32	$ 1.26	$ 0.97	$ 0.76
Diluted	**1.30**	1.27	1.17	0.91	0.72
Weighted average shares (thousands)					
Basic	**14,285**	13,921	13,565	13,074	12,948
Diluted	**14,596**	14,498	14,600	13,841	13,708

In thousands of US Dollars, except per share amounts.

[1] Continuing operations only. The Company sold the Canadian lawn care business in April, 2004.
[2] Earnings before interest, taxes, depreciation and amortization.
[3] Excluding current portion of long-term debt and excluding interest rate swaps.
[4] SFAS 142 was adopted effective April 1, 2001, which resulted in a material decline in amortization expense and a material increase in net earnings. Fiscal 2001 net earnings, restated for SFAS 142, were $15,484 and net earnings per share were $1.19 (basic) and $1.11 (diluted).

"Our relationship with FirstService has provided us with the stability, discipline and capital resources of a public company, while allowing us to retain a significant equity stake in our future and to foster the culture and flexibility of an entrepreneurial business."
LAWRENCE ZIMMERING, CO-CHIEF EXECUTIVE OFFICER, RESOLVE CORPORATION

"FirstService's partnership model allowed my senior management team to become significant shareholders in our business. Now we are part of an industry leader in business services. "
TOM AITON, CO-CHIEF EXECUTIVE OFFICER, RESOLVE CORPORATION

Resolve Corporation: The Re-branding of Business Services

In early May, 2004, the four business units within our Business Services division - DDS Distribution Services, BDP Business Data Services, Watts NCH Promotional Services, and Watts Communications - were merged into one new company - called Resolve Corporation. Resolve is led by our long-time partners and business leaders, Tom Aiton, the former CEO of DDS Distribution Services, and Lawrence Zimmering, former CEO of BDP Business Data Services, who are Co-CEO's.

Each of the business units within Business Services has a deep heritage of service excellence and a loyal and diverse customer base of corporate and institutional customers across North America. Each is managed by a strong group of professionals who were themselves leaders in their fields. However, after a yearlong study and investigation into the opportunities to accelerate our growth while more effectively serving our customer base, we decided to merge these operations, and their management teams, into one significant player in the business services industry.

Resolve has more than 4,000 employees in 24 locations across North America and generates about $150 million in annual revenues. Its stated purpose is to improve client business performance continuously – consistent with the missions of the predecessor companies.

We are all very excited about the future prospects of Resolve and believe that the combined management team of operating partners is the strongest and most committed in its industry.

"Partnering with FirstService has been a great opportunity for my partners and I to take some money off the table and at the same time join a company with a long history in electronic security. In just four years we have dramatically expanded the size and geographic presence of our business."

FRANK BREWER, CHIEF EXECUTIVE OFFICER, FIRSTSERVICE SECURITY

Integration of Intercon and Security Services & Technologies

Effective April 1, 2004, we streamlined the leadership of our North American security operations, including Intercon Security and Security Services & Technologies, under Frank Brewer and his team based in Philadelphia.

Bringing these operations together – as the 7th largest player in North America, with 13 branches and about $130 million in revenue – makes sense on several levels.

First, it allows us to leverage the power of our strong management teams across the continent. Second, it gives us the opportunity to market Intercon's proprietary access control product and central station monitoring services to our expanding customer base in the U.S. Finally, it allows us to expand our business in Canada by capitalizing on SST's valuable vendor relationships and national accounts program.

Partnership Philosophy

Although FirstService is structured as a corporation, our philosophy is that of "partnership". The reason for this is simple – our operators and business leaders own significant direct equity stakes in the businesses they operate. This partnership philosophy is the foundation of our organization and one of the principle reasons for our success.

Over the years, we have been able to attract and motivate industry leaders, in large part because we have no predetermined exit strategy for any business we are in. After we decide to make an investment, we are in for the long term. Just as importantly, we don't burden our operations with significant indebtedness that may hinder their growth.

In every service line, our strategy is to build value for the long term and provide the capital and other resources needed to grow and develop our business units. In these and other ways, our attitude towards acquisitions is very different from that of private equity and other similar investors. Typically, these investors have very limited hold periods and look to over-leverage their investments to increase returns. In our view, both of these traits negatively impact the prospects of strong and growing businesses.

We have a successful track record of working with strong and committed management teams to build long term value for them and for the shareholders of FirstService.

"FirstService has been an excellent partner, encouraging us to grow our business and providing all the necessary support. Since 1989, system wide sales have grown from just over $15 million to more than $700 million through a combination of internal growth and acquisitions."

STEVEN ROGERS, CHIEF EXECUTIVE OFFICER,
THE FRANCHISE COMPANY, INC.

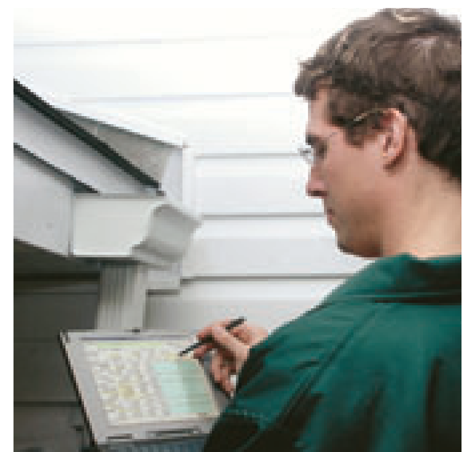
Our approach has been very successful over the long term. Here are some of our success stories.

Consumer Services. When we first partnered with Steve Rogers and his team in 1989 to acquire the College Pro Painters franchise system, the business generated about $5 million in revenue. This year royalty and other revenue will exceed $100 million, while system wide sales in Consumer Services will exceed $700 million. Increasing the revenue and cash flow of this business by more than 20 times over the years has created significant value for our operating partners and for the shareholders of FirstService.

Integrated Security Systems. We entered the security business in 1993 with the acquisition of Intercon Security and in 2000, increased our presence by partnering with Frank Brewer and his team at Security Services & Technologies, a strong regional player based in Philadelphia. Under Frank's leadership, this division has become the seventh largest player in North America with about $130 million in revenue, operating from 13 branches in the US and Canada. For Frank and his team who have a significant equity stake in the business – one which has more than doubled since we joined forces – the opportunities for future value appreciation are significant.

Business Services. In 1995, we entered the business services industry with separate acquisitions of BDP Business Data Services and DDS Distribution Services. Together, these operations generated a combined $12 million in revenue and provided the platform we needed to help create an industry leader. Today, under the leadership of Tom Aiton and Lawrence Zimmering, Resolve Corporation generates about $150 million in revenue. For Tom, Lawrence and the other partners of this thriving enterprise, partnering with FirstService has resulted in significant value appreciation and the resources to attain industry leadership.

Residential Property Management. In 1995, after we decided that residential property management business met our criteria, we partnered with Florida-based Prime Management and The Continental Group to create our platform for growth. Since then, this division has grown to be the largest player in its industry with more than $250 million dollars in revenue. Under the stewardship of industry leaders like Gene Gomberg, Richard Strunin and Chip Sollins, who collectively own a significant equity stake in these operations, we are well positioned to continue to build on our industry leading position. Creating America's most-admired residential property management company has also meant significant value appreciation for our partners.



"The discipline and support of FirstService has been critical to the development of our company. Over the years, our sales have quadrupled, and we have established ourselves as America's premiere community association management company."
GENE GOMBERG, CHIEF EXECUTIVE OFFICER,
THE CONTINENTAL GROUP, INC.

Operating Principles

In line with our partnership approach, all members of our senior management team, including me, have a significant portion of their net worth invested in FirstService.

As a result, our shareholders can take comfort in knowing that our fortunes ride with theirs. But this fact is also important to our operating partners. FirstService's role is to support our service lines financially and strategically and help our operating partners make the right business decisions to our collective long-term best interests. We bring both discipline and a wide range of experience in the service sector to assist in a variety of ways, including capital allocation. Making sure that we invest our capital carefully, both internally and through acquisitions, is one of our key responsibilities at FirstService.

We also reinforce our corporate values and key management principles; help target, negotiate and complete acquisitions; identify infrastructure leverage; help cross-sell services; and facilitate the sharing of best practices.

In short, we help our partners reinforce the discipline in their operations and provide them with access to opportunities that might not otherwise be available to smaller companies. At the same time, we emphasize that when it comes to operating day-to-day, our businesses must continue to be nimble – acting like small businesses – if they want to become big ones.

Goals for Fiscal 2005

Each February, our senior managers meet to review our operating results for the year and set goals for the following year and beyond. Here are a few of the initiatives we considered important going into fiscal 2005:

1. ***Internal Growth.***
   Grow internally by at least 8%.

2. ***Acquisitions.*** Add $10 million of annualized EBITDA through acquisitions.

3. ***Sell our lawn care operations.***
   As mentioned, we completed the sale of this business shortly after our year-end.

4. ***Look for a new platform or service line.***

5. ***Simplify the corporate structure.***
   As described, we integrated our operations in Business Services and Integrated Security Services under single management teams.

6. ***Comply with the requirements of 'Sarbanes Oxley 404.'***
   Though costly, this new initiative to document our key internal controls at our major business units is in process and we are looking forward to the benefits it will generate.

I am pleased to say we are well on our way and expect to be able to achieve most of our goals for the upcoming year.

"Since joining FirstService, we have empowered our branch managers to operate as owners and aligned their interests with ours through successful performance-based compensation programs. FirstService has provided the growth capital and corporate support to help us grow across the country."

CHARLES D. SOLLINS, CHIEF EXECUTIVE OFFICER, PRIME MANAGEMENT GROUP, INC.

The Anticipated Pace of Future Acquisitions

Our acquisition program is designed to complement the internal growth strategies of our service lines. This year, our goal is to complete "tuck-under" acquisitions generating $10 million dollars in annual EBITDA. While we would be prepared to pursue more acquisitions if the right opportunities present themselves, however, we will not hesitate to complete fewer – if we cannot complete the transactions within our established criteria and framework.

Acquisitions are a core competency of FirstService. We always strive to cultivate strong and lasting business relationships built on a foundation of trust and integrity. Our partners, business leaders and key employees attest to the fact that we are a company that lives its' values - deliver what you promise, value substance and commitment and be open-minded to possibilities. They also confirm that we operate our business with a long-term perspective and our outlook is much different than those of most other investors.

Sale of Lawn Care Business

Just after yearend, we completed the sale of our company-owned lawn care business to ServiceMaster. The sale did not include our highly successful, ecologically friendly, "Nutri-lawn" lawn care franchise operations, which remains part of our Consumer Services division.

As a result of the transaction, we expect to generate an after-tax gain of approximately $3 million or about $0.18 per diluted share in the first quarter of fiscal 2005. Proceeds will be reinvested in areas where we believe we can generate better returns for our shareholders.

It is important to note that this business had been a solid contributor to FirstService for many years and was managed by a team that we held in high regard. The rationale for the sale was simple: our business was mature in our markets and we were not prepared to invest the capital necessary to expand it into new markets.

The sale will also help to reduce our seasonality. For the current fiscal year 2005, operating results for the first and second quarter (which are the strong months for lawn care) will be negatively impacted while results for the third and fourth quarters will be positively impacted. However, beginning next year, much of our seasonality will be eliminated.

I would like to take this opportunity to recognize our long-time partners Dr. Bill Black and Ray Sharits. Both will continue to have key senior management roles in the Canadian lawn care operations of the new owner. Our fourteen-year partnership with Bill and Ray has proven to be very successful for all of us and, on behalf of the shareholders of FirstService, I would like to thank them for their many years of hard work and dedicated service.

Looking For Another Platform

Beyond adding to our existing service lines through tuck-under acquisitions, we have concluded that it's time for FirstService to consider adding another platform or service line. We are eager to hear from principals or their representatives about services that meet the following criteria:

- An experienced management team that is prepared to remain with the business and retain a significant equity stake going forward.
- A demonstrated track record of earnings with annual operating cash flow in the $5 million to $20 million (minimum $1 million in the case of "tuck-unders").
- Predictable revenue streams supported by underlying growth drivers.
- Leading positions in regional or niche markets.
- Services that are essential and will not change very much over time.
- Low capital intensity.
- Primarily North American operations.

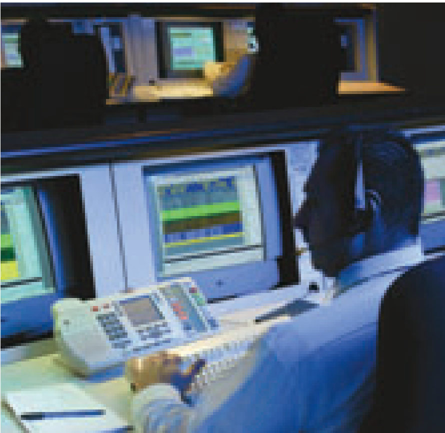
Please feel free to call me at one of the numbers indicated at the back of this report. I can promise complete confidentiality and a fast answer (usually within 24 hours) on whether we are interested.

Residential Property Management

Profile
- Largest industry player
- 2,500 properties, 14 US States
- 450,000 homes
- $1.4 billion in maintenance fees administered
- $250 million in revenues

F2005 Initiatives
- 10% internal growth target
- Generate significant margin growth in Northeast region
- Implement new systems
- Add another platform

Business Leaders
- Gene Gomberg
- Richard Strunin
- Chip Sollins



Integrated Security

Profile
- 7TH largest industry player
- Access control, CCTV, manpower (Canada)
- 13 branches in US & Canada
- $130 million in revenues

F2005 Initiatives
- 10% internal growth target
- Expand national accounts program into Canada
- Introduce SST vendor relationships to Canadian branch network
- Introduce Intercon access product and central station services to US branch network

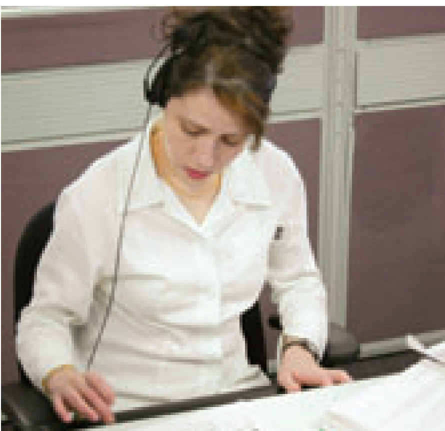
Business Leader
- Frank Brewer

Consumer Services

Profile
- Leading service franchiser player
- 1,900 franchises
- 6 company-owned 'branchises'
- $700 million in system wide sales
- $100 million in royalty & other revenues

F2005 Initiatives
- 8% internal growth target
- Complete additional branchise acquisitions
- Leverage visibility of brands for 'FirstService'

Business Leader
- Steve Rogers



Business Services

Profile
- Marketing support services
- Business process outsourcing
- 24 branches US & Canada
- 2.5 million square feet of service capacity
- 1,200 call center seats
- $150 million in revenues

F2005 Initiatives
- 10% internal growth target
- Complete re-branding to 'Resolve'
- Capitalize on cross-selling of services

Business Leaders
- Lawrence Zimmering
- Tom Aiton

Three-Year Outlook

Concurrent with setting our goals for the year ahead, we looked further and set "targets" for the next three years. I emphasize that these are objectives we hope to achieve – there are no guarantees.

Historically, about 50% of our annual growth has been generated internally, with the balance through acquisitions. Fortunately, we can continue to fund our normal acquisition growth through internally generated cash flow and existing operating lines without having to issue additional capital and dilute our shareholders.

Given all of this, we believe we have a tremendous opportunity to continue to create significant shareholder value over the long term. Assuming FirstService continues to grow at an annual internal growth rate of 5% (historically, we have enjoyed a higher average growth rate) and invests about $50 million per year in acquisitions, the outlook is very encouraging.

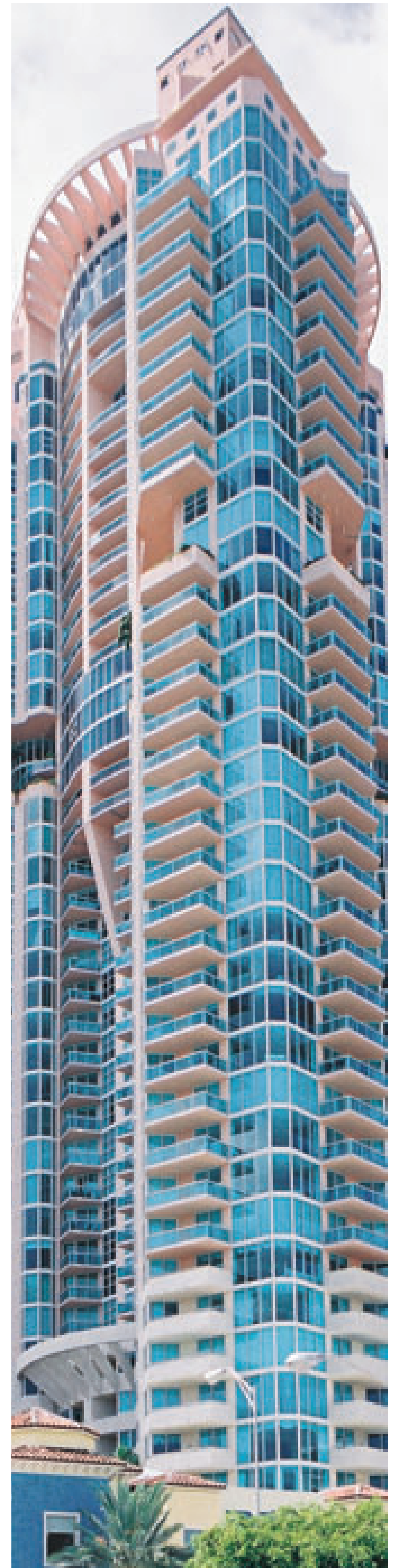
For all the members of this management team – every one a significant shareholder – creating shareholder value is top of mind.

A Word of Thanks

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

Together, we continue to build an extremely well managed company that delivers consistent growth in earnings and shareholder value … *one step at a time!*

Jay S. Hennick
FOUNDER, PRESIDENT AND
CHIEF EXECUTIVE OFFICER



Management's Discussion and Analysis of Results of Operations and Financial Condition

(in U.S. Dollars)

May 14, 2004

John Friedrichsen, Senior Vice President & Chief Financial Officer

Consolidated review

FirstService Corporation (the "Company" or "FirstService") generated improved operating results in fiscal 2004, in all business segments.

We completed six acquisitions during the year, four in Consumer Services and one in each of Residential Property Management and Integrated Security Services. These businesses are "tuck-under" acquisitions that complement existing service lines. We also benefited from a full year's earnings from our New York City residential property management platform, Cooper Square Realty, acquired in February 2003.

In October 2003, we completed a $50 million private placement of 6.40% Senior Secured Notes (the "6.40% Notes") due September 2015 with a group of US institutional investors led by Prudential Capital Group. The proceeds were used to repay amounts outstanding on our revolving credit facility. The long-term nature of the 6.40% Notes and the previously issued 8.06% Senior Secured Notes (the "8.06% Notes") due June 2011 provide us with stability and flexibility to execute our growth and acquisition strategies.

In January 2004, we completed a review of the accounting for certain intangible assets in our Consumer Services segment, which resulted in a restatement that affected the following accounts: goodwill, intangible assets, deferred income tax liabilities, minority interest, amortization expense and income tax expense. In February 2004, the Company filed restated consolidated financial statements for the year ended March 31, 2003 to reflect the changes. Please refer to this filing for further information.

Just after year-end, on April 1, 2004, we sold the assets of our Greenspace Services Ltd. company-owned lawn care operations to a subsidiary of the ServiceMaster Company. We intend to redeploy the capital freed up by the sale within our other businesses to yield a higher return on investment. The operating results of our company-owned lawn care operations, which were formerly included in our Consumer Services segment, have been reclassified to discontinued operations. As such, the consolidated statements of earnings include only the net earnings from the discontinued operations, and not the full revenues and expenses.

On May 12, 2004, the Company updated its outlook for fiscal 2005. The outlook was revised upwards despite the impact of the sale of the lawn care operations and the adoption of stock option expensing, which together reduced EBITDA[1] and diluted net earnings per share in our preliminary outlook by $2.2 million and $0.04, respectively. The Company anticipates that internal revenue growth, margin enhancement and strong contribution from acquisitions completed during the past twelve months will occur to positively impact fiscal 2005. The updated outlook is for revenues of $650.0 to $675.0 million, EBITDA of $60.5 to $63.0 million, and diluted earnings per share from continuing operations of $1.43 to $1.53. This outlook is the same as the Company's preliminary outlook provided in January 2004, except for diluted net earnings per share which were previously $1.40 to $1.50. In addition, the Company expects to record a gain on the sale of the lawn care operations in the quarter ended June 30, 2004 of approximately $0.18 per diluted share.

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(1) EBITDA is defined as net earnings before extraordinary items, minority interest share of earnings, income taxes, interest, depreciation and amortization. EBITDA excludes income taxes and interest, both of which are charges that require cash settlement. EBITDA is not a recognized measure for financial statement presentation under Canadian and United States generally accepted accounting principles ("GAAP"). The most directly comparable GAAP measure is operating earnings. Operating earnings takes into account depreciation and amortization expenses, while EBITDA does not. Management utilizes EBITDA as a measure to assess the performance of its operations, to evaluate acquisition candidates and establish pricing, for performance-based compensation purposes, and within its debt covenants with its lenders. 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. The table below reconciles EBITDA to operating earnings, in thousands of U.S. Dollars.

Year ended March 31	2004	2003	2002
EBITDA	$ 54,294	$ 50,988	$ 55,240
Less: depreciation and amortization	(15,223)	(13,285)	(11,953)
Equals: operating earnings	$ 39,071	$ 37,703	$ 43,287

Results of operations – year ended March 31, 2004

FirstService reported revenues of $609.8 million for the year, an increase of 17% relative to the prior year. The increase was comprised of internal growth of 8%, acquisitions of 5% and the impact of foreign exchange of 4%.

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

Operating earnings increased 4% relative to the prior year, to $39.1 million. EBITDA increased 7% to $54.3 million. In the current year, in accordance with our partnership philosophy, we sold shares of two Consumer Services subsidiaries to operating management, and recorded dilution gains of $1.1 million. A dilution gain of $1.1 million was also recorded in the prior year. Additionally in fiscal 2004, we recorded a $0.2 million loss with respect to the disposal of the security officer assets of our Chicago Integrated Security Services branch.

In the prior year, operating earnings and EBITDA included $4.2 million of executive life insurance proceeds, partially offset by $1.9 million in severance and transition costs in the Business Services segment. In fiscal 2004, no such amounts were included in earnings.

Depreciation and amortization expense was $15.2 million relative to $13.3 million in the prior year. Depreciation expense increased by $1.5 million, approximately half attributable to acquisitions and half attributable to investments in fixed assets to support the growth of our operations. Amortization of intangibles accounted for $0.4 million of the increase and was driven by intangibles acquired during the last two years, especially franchise rights related to Consumer Services acquisitions completed during fiscal 2004.

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

Our consolidated income tax rate for fiscal 2004 was 29.5%. The prior year's rate of 27% was impacted by the $4.2 million of tax-free executive life insurance proceeds received during that year. We continue to benefit from the cross-border tax structures first implemented in fiscal 2000, and expect our fiscal 2005 tax rate to be approximately the same as fiscal 2004.

Net earnings from continuing operations was $18.9 million, an increase of 5% relative to fiscal 2003. Net earnings from discontinued operations was $0.2 million, down significantly relative to the prior year's result of $0.4 million. The discontinued lawn care operations faced a difficult operating environment during the year in terms of adverse weather conditions, negative consumer sentiment towards pesticides and increasing insurance costs. In addition, a fleet renewal program to replace aging production vehicles resulted in an increase to depreciation expense of $0.2 million.

The Consumer Services operations, excluding the discontinued lawn care operations, reported revenues of $92.9 million, an increase of 26% versus the prior year. Of the increase, 14% was attributable to internal growth, 10% to the four tuck-under acquisitions completed in October 2003, and 2% to changes in foreign exchange rates. Internal growth was strong at our California Closets and Paul Davis Restoration franchise systems.

EBITDA for the year was $16.4 million, $2.3 million higher than the prior year, while the EBITDA margin declined 140 basis points to 17.7%. The decline in margin is attributable to several factors including service mix change with the addition of the fifth and sixth Company-owned California Closets "branchise" stores during the year and costs to relocate and reorganize the Toronto-based Cleanol operations. Each year's results include a dilution gain of approximately $1.1 million.

In Residential Property Management, revenues increased 12% to $241.2 million. Excluding the 5% impact of acquisitions, internal growth was 7% and was primarily attributable to core management contract wins.

Residential Property Management reported EBITDA of $18.0 million or 7.5% of revenues, up from $14.6 million or 6.8% of revenues in the prior year. The prior year's results were negatively impacted by weak results in the South Florida restoration activities (which represented 8% of segment revenues) and increases to insurance costs that could not be passed on to clients, but were positively impacted by $1.0 million of executive life insurance proceeds. In the current year, restoration continued to be challenging, generating an operating loss due to cost overruns on certain projects. The core management business generated improved margins year over year and was responsible in large part for the margin improvement. We expect margins to improve further in fiscal 2005 as we add new service offerings and return to profitability in restoration.

Integrated Security Services revenues were $122.7 million, an increase of 14% relative to the prior year. Eight percent of the increase was attributable to foreign exchange on Canadian operations, while 5% was attributable to internal growth and 1% was from an acquisition completed in February 2004. The January 2004 disposal of the Chicago security officer assets had a nominal impact on fiscal 2004 revenues. On an annual basis, the security officer assets generated approximately $3 million of revenues. The Chicago security officer assets were sold for cash proceeds of $0.1 million, with a further $0.5 million receivable over the following year contingent on revenue retention. A loss on disposal of $0.2 million was recorded in the fourth quarter. The contingent amount will be recorded in earnings if the contingency is resolved in our favor.

Segment EBITDA was $8.2 million, or 6.7% of revenues. After considering the loss on disposal of the Chicago assets, the margin would have been 6.8%, equivalent to the fiscal 2003 results. The EBITDA margin is expected to improve in fiscal 2005 because of strong backlogs of systems installation work. In addition to the loss on the Chicago asset sale, the segment suffered from weak systems installation revenues in the fourth quarter, causing the quarter's margin to be 4.4%.

Business Services generated annual revenues of $152.4 million, an increase of 21% relative to the prior year. Growth was comprised of 9% foreign exchange on Canadian operations, internal growth of 8% and acquisitions of 4%. A significant portion of the internal growth was due to a contract to provide services for the "GM Hot Button" OnStar promotion during the fourth quarter; the quarter's internal growth was 41%. Work on the promotion ended in April 2004. There is customer concentration in this segment; the largest customer in the segment represents approximately 10% of segment revenues.

Business Services EBITDA was $18.5 million or 12.1% of revenues, down from $19.8 million or 15.6% of revenues in fiscal 2003. In fiscal 2003, $3.2 million of executive life insurance proceeds were received, and $1.9 million of severance and related costs were recorded. After adjusting for these costs, fiscal 2003's margin would have been 14.6%. The current year's decline in margin is attributable to excess fulfillment storage capacity and foreign exchange on Canadian operations that sell services in U.S. dollars. The net impact of foreign exchange on the segment's results is a reduction in EBITDA of $0.7 million relative to exchange rates in effect during the prior year.

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

Results of operations – year ended March 31, 2003

Consolidated revenues for fiscal 2003 were $523.1 million, a 6% increase from the $493.6 million reported for the year ended March 31, 2002. Approximately $12.8 million of the increase resulted from tuck-under acquisitions completed during the year, resulting in internal growth of 4%.

During fiscal 2003, the value of the Canadian dollar appreciated 1.0% relative to the value of the U.S. dollar, based on the average annual exchange rate versus the prior year. The impact of the foreign exchange rate movement on earnings was not material.

Operating earnings decreased from $43.3 million to $37.7 million in fiscal 2003. EBITDA decreased to $51.0 million from $55.2 million in the prior year, while the EBITDA margin declined 140 basis points to 9.8% of revenues. Included in 2003 results were executive life insurance proceeds of $4.2 million. A dilution gain upon the sale of shares of a

Consumer Services subsidiary in the amount of $1.1 million was also recorded. The decline in margins was the result of weakness in the Residential Property Management and Business Services segments. Consumer Services experienced increased profitability, while Integrated Security Services' margin was stable year-over-year.

Depreciation for the year ended March 31, 2003 was $11.4 million, up 7% from the previous year, due to the impact of the higher level of capital expenditures in fiscal 2002. Amortization of intangibles was $1.8 million, compared to $1.3 million in the previous year. The increase in amortization was the result of the recognition and amortization of intangible assets on acquisitions completed subsequent to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets ("SFAS 142") on April 1, 2001.

Interest expense decreased 31% relative to the prior year, to $8.9 million, due to the combined effects of lower interest rates, lower levels of indebtedness and the $1.4 million write-off of deferred financing fees in the prior year. Weighted average interest rates were approximately 5.5% in fiscal 2003 compared to 7.1% in fiscal 2002, excluding the write-off of deferred financing fees. The reduction in rates resulted from lower floating reference rates and from two interest rate swaps which convert the fixed rate on the 8.06% Notes into variable interest streams.

In October 2002, we entered into an interest rate swap agreement in which the interest stream on $25 million of the 8.06% Notes was exchanged for the variable interest rate of LIBOR + 445 basis points. This was in addition to the December 2001 interest rate swap in which the interest stream on $75 million of the 8.06% Notes was exchanged for the variable interest rate of LIBOR + 250.5 basis points. Both swaps have maturities matched to the underlying Notes due June 29, 2011. The swaps are being accounted for as hedges in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The swaps are carried at fair value on the balance sheet, with gains or losses recognized in earnings. The carrying value of the hedged debt is adjusted for changes in fair value attributable to the hedged interest rate risk; the associated gain or loss is recognized currently in earnings.

The income tax provision for the year ended March 31, 2003 was approximately 27% of earnings before taxes, compared with 33% in the prior year. The decline in tax rate resulted from two major factors: (i) continuing leverage from the cross-border tax structure implemented in Fiscal 2000 and (ii) $4.2 million of non-taxable life insurance proceeds received during the year.

The minority interest share of earnings decreased to $3.0 million or 14.5% of earnings before minority interest from $3.7 million, or 18.1%, in the prior year. The reduction was the result of minority share purchases completed during the year.

Net earnings from continuing operations were $18.0 million, a 9% increase over the prior year, while diluted earnings per share from continuing operations increased 10% to $1.24. The discontinued Company-owned lawn care operations generated net earnings of $0.4 million or $0.03 per diluted share.

The Residential Property Management unit generated $215.0 million of revenues for the year, an increase of 5% over the prior year. Excluding the impact of acquisitions, segment internal revenue growth was 4%.

Residential Property Management reported EBITDA of $14.6 million, down $4.2 million or 22% relative to the prior year, primarily due to insurance cost increases and poor results in painting and restoration activities. Insurance costs were approximately $2.0 million higher than the prior year, and little of the cost increase was passed on to clients. The painting and restoration service line operating in South Florida, which accounted for $22.1 million or 10% of the segment's revenues experienced a loss for the year due to difficult market conditions and several poorly performing projects. Also included in the current year's results is $1.0 million of executive life insurance proceeds received upon the death of a senior management employee.

The Integrated Security Services unit reported revenues of $107.5 million, representing growth of 13% over the prior year, all generated internally. Sales of systems and manpower contributed approximately equally to the growth. EBITDA for the segment was $7.3 million, while the margin remained constant at 6.8%. Several low-margin initial systems installations were completed during the second half of the year.

Consumer Services revenues were $73.9 million, up 14% relative to the prior year. Factoring in the two California Closets franchises acquired in October 2002, internal revenue growth was 10%. EBITDA in Consumer Services was $14.1 million, and the margin was 19.1%. The margin increased 80 basis points relative to the prior year as a result of strong performance in the College Pro, California Closets and lawn care businesses as well as the $1.1 million dilution gain experienced on the sale of 7.5% of the shares of Paul Davis Restoration, Inc. to two of its managers, which was offset by $0.5 million of compensation expense related to the sale.

Revenues for Business Services were $126.4 million, down 1% or $1.1 million relative to the prior year. Internal revenues declined 7% after considering the impact of acquisitions. A major fulfillment client departed at the end of the third quarter, impacting annual revenues negatively by approximately $1.5 million. Client volumes in the customer support and fulfillment areas were soft throughout the year, impacting revenues negatively and accounting for the remainder of the year-over-year decline.

Business Services EBITDA was $19.8 million or 15.6% of revenues, down from $22.4 million or 17.6% of revenues in the prior year. Several factors contributed to this result. The decline in volumes impacted margins because of lower contribution to cover fixed overhead costs, primarily rent. During the fourth quarter, we received proceeds of $3.2 million on a executive life insurance policy on the retired CEO and former controlling shareholder of Herbert A. Watts Ltd., Rip Gauthier, who passed away after a lengthy illness. Also during the fourth quarter, we incurred costs to reorganize and streamline the operations of Business Services under group president Scott Patterson in the amount of $1.9 million.

Corporate expenses were $4.8 million, up from $4.5 million in fiscal 2002. We expended $0.5 million on the investigation of potential acquisitions that were not completed during the year. Executive bonuses declined $0.7 million, to nil, for fiscal 2003.

Quarterly results – years ended March 31, 2004 and 2003

(in thousands of U.S. dollars except per share)	Q1	Q2	Q3	Q4	Year
FISCAL 2004					
Revenues	$ 148,482	$ 157,393	$ 148,704	$ 155,215	$ 609,794
Operating earnings	11,917	15,443	6,009	5,702	39,071
Net earnings from continuing operations	5,403	7,315	2,650	3,496	18,864
Net earnings from discontinued operations	1,009	1,654	(640)	(1,863)	160
Net earnings	6,412	8,969	2,010	1,633	19,024
Net earnings per share:					
Basic	0.45	0.63	0.14	0.11	1.33
Diluted	0.45	0.62	0.14	0.11	1.30
FISCAL 2003					
Revenues	$ 137,309	$ 137,794	$ 123,931	$ 124,093	$ 523,127
Operating earnings	13,729	16,067	5,002	2,905	37,703
Net earnings from continuing operations	6,080	7,365	1,760	2,821	18,026
Net earnings from discontinued operations	1,228	1,430	(425)	(1,819)	414
Net earnings	7,308	8,795	1,335	1,002	18,440
Net earnings per share:					
Basic	0.53	0.63	0.10	0.07	1.32
Diluted	0.50	0.60	0.09	0.07	1.27
OTHER DATA					
EBITDA – Fiscal 2004	$ 15,626	$ 19,072	$ 9,873	$ 9,723	$ 54,294
EBITDA – Fiscal 2003	16,897	19,297	8,284	6,510	50,988

Seasonality and quarterly fluctuations

FirstService operates several seasonal service lines. In Consumer Services, we provide exterior painting services (throughout North America) and lawn care (in Canada). In Business Services, we provide textbook fulfillment services, in which the majority of activity occurs in our June and September quarters. In Residential Property Management, we provide swimming pool management and maintenance services (throughout North America) to primarily outdoor pools. The result of this seasonality in these service lines is relatively higher revenues in our June and September quarters followed by lower revenues in the December and March quarters.

The seasonality inherent in the businesses listed above results in variations in quarterly operating margins. These businesses generate significant profits during the June and September quarters followed by losses during the December and March quarters as a result of fixed overhead expenses including rent and administrative payroll.

We expect that the April 1, 2004 disposal of our company-owned lawn care operations will significantly reduce seasonality in our business. As we make acquisitions, the service mix will change and we expect that seasonality will be further reduced.

Liquidity and capital resources

The Company generated cash flow from operations totaling $35.1 million for fiscal 2004, an increase of 18% relative to the prior year. The most significant factor contributing to the increase in cash flow was higher net 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 March 31, 2004 was $141.4 million, down from $153.3 million at March 31, 2003. Net indebtedness is calculated as the current and non-current portion of long-term debt adjusted for interest rate swaps less cash and cash equivalents. Cash from operating activities exceeded cash used in investing by $6.0 million, and $7.8 million of proceeds were received upon the exercise of stock options. These two factors were the primary reasons for the reduction in indebtedness.

We are in compliance with the covenants within our financing agreements as at March 31, 2004 and, based on our outlook for fiscal 2005, we expect to remain in compliance with such covenants. We had $84.0 million of available credit as of March 31, 2004.

On October 1, 2003, we completed a private placement of $50 million of 6.40% Notes due September 30, 2015. The 6.40% Notes have an average life of 10.5 years, with equal annual principal repayments commencing September 30, 2012. Concurrent with the issuance of the 6.40% Notes, we amended our revolving credit facility such that available credit was reduced by $50 million from $140 million to $90 million. Our total borrowing capacity remains unchanged. On October 2, 2003, we entered into interest rate swap agreements to exchange the fixed rate on the 6.40% Notes for a variable rate of LIBOR + 170 basis points.

During the fiscal 2004, we had several foreign exchange contracts to fix a portion of the Canadian dollar costs of our Business Services segment relative to U.S. dollar revenues. At March 31, 2004, we had four such contracts outstanding. In aggregate, the four contracts require us to sell $8.0 million in exchange for Canadian dollars at a weighted average exchange rate of 1.3547 during the period extending to March 30, 2005. A gain of $0.2 million relating to these contracts was included in 2004 earnings.

Capital expenditures for the year were $13.1 million. Significant purchases included service vehicle fleet replacement and expansion for the Residential Property Management operations, a call center technology upgrade in Business Services, computer systems purchases in Consumer Services and Integrated Security Services, and leasehold improvements at several Residential Property Management offices. Capital expenditures for fiscal 2005 are expected to approximate $12 million.

When making acquisitions, we generally purchase executive life insurance policies on the principal managers of the acquired businesses. We believe this practice mitigates risk on acquisitions. At March 31, 2004, the Company had 20 such life insurance policies in force.

In relation to acquisitions completed during the past three years, we have outstanding contingent consideration totaling $16.2 million as at March 31, 2004 ($12.7 million as at March 31, 2003). The amount of the contingent consideration is not recorded as a liability unless the outcome of the contingency is determined to be beyond a reasonable doubt. The contingent consideration is based on achieving specified earnings levels, and is issued or issuable at the end of the contingency period. When the contingencies are resolved and additional consideration is distributable, we will record the fair value of the additional consideration as additional costs of the acquired businesses.

In certain cases, our subsidiaries have issued options to purchase shares of subsidiaries to operating managers. The subsidiary stock options are accounted for in the same manner as stock options of the Company. When the stock options are exercised, the minority shareholders become party to shareholders' agreements as described below.

In those operations where managements are also minority owners, the Company is party to shareholders' agreements. These agreements allow us to "call" the minority position for a predetermined formula price, which is usually equal to the multiple of trailing two-year average earnings paid by the Company for the original acquisition. Minority owners may also "put" their interest to the Company at the same price, with certain limitations. The total value of the minority shareholders' interests, as calculated in accordance with the shareholders' agreements, was approximately $30.0 million at March 31, 2004

(March 31, 2003 - $26.0 million). While it is not our intention to acquire outstanding minority interests, this step may materially increase net earnings. On an annual basis, we estimate the impact of the acquisition of all minority interests would increase interest expense by $1.1 million, increase amortization expense by $1.0 million, reduce income taxes by $0.6 million and reduce minority interest share of earnings by $3.1 million, resulting in an approximate increase to net earnings of $1.6 million.

The following table summarizes our contractual obligations as at March 31, 2004:

Contractual obligations (In thousands of U.S. Dollars)	Total	Payments due by period Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	$ 152,955	$ 1,699	$ 29,811	$ 28,589	$ 92,856
Capital lease obligations	4,128	1,803	1,964	361	-
Operating leases	74,656	16,810	24,397	17,654	15,795
Unconditional purchase obligations	-	-	-	-	-
Other long-term obligations	-	-	-	-	-
Total contractual obligations	$ 231,739	$ 20,312	$ 56,172	$ 46,604	$ 108,651

At March 31, 2004, we had commercial commitments totaling $6.0 million comprised of letters of credit outstanding due to expire within one year.

During the past two years, insurance costs have increased dramatically. To manage costs, we have taken on additional risk in the form of higher deductibles on many of our coverages. We believe this step will reduce 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.

The annual goodwill impairment testing required under SFAS 142 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. Estimates of fair value can be impacted by sudden changes in the business environment or prolonged economic downturns, and therefore require significant management judgment in their determination.

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

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 would result in an increase to annual amortization expense of $0.3 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 $0.4 million.

Income taxes are calculated based the expected treatment of transactions recorded in the consolidated financial statements. In determining current and deferred components of income taxes, we interpret tax legislation and make assumptions about the timing of the reversal of deferred tax assets and liabilities. If our interpretations differ from those of tax authorities or if the timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods.

Transactions with related parties

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

Impact of recently issued accounting standards

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

Reconciliation to Canadian generally accepted accounting principles

Please refer to note 22 to the consolidated financial statements for a discussion of the adjustments required to reconcile the consolidated financial statements to Canadian generally accepted accounting principles. There are no material differences between the consolidated financial statements under Canadian and United States generally accepted accounting principles.

Outstanding share data

The authorized capital of the Company consists of an unlimited number of preference shares, issuable in series, an unlimited number of Subordinate Voting Shares and an unlimited number of Mulitple 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 Shares held at all meetings of the shareholders of the Company.

As of the date hereof, the Company has outstanding 14,119,018 Subordinate Voting Shares, 662,847 Multiple Voting Shares and no preference shares. In addition, as at the date hereof, 1,112,315 Subordinate Voting Shares are issuable upon exercise of options granted under the Company's stock option plan.

Forward-looking statements

This annual report contains or incorporates by reference certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend that such forward-looking statements be subject to the safe harbors created by such legislation. Such forward-looking statements involve risks and uncertainties and include, but are not limited to, statements regarding future events and the Company's plans, goals and objectives. Such statements are generally accompanied by words such as "intend", "anticipate", "believe", "estimate", "expect" or similar statements. Our actual results may differ materially from such statements. Factors that could result in such differences, among others, are:

- North American economic conditions, especially as they relate to consumer spending and business spending on customer relations and promotion.
- Extreme weather conditions impacting demand for our services or our ability to perform those services.
- Political conditions, including any outbreak or escalation of terrorism or hostilities and the impact thereof on our business.
- Competition in the markets served by the Company.
- Labor shortages or increases in wage and benefit costs.
- The effects of changes in interest rates on our cost of borrowing.
- Unexpected increases in operating costs, such as insurance, workers' compensation, health care and fuel prices.
- Changes in the frequency or severity of insurance incidents relative to our historical experience.
- The effects of changes in the Canadian dollar foreign exchange rate in relation to the U.S. dollar on the Company's Canadian dollar denominated revenues and expenses.

- Our ability to make acquisitions at reasonable prices and successfully integrate acquired operations.
- Changes in government policies at the federal, state/provincial or local level that may adversely impact our student loans processing, firearms registration processing, or textbook fulfillment activities.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in such forward-looking statements will be realized. The inclusion of such forward-looking statements should not be regarded as a representation by the Company or any other person that the future events, plans or expectations contemplated by the Company will be achieved. We note that past performance in operations and share price are not necessarily predictive of future performance.

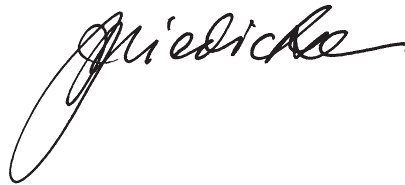
REPORT OF MANAGEMENT

To the shareholders of FirstService Corporation:

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

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

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



Jay S. Hennick
President and CEO

John B. Friedrichsen
Senior Vice President and CFO

May 7, 2004

INDEPENDENT AUDITORS' REPORT

To the shareholders of FirstService Corporation:

We have audited the consolidated balance sheets of FirstService Corporation as at March 31, 2004 and 2003 and the consolidated statements of earnings, shareholders' equity and cash flows for each year in the three-year period ended March 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2004 and 2003 and the results of its operations and cash flows for each year in the three-year period ended March 31, 2004 in accordance with United States generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada
May 7, 2004

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands of U.S. Dollars, except per share amounts)
– in accordance with United States generally accepted accounting principles

For the years ended March 31	2004	2003	2002
Revenues	**$ 609,794**	$ 523,127	$ 493,551
Cost of revenues	**424,069**	359,254	334,464
Selling, general and administrative expenses (note 5)	**132,328**	113,991	104,043
Other income (note 6)	**(897)**	(1,106)	(196)
Depreciation and amortization	**15,223**	13,285	11,953
	39,071	37,703	43,287
Interest, net	**7,905**	8,936	12,952
Earnings before income taxes and minority interest	**31,166**	28,767	30,335
Income taxes (note 14)	**9,201**	7,701	10,195
Earnings before minority interest	**21,965**	21,066	20,140
Minority interest share of earnings	**3,101**	3,040	3,658
Net earnings from continuing operations	**18,864**	18,026	16,482
Net earnings from discontinued operations, net of income taxes (note 4)	**160**	414	547
Net earnings	**$ 19,024**	$ 18,440	$ 17,029
Net earnings per share (note 15)			
Basic			
Continuing operations	**$ 1.32**	$ 1.29	$ 1.22
Discontinued operations	**0.01**	0.03	0.04
	$ 1.33	$ 1.32	$ 1.26
Diluted			
Continuing operations	**$ 1.29**	$ 1.24	$ 1.13
Discontinued operations	**0.01**	0.03	0.04
	$ 1.30	$ 1.27	$ 1.17

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

FIRSTSERVICE CORPORATION
CONSOLIDATED BALANCE SHEETS

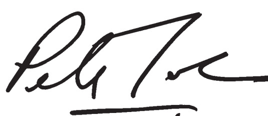
(in thousands of U.S. Dollars) – in accordance with United States generally accepted accounting principles

As at March 31	**2004**	2003
Assets		
Current assets		
Cash and cash equivalents	**$ 15,620**	$ 5,378
Accounts receivable, net of an allowance of $3,976 (2003 - $5,343)	**97,367**	85,484
Inventories (note 7)	**15,229**	15,095
Prepaids and other (note 7)	**15,659**	13,617
Deferred income taxes (note 14)	**3,358**	2,808
	147,233	122,382
Other receivables (note 8)	**5,397**	5,839
Interest rate swaps (note 17)	**6,805**	6,279
Fixed assets (note 9)	**49,826**	46,600
Other assets (note 9)	**2,829**	2,777
Deferred income taxes (note 14)	**2,167**	103
Intangible assets (note 10)	**37,717**	31,427
Goodwill (note 11)	**185,579**	173,624
	290,320	266,649
	$ 437,553	$ 389,031
Liabilities		
Current liabilities		
Accounts payable	**$ 20,526**	$ 22,564
Accrued liabilities (note 7)	**49,353**	34,270
Income taxes payable	**1,985**	1,209
Unearned revenue	**9,736**	8,369
Long-term debt – current (note 12)	**3,502**	3,030
Deferred income taxes (note 14)	**1,266**	1,066
	86,368	70,508
Long-term debt less current portion (note 12)	**160,386**	161,889
Deferred income taxes (note 14)	**19,594**	19,404
Minority interest	**16,104**	13,824
	196,084	195,117
Shareholders' equity		
Capital stock (note 13)	**68,557**	60,571
Issued and outstanding 14,087,018 (2003 - 13,501,343) Subordinate Voting Shares and 662,847 (2003 - 662,847) convertible Multiple Voting Shares		
Contributed Surplus	**183**	-
Receivables pursuant to share purchase plan (note 13)	**(2,148)**	(2,434)
Retained earnings	**81,972**	62,948
Cumulative other comprehensive earnings	**6,537**	2,321
	155,101	123,406
	$ 437,553	$ 389,031

Commitments and contingencies (note 18)

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

On behalf of the Board,



Jay S. Hennick
Director

Peter F. Cohen
Director

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of U.S. Dollars) – in accordance with United States generally accepted accounting principles

	Issued and outstanding shares	Capital stock	Contributed surplus	Receivables pursuant to share purchase plan	Retained earnings	Cumulative other comprehensive earnings (loss)	Total shareholders' equity
Balance, March 31, 2001	13,168,240	$ 54,863	$ -	$ (3,196)	$ 27,736	$ (183)	$ 79,220
Comprehensive earnings:							
Net earnings	-	-	-	-	17,029	-	17,029
Foreign currency translation adjustments	-	-	-	-	-	(443)	(443)
Comprehensive earnings							16,586
Subordinate Voting Shares:							
Stock options exercised	607,025	2,849	-	-	-	-	2,849
Cash payments on share Purchase plan	-	-	-	566	-	-	566
Balance, March 31, 2002	13,775,265	57,712	-	(2,630)	44,765	(626)	99,221
Comprehensive earnings:							
Net earnings	-	-	-	-	18,440	-	18,440
Foreign currency translation adjustments	-	-	-	-	-	2,947	2,947
Comprehensive earnings						-	21,387
Subordinate Voting Shares:							
Stock options exercised	421,625	3,002	-	-	-		3,002
Purchased for cancellation	(32,700)	(143)	-	-	(257)	-	(400)
Cash payments on share purchase plan	-	-	-	196	-	-	196
Balance, March 31, 2003	14,164,190	60,571	-	(2,434)	62,948	2,321	123,406
Comprehensive earnings:							
Net earnings	-	-	-	-	19,024	-	19,024
Foreign currency translation adjustments	-	-	-	-	-	4,216	4,216
Comprehensive earnings							23,240
Subordinate Voting Shares:							
Stock option expense	-	-	322	-	-	-	322
Stock options exercised	585,675	7,986	(139)	-	-	-	7,847
Cash payments on share purchase plan	-	-	-	286	-	-	286
Balance, March 31, 2004	14,749,865	$ 68,557	$ 183	$ (2,148)	$ 81,972	$ 6,537	$ 155,101

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

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. Dollars) – in accordance with United States generally accepted accounting principles

For the years ended March 31	**2004**	2003	2002
Cash provided by (used in)			
Operating activities			
Net earnings	**$ 19,024**	$ 18,440	$ 17,029
Less net earnings from discontinued operations	**(160)**	(414)	(547)
Items not affecting cash:			
Depreciation and amortization	**15,223**	13,285	11,953
Deferred income taxes	**(683)**	2,786	230
Minority interest share of earnings	**3,101**	3,040	3,658
Write-off of financing fees on early debt retirement	**-**	-	1,375
Other	**(181)**	(287)	471
Changes in operating assets and liabilities:			
Accounts receivable	**(2,256)**	9,661	(7,092)
Inventories	**839**	(4,292)	(579)
Prepaids and other	**(1,069)**	(1,042)	(1,988)
Accounts payable	**(10,464)**	(355)	(1,777)
Accrued liabilities	**12,778**	(6,629)	404
Income taxes payable	**(1,670)**	(1,503)	589
Unearned revenue	**575**	(3,033)	371
Net cash provided by operating activities	**35,057**	29,657	24,097
Investing activities			
Acquisitions of businesses, net of cash acquired	**(16,019)**	(9,561)	(15,363)
Purchases of minority shareholders' interests	**(1,098)**	(6,352)	(4,623)
Purchases of fixed assets	**(13,121)**	(9,335)	(14,912)
Purchases of intangible assets	**(551)**	(579)	(1,150)
(Increase) decrease in other assets	**(163)**	2,069	683
Decrease (increase) in other receivables	**1,869**	(578)	80
Net cash used in investing activities	**(29,083)**	(24,336)	(35,285)
Financing activities			
Increases in long-term debt	**60,522**	14,474	169,042
Repayments of long-term debt	**(62,559)**	(28,683)	(155,246)
Financing fees paid	**(525)**	-	(3,030)
Proceeds received on exercise of stock options	**7,847**	3,002	2,849
Collection of receivables pursuant to share purchase plan	**286**	196	566
Repurchases of Subordinate Voting Shares	**-**	(400)	-
Dividends paid to minority shareholders of subsidiaries	**(510)**	(191)	(139)
Net cash provided by (used in) financing activities	**5,061**	(11,602)	14,042
Net cash (used in) provided by discontinued operations	**(318)**	1,483	21
Effect of exchange rate changes on cash	**(475)**	2,844	(658)
Increase (decrease) in cash and cash equivalents during the year	**10,242**	(1,954)	2,217
Cash and cash equivalents, beginning of year	**5,378**	7,332	5,115
Cash and cash equivalents, end of year	**$ 15,620**	$ 5,378	$ 7,332

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of U.S. Dollars, except per share amounts) – in accordance with United States generally accepted accounting principles

1. Description of the business

FirstService Corporation (the "Company") is a provider of property and business services to commercial, institutional and residential customers in the United States and Canada. The Company's operations are conducted through four segments: Residential Property Management, Integrated Security Services, Consumer Services and Business Services.

2. Summary of significant accounting policies

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

Basis of consolidation

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

Cash and cash equivalents

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

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined by the weighted average or first-in, first-out methods. The weighted average and the first-in, first-out methods represent approximately 35% and 65% of total inventories, respectively (2003 - 45% and 55%). Finished goods and work-in-progress include the cost of materials, direct labor and manufacturing overhead costs.

Fixed assets

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

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

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

Financial instruments

The Company uses interest rate swaps to hedge its interest rate exposure. The swaps are carried at fair value on the balance sheet, with gains or losses recognized in earnings. The carrying value of the hedged debt is adjusted for changes in fair value attributable to the hedged interest rate risk; the associated gain or loss is recognized currently in earnings. The company uses foreign exchange contracts to fix its exposure to Canadian dollar expenses. These contracts are not hedge accounted for. They are carried on the balance sheet at fair value and gains or losses are recognized in earnings.

Financing fees

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

Goodwill and intangible assets

Goodwill and intangible assets are accounted for in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations*, ("SFAS 141") and SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). Goodwill represents the excess of purchase price over the fair value of identifiable assets acquired in a business combination and is not subject to amortization.

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

Management contracts and other	straight-line over life of contract ranging from 2 to 15 years
Customer lists and relationships	straight line over 2 to 15 years
Trademarks and trade names	straight-line over 25 to 35 years
Franchise rights	by pattern of use

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

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

Revenue recognition and unearned revenue

(a) Company-owned services

Revenues from Residential Property Management, Company-owned Consumer Services, Integrated Security Services and Business Services are recognized at the time the service is rendered or the product is shipped. Revenues from Integrated Security Services installation contracts and Residential Property Management painting and restoration contracts in process are recognized on the percentage of completion method, generally in the ratio of actual costs to total estimated contract costs, unless the Company cannot reasonably estimate its gross margins in which case the completed contract method is used. Amounts received from customers in advance of services being provided are recorded as unearned revenue when received.

(b) Franchised services

The Company's franchised Consumer Services are conducted principally through subsidiaries California Closet Company, Inc., Paul Davis Restoration, Inc., Pillar to Post, Inc., Certa ProPainters Ltd. and College Pro Painters Ltd. Royalties are charged as a percentage of revenues, as defined, where reported by the franchisees except for Certa ProPainters Ltd., where the franchisees are charged either a fixed monthly amount or a percentage of revenues. Revenues from administrative and other support services, as applicable, are recognized as the services are provided.

Advertising costs

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

Foreign currency translation

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

Income taxes

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

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

Stock-based compensation

Effective April 1, 2003, the Company is accounting for stock options as compensation expense in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of SFAS 123* ("SFAS 148") provides alternative methods of transitioning to the fair value based method of accounting for employee stock options as compensation expense. The Company is using the "prospective method" of SFAS 148 and is expensing the fair value of new option grants awarded subsequent to March 31, 2003. The financial statements for the year ended March 31, 2004 include $322 of stock option expense.

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

3. Acquisitions

2004 acquisitions:

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

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

2003 acquisitions:

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

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

Details of the 2004 acquisitions are as follows:

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

Details of the 2003 acquisitions are as follows:

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

In 2002, the Company finalized the allocation of the purchase price with respect to the March 2001 Watts acquisition. The final adjustment to this purchase equation and the purchase equations on other acquisitions resulted in additional goodwill and accrued liabilities in the amount of $1,860, net of income taxes, principally to reflect costs to restructure operations of one of the acquired Watts subsidiaries. At March 31, 2004, an accrual of $1,719 still exists relating to that acquired subsidiary.

Certain vendors, at the time of acquisition, are entitled to receive contingent consideration if the acquired businesses achieve specified earnings levels during the two- to five-year periods following the dates of acquisition. Such contingent consideration is issued at the expiration of the contingency period. As at March 31, 2004, there was contingent consideration outstanding of up to $16,200 ($12,700 as at March 31, 2003). The contingencies will expire during the period extending to January 2009. The contingent consideration will be recorded when the contingencies are resolved and the consideration is issued or becomes issuable, at which time the Company will record the fair value of the consideration issued or issuable, including interest, if any, as additional costs of the acquired businesses. Contingent consideration issued or issuable during the year ended March 31, 2004 was $1,565 net of deferred income tax of $95 (2003 - $3,143, net of deferred income tax of $165).

The acquisitions referred to above were accounted for by the purchase method of accounting for business combinations. Accordingly, the accompanying consolidated statements of earnings do not include any revenues or expenses related to these acquisitions prior to these respective closing dates. The cash portions of the acquisitions were financed through available cash and borrowings from the Company's revolving credit facility. The goodwill acquired during 2004 was not deductible for tax purposes.

Following are the Company's unaudited pro forma results assuming the 2004 and 2003 acquisitions occurred on April 1 of the respective year of acquisition. The year immediately prior to the year of each respective acquisition also includes the pro forma results of the respective acquisitions.

(unaudited)	**2004**	2003
Pro forma revenue	**$ 622,268**	$ 555,841
Pro forma net earnings from continuing operations	**19,631**	19,185
Pro forma net earnings per share from continuing operations		
Basic	**$ 1.37**	$ 1.38
Diluted	**1.34**	1.32

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

4. Disposition

On April 1, 2004, immediately after year-end, the Company sold substantially all of the assets of the Company-owned lawn care operations carried on by its subsidiary Greenspace Services Ltd. to a third party. The sale proceeds and the expected resulting gain will be reported in the financial statements for the quarter ended June 30, 2004. The sale proceeds were approximately $14,215, which was comprised of cash in the amount of $5,009, assumption of liabilities in the amount of approximately $5,469 and a note receivable in the amount of $3,737. The note receivable is non-interest bearing and is receivable in five annual installments during the period April 1, 2005 to April 1, 2009. For the years ended March 31, 2004, 2003 and 2002, the operating results of the Canadian lawn care operations, which were previously included in the Consumer Services segment, have been reported as discontinued operations. The operating results and balance sheets of the discontinued operations are as follows:

Operating results	2004	2003	2002
Revenues	**$ 23,091**	$ 19,565	$ 19,138
Earnings from discontinued operations before income taxes	**250**	962	793
Provision for income taxes	**90**	548	246
Net earnings from discontinued operations	**160**	414	547
Net earnings per share from discontinued operations			
Basic	**$ 0.01**	$ 0.03	$ 0.04
Diluted	**0.01**	0.03	0.04

Balance sheets	2004	2003
Current assets	**$ 6,083**	$ 5,466
Fixed assets	**3,090**	2,581
Intangibles	**604**	713
Goodwill	**2,115**	1,890
Total assets	**$ 11,892**	$ 10,650
Current liabilities	**$ 6,689**	$ 6,587
Long-term liabilities	**790**	671
Total liabilities	**$ 7,479**	$ 7,258

5. Unusual item

During 2003, the Company received $4,228 of executive life insurance proceeds upon the deaths of two senior management employees, one in the Business Services segment in the amount of $3,228 and one in Residential Property Management in the amount of $1,000. The amounts received were recorded as reductions of selling, general and administrative costs. No such proceeds were received in 2004 or 2002.

6. Other income

In accordance with the Company's partnership philosophy, it may from time to time sell shares of its operating subsidiaries to operating management. During 2004, the Company sold a 5% interest in California Closet Company, Inc. and a 5.5% interest in Certa ProPainters, Ltd. to officers of the respective businesses, resulting in dilution gains of $1,137. In 2003, the Company sold a 7.5% interest in Paul Davis Restoration, Inc. to two of its officers, resulting in a dilution gain on sale of $1,106. The 2004 and 2003 share sales were financed by secured interest-bearing loans (see note 8(a)). In 2002, the Company recorded gains totaling $196 relating to the sale of shares of two subsidiaries. Also included in 2004 other income is a loss of $240 related to the Company's disposal of the security officer assets of its Chicago Integrated Security Services branch.

7. Components of working capital accounts

	2004	2003
Inventories		
Work-in-progress	**$ 8,888**	6,009
Finished goods	**3,156**	4,560
Supplies and other	**2,769**	$ 4,222
Small equipment	**416**	304
	$ 15,229	$ 15,095

	2004	2003
Prepaids and other		
Insurance	**$ 3,259**	$ 3,108
Advertising	**2,804**	2,441
Transportation	**1,775**	1,248
Security deposits	**1,410**	1,129
Other	**6,411**	5,691
	$ 15,659	$ 13,617

	2004	2003
Accrued liabilities		
Accrued payroll and benefits	**$ 27,472**	$ 16,707
Customer advances	**13,617**	10,663
Costs to restructure operations of acquired subsidiary	**1,719**	1,667
Other	**6,545**	5,233
	$ 49,353	$ 34,270

During 2003, the Company incurred $1,904 of severances and related costs in its Business Services segment as part of a plan to reduce overheads and more aggressively realize synergies within the segment. Of this amount, $133 remained unpaid at March 31, 2004 and was included in accrued payroll and benefits within accrued liabilities.

8. Other receivables

Other receivables are comprised of:

(a) $4,003 (2003 - $2,578) of secured interest-bearing loans due from minority shareholders of four (2003 - four) subsidiaries.

(b) $1,194 (2003 - $1,347) of long-term customer receivables, certain of which are interest bearing; and

(c) $200 (2003 - $1,914) of interest bearing franchise fees receivable from franchisees in the Consumer Services segment.

9. Fixed assets and other assets

2004	Cost	Accumulated depreciation / amortization	Net 2004
Fixed assets			
Land	$ 2,273	$ -	**$ 2,273**
Buildings	7,829	1,475	**6,354**
Vehicles	17,661	10,372	**7,289**
Furniture and equipment	43,176	29,738	**13,438**
Computer equipment and software	26,069	14,516	**11,553**
Enterprise system software	3,975	1,717	**2,258**
Leasehold improvements	12,820	6,159	**6,661**
Total	$ 113,803	$ 63,977	**$ 49,826**
Other assets			
Investments	$ 815	$ -	**$ 815**
Financing fees	3,802	1,788	**2,014**
Total	$ 4,617	$ 1,788	**$ 2,829**

2003	Cost	Accumulated depreciation / amortization	Net 2003
Fixed assets			
Land	$ 2,234	$ -	$ 2,234
Buildings	7,228	1,156	6,072
Vehicles	16,788	10,182	6,606
Furniture and equipment	36,345	23,112	13,233
Computer equipment and software	24,835	14,397	10,438
Enterprise system software	4,549	2,402	2,147
Leasehold improvements	11,612	5,742	5,870
Total	$ 103,591	$ 56,991	$ 46,600
Other assets			
Investments	$ 756	$ -	$ 756
Financing fees	3,119	1,098	2,021
Total	$ 3,875	$ 1,098	$ 2,777

Included in fixed assets are vehicles under capital lease at a cost of $7,299 (2003 - $5,846) with a net book value of $3,324 (2003 - $3,130), furniture and equipment under capital lease at a cost of $288 (2003 - $882) and net book value of $150 (2003 - $497) and computer equipment and software under capital lease at a cost of $2,343 (2003 - $822) with a net book value of $1,274 (2003 - $393).

10. Intangible assets

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

2003	Gross carrying amount	Accumulated amortization	Net 2003
Management contracts and other	$ 2,085	$ 1,067	$ 1,018
Customer lists and relationships	6,506	1,122	5,384
Trademarks and trade names	11,327	970	10,357
Franchise rights	16,464	1,796	14,668
	$ 36,382	$ 4,955	$ 31,427

During the year ended March 31, 2004, the company acquired the following intangible assets:

	Amount	Estimated weighted average amortization period in years
Management contracts and other	$ 1,949	9.8
Customer lists and relationships	1,104	10.9
Trademarks and trade names	1,137	30.0
Franchise rights	4,387	Pattern of use
	$ 8,577	22.4

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

2005	$ 2,372
2006	2,305
2007	2,255
2008	2,035
2009	1,896

11. Goodwill

	Residential Property Management	Integrated Security Services	Consumer Services	Business Services	Corporate	Consolidated
Balance, March 31, 2002	$ 55,483	$ 24,812	$ 27,558	$ 52,415	$ -	$ 160,268
Goodwill resulting from adjustments to purchase price allocations	(238)	69	(143)	19	-	(293)
Goodwill resulting from contingent acquisition payments	1,450	1,693	-	-	-	3,143
Goodwill resulting from purchases of minority shareholders' interests	3,013	380	-	960	-	4,353
Goodwill acquired during year	2,557	-	2,208	-	-	4,765
Foreign exchange	-	34	149	1,205	-	1,388
Balance, March 31, 2003	$ 62,265	$ 26,988	$ 29,772	$ 54,599	$ -	$ 173,624
Goodwill resulting from adjustments to purchase price allocations	372	-	165	-	-	537
Goodwill resulting from contingent acquisition payments	664	341	560	-	-	1,565
Goodwill resulting from purchases of minority shareholders' interests	-	-	-	424	-	424
Goodwill acquired during year	168	231	7,622	-	-	8,021
Foreign exchange	-	78	339	991	-	1,408
Balance, March 31, 2004	**$ 63,469**	**$ 27,638**	**$ 38,458**	**$ 56,014**	**$ -**	**$ 185,579**

12. Long-term debt

	2004	2003
Revolving credit facility of $90,000 (2003 - $140,000) of which up to US $40,000 may be drawn in Canadian funds	**$ -**	$ 52,026
8.06% Senior Secured Notes due June 29, 2011	**100,000**	100,000
6.40% Senior Secured Notes due September 30, 2015	**50,000**	-
Adjustment to Senior Secured Notes resulting from interest rate swaps	**6,805**	6,279
Capital leases bearing interest ranging from 5% to 10%, maturing at various dates through 2008	**4,128**	3,478
Other long-term debt bearing interest at 8%, maturing at various dates through 2008	**2,955**	3,136
	163,888	164,919
Less: current portion	**3,502**	3,030
	$ 160,386	$ 161,889

The revolving credit facility was unused at March 31, 2004. At March 31, 2003, US$35,281 and C$24,578 (US$16,745) was drawn. Included in capital leases at March 31, 2004 and 2003 are obligations in Canadian dollars of $2,222 (US$1,694) and $2,478 (US$1,689), respectively. Included in other long-term debt at March 31, 2004 and 2003 are obligations in Canadian dollars of $1,335 (US$1,018) and $1,569 (US$1,069), respectively.

At March 31, 2004, the estimated aggregate amount of principal repayments on long-term debt required in each of the next five fiscal years and thereafter to meet the retirement provisions are as follows:

2005	$ 3,502
2006	16,572
2007	15,203
2008	14,610
2009	14,340
Thereafter	92,856

The Company's amended and restated credit agreement provides a $90,000 committed senior revolving credit facility renewable and extendible in 364-day increments, and if not renewed, a two-year final maturity. The revolving credit facility was most recently renewed and extended on May 7, 2003. The revolving credit facility bears interest at 1.50% to 3.00% over floating reference rates, depending on certain leverage ratios. The average interest rate during fiscal 2004 was 3.45%. At March 31, 2004, the revolving credit facility was unused, had outstanding letters of credit in the amount of $5,993 and had $84,007 of available credit.

The Company has outstanding $100,000 of 8.06% fixed-rate Senior Secured Notes (the "8.06% Notes"). The 8.06% Notes have a final maturity of June 29, 2011, with seven equal annual principal repayments beginning on June 29, 2005. On October 1, 2003, the Company issued $50,000 of 6.40% fixed-rate Senior Secured Notes (the "6.40% Notes") to a group of U.S. institutional investors. The 6.40% Notes have a final maturity of September 30, 2015 with equal annual principal repayments commencing on September 30, 2012. The proceeds of the 6.40% Notes were used to repay amounts drawn on the revolving credit facility. Concurrent with the issuance of the 6.40% Notes, the Company's revolving credit facility was reduced to $90,000 from $140,000 resulting in no net change to the Company's overall borrowing capacity.

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

The revolving credit facility and the Notes rank equally in terms of seniority. The Company has granted these lenders collateral including the following: an interest in all of the assets of the Company including the shares of the Company's subsidiaries, an assignment of material contracts and an assignment of the Company's "call rights" with respect to shares of the subsidiaries held by minority interests.

The covenants and other limitations within the revolving credit facility and the Notes agreement are substantially the same. The covenants require the Company to maintain certain ratios including leverage, fixed charge coverage, interest coverage and net worth. The Company is prohibited from undertaking certain mergers, acquisitions and dispositions without prior approval.

13. Capital stock

The authorized capital stock of the Company is as follows:

An unlimited number of preference shares, issuable in series;

An unlimited number of Subordinate Voting Shares having one vote per share; and

An unlimited number of Multiple Voting Shares having 20 votes per share, convertible at any time into Subordinate Voting Shares at a rate of one Subordinate Voting Share for each Multiple Voting Share outstanding.

The following table provides a summary of total capital stock:

	Subordinate Voting Shares		*Multiple Voting Shares*		Total	Total
	Number	Amount	Number	Amount	Number	Amount
Balance, March 31, 2002	13,112,418	$ 57,339	662,847	$ 373	13,775,265	$ 57,712
Balance, March 31, 2003	13,501,343	60,198	662,847	373	14,164,190	60,571
Balance, March 31, 2004	**14,087,018**	**68,184**	**662,847**	**373**	**14,749,865**	**68,557**

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

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

During the year ended March 31, 2003, the Company repurchased 32,700 (2004 and 2002 – nil) Subordinate Voting Shares under a Normal Course Issuer Bid filed with the Toronto Stock Exchange, which allowed the Company to repurchase up to 5% of its outstanding shares on the open market during a twelve-month period.

The Company has $2,148 (C$3,034) (2003 - $2,434 (C$3,439)) of interest bearing loans receivable related to the purchase of 365,000 Subordinate Voting Shares (2003 - 387,500 shares). The loans, which are collateralized by the shares issued, have a ten-year term from the grant date, however, they are open for repayment at any time. The maturities of these loans are as follows, for the years ending March 31.

2005	$ -
2006	-
2007	916
2008	467
2009	765
	$ 2,148

The Company has a stock option plan for certain officers and key full-time employees of the Company and its subsidiaries. Options are granted at the market price for the underlying shares on the date of grant. Each option vests over a four-year term and expires five years from the date granted and allows for the purchase of one Subordinate Voting Share. Options are exercisable in either U.S. or Canadian dollars. At March 31, 2004, there were 1,144,315 options outstanding to 44 individuals at prices ranging from $10.50 to $23.14 (C$15.60 to C$36.89) per share, expiring on various dates through February 2009. At March 31, 2004, there were 107,030 options available for future grants.

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

	Shares issuable under options			*Weighted average price per share (US$)*		
	2004	2003	2002	**2004**	2003	2002
Shares issuable under options – Beginning of year	**1,782,990**	2,119,115	2,119,640	**$ 15.95**	$ 13.20	$ 8.57
Granted	**133,000**	101,500	625,000	**15.99**	15.58	20.93
Exercised for cash	**(585,675)**	(421,625)	(607,025)	**12.54**	7.41	4.70
Expired or forfeited	**(186,000)**	(16,000)	(18,500)	**23.65**	19.00	7.25
Shares issuable under options – End of year	**1,144,315**	1,782,990	2,119,115	$ **16.01**	$ 15.95	$ 13.20
Options exercisable – End of year	**667,933**	876,506	925,498			

	Weighted average price per share (C$)		
	2004	2003	2002
Shares issuable under options – Beginning of year	**$ 23.41**	$ 21.05	$ 13.52
Granted	**23.89**	24.14	32.77
Exercised for cash	**18.73**	11.48	7.35
Expired or forfeited	**35.33**	29.43	11.35
Shares issuable under options – End of year	**$ 23.92**	$ 23.41	$ 21.05

The weighted average fair value of options granted in 2004, 2003 and 2002 was $5.31 (C$7.18), $5.10 (C$7.90) and $6.59 (C$10.31) per share, respectively.

The options outstanding as at March 31, 2004 to purchase Subordinate Voting Shares are as follows:

	Options outstanding			*Options exercisable*	
Range of exercise prices (US$)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (US$)	Number exercisable	Weighted average exercise price (US$)
$10.50 to $11.68	304,440	0.9	$ 11.09	272,883	$ 11.14
$12.00 to $14.62	374,875	2.3	13.45	221,200	13.78
$15.70 to $23.14	465,000	3.2	21.38	173,850	22.08
	1,144,315	2.3	$ 16.01	667,933	$ 14.86

		Options outstanding			*Options exercisable*
Range of exercise prices (C$)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (C$)	Number exercisable	Weighted average exercise price (C$)
$15.60 to $17.25	304,440	0.8	$ 16.48	272,883	$ 16.56
$18.20 to $22.50	374,875	2.3	20.39	221,200	20.91
$25.00 to $36.89	465,000	3.2	31.63	173,850	32.67
	1,144,315	2.3	$ 23.92	667,933	$ 22.19

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

	2004	2003	2002
Net earnings as reported	**$ 19,024**	$ 18,440	$ 17,029
Deduct: Stock-based compensation expense determined under fair value method, net of tax	**(2,158)**	(2,179)	(1,144)
Pro forma net earnings	**16,866**	16,261	15,885
Pro forma net earnings per share:			
Basic	**$ 1.18**	$ 1.17	$ 1.17
Diluted	**1.16**	1.12	1.09
Assumptions:			
Risk-free interest rate	**3.0%**	4.5%	5.0%
Expected life in years	**4.4**	4.4	4.0
Volatility	**30%**	30%	30%
Dividend yield	**0.0%**	0.0%	0.0%

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:

	2004	2003	2002
Income tax expense using combined statutory rate of approximately 40% (2003 – 40%; 2002 – 41%)	**$ 12,509**	$ 11,377	$ 12,545
Non-deductible expenses:			
Loss not tax effected	**-**	-	443
Other	**576**	735	250
Non-taxable proceeds of life insurance policies	**-**	(1,691)	-
Foreign tax rate reduction	**(3,884)**	(2,720)	(3,043)
Provision for income taxes as reported	**$ 9,201**	$ 7,701	$ 10,195

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

	2004	2003	2002
Canada	**$ 13,612**	$ 13,273	$ 10,820
United States	**17,554**	15,494	19,515
Total	**$ 31,166**	$28,767	$30,335

The provision for income taxes comprises the following:

	2004	2003	2002
Current			
Canada	**$ 3,360**	$ 1,319	$ 2,844
United States	**5,665**	5,129	6,862
	9,025	6,448	9,706
Deferred			
Canada	**67**	585	(1,130)
United States	**109**	668	1,619
	176	1,253	489
Total	**$ 9,201**	$ 7,701	$ 10,195

The significant components of deferred income taxes are as follows:

	2004	2003
Deferred income tax assets		
Expenses not currently deductible	**$ 553**	$ 900
Provision for doubtful accounts	**128**	410
Inventory and other reserves	**24**	350
Loss carry-forwards	**4,820**	1,251
	5,525	2,911
Deferred income tax liabilities		
Depreciation and amortization	**20,219**	19,464
Prepaid and other expenses deducted for tax purposes	**560**	865
Financing fees	**81**	141
	20,860	20,470
Net deferred income tax liability	**$ 15,335**	$ 17,559

As at March 31, 2004, the Company had U.S. and Canadian net operating loss carry-forward balances of approximately $10,240 and $2,000, respectively. These amounts are available to reduce future federal, state and provincial income taxes. Net operating loss carry-forward balances attributable to the U.S. expire over the next 20 years while net operating losses attributable to Canada expire over the next 7 years.

15. Shares outstanding for earnings per share calculations

	2004	2003	2002
Shares issued and outstanding at beginning of year	**14,164,190**	13,775,265	13,168,240
Weighted average number of shares:			
Issued in the year	**120,662**	148,141	397,077
Repurchased in the year	-	(2,346)	-
Weighted average number of shares used in computing basic earnings per share	**14,284,852**	13,921,060	13,565,317
Assumed exercise of stock options, net of shares assumed acquired under the Treasury Stock Method	**310,976**	576,485	1,034,551
Number of shares used in computing diluted earnings per share	**14,595,828**	14,497,545	14,599,868

16. Other supplemental information

	2004	2003	2002
Products and services segmentation			
Revenue			
Products	**$ 108,983**	$ 96,219	$ 75,337
Services	**500,811**	426,908	418,214
Total	**609,794**	523,127	493,551
Cost of revenue			
Products	**$ 67,721**	$ 57,633	$ 46,060
Services	**356,348**	301,621	288,404
Total	**424,069**	359,254	334,464
Franchised operations			
Revenue	**$ 64,947**	$ 57,497	$ 54,173
Operating earnings	**11,369**	11,121	9,283
Initial franchise fee revenue	**4,467**	3,822	2,951
Cash payments made during the year			
Income taxes	**$ 13,388**	$ 7,667	$ 10,649
Interest	**5,156**	7,916	9,633
Non-cash financing activities			
Increases in capital lease obligations	**$ 1,352**	$ 1,565	$ 1,965
Depreciation and amortization expense			
Fixed assets	**$ 13,011**	$ 11,447	$ 10,671
Intangible assets	**2,212**	1,838	1,282
	$ 15,223	$ 13,285	$ 11,953
Other expenses			
Advertising expense	**$ 8,577**	$ 8,141	$ 6,103
Rent expense	**15,679**	14,280	13,445

17. Financial instruments

Concentration of credit risk

The Company is subject to credit risk with respect to its accounts receivable, other receivables, interest rate swaps and foreign exchange contracts. Concentrations of credit risk with respect to the receivables are limited due to the large number of entities comprising the Company's customer base and their dispersion across many different service lines in two countries. The counter-parties to the interest rate swaps and foreign exchange contracts are investment-grade financial institutions that the Company anticipates will satisfy their obligations under the contracts.

Interest rate risk

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

The Company has interest rate swap agreements to exchange the fixed rates on the Notes for variable rates. On the 8.06% Notes, one interest rate swap exchanges the fixed rate on $75,000 of principal for LIBOR + 250.5 basis points and a second exchanges the fixed rate on $25,000 for LIBOR + 445 basis points. The terms of the swaps match the term of the 8.06% Notes with a maturity of June 29, 2011. On October 2, 2003, the Company entered into two interest rate swap agreements to exchange the fixed rate on the $50,000 of 6.40% Notes for a variable rate of LIBOR + 170 basis points. The terms of the swaps match the term of the 6.40% Notes with a maturity of September 30, 2015.

The swaps are being accounted for as fair value hedges in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The swaps are carried at fair value on the balance sheet, with gains or losses recognized in earnings. The carrying value of the hedged debt is adjusted for changes in fair value of the swaps; the associated gain or loss is recognized currently in earnings. The fair values of the swaps are determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. Due to changes in the yield curve, the fair value of the swaps fluctuates and at March 31, 2004, the fair values represented a gain of $6,805 (2003 – $6,279).

The Company from time to time uses foreign exchange contracts to fix Canadian dollar expenses relative to U.S. dollar revenues. As at March 31, 2004, four such contracts were open, with maturities extending to March 30, 2005. Details are summarized below.

Buy currency	Canadian dollars
Sell currency	U.S. dollars
Notional value	$ 8,000
Weighted average exchange rate	1.3547
Gain included in earnings	$ 219

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.

	2004		2003	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Other receivables	**$ 5,397**	**$ 5,379**	$ 5,839	$ 5,784
Long-term debt including current portion	**157,083**	**175,085**	158,640	166,892
Interest rate swaps	**6,805**	**6,805**	6,279	6,279
Foreign exchange contracts	**219**	**219**	-	-

18. Commitments and contingencies

(a) Lease commitments
Minimum operating lease payments are as follows:

Year ending March 31	
2005	$ 16,810
2006	13,460
2007	10,937
2008	10,111
2009	7,543
Thereafter	15,795

(b) Shareholder agreements
The Company has shareholder agreements with the minority owners of its subsidiaries. These agreements allow the Company to "call" the minority position for a predetermined formula price, which is usually equal to the multiple of net earnings before extraordinary items, minority interest share of earnings, income taxes, interest, depreciation, and amortization paid by the Company for the original acquisition. The minority owners may also "put" their interest to the Company at the same price subject to certain limitations. The purchase price may, at the option of the Company, be paid primarily in Subordinate Voting Shares. Acquisitions of these minority interests would be accounted for using the purchase method. The total obligation if all call or put options were exercised at March 31, 2004 was approximately $30,000 (2003 - $26,000). The acquisition of all outstanding minority interests would increase net earnings.

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

(d) Guarantee
In connection with a contract, the Company has assumed risks associated with work to be performed by a third party. In the unlikely event of non-performance by the third party, the maximum exposure to the Company would be $7,626.

19. Related party transactions

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

During the year, the Company reorganized the management structure of its Residential Property Management operations. As a result, several minority shareholders contributed their shares to new entities. These transactions were accounted for at cost.

20. Segmented information

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

2004	Residential Property Management	Integrated Security Services	Consumer Services	Business Services	Corporate	Consolidated
Revenues	$ 241,293	$ 122,748	$ 92,870	$ 152,449	$ 434	$ 609,794
Depreciation and amortization	4,363	1,948	2,313	6,450	149	15,223
Operating earnings	13,675	6,241	14,116	12,071	(7,032)	39,071
Interest, net						(7,905)
Income taxes						(9,201)
Minority interest						(3,101)
Net earnings from continuing operations						18,864
Net earnings from discontinued operations						160
Net earnings						$ 19,024
Total assets	$ 110,439	$ 75,198	$ 102,802	$ 144,677	$ 4,437	$ 437,553
Total additions to long-lived assets	$ 6,566	$ 2,953	$ 19,966	$ 6,047	$ 340	$ 35,872

2003	Residential Property Management	Integrated Security Services	Consumer Services	Business Services	Corporate	Consolidated
Revenues	$ 214,965	$ 107,548	$ 73,852	$ 126,373	$ 389	$ 523,127
Depreciation and amortization	4,089	1,502	1,924	5,620	150	13,285
Operating earnings	10,531	5,834	12,163	14,153	(4,978)	37,703
Interest, net						(8,936)
Income taxes						(7,701)
Minority interest						(3,040)
Net earnings from continuing operations						18,026
Net earnings from discontinued operations						414
Net earnings						$ 18,440
Total assets	$ 107,998	$ 64,803	$ 83,923	$ 117,432	$ 14,875	$ 389,031
Total additions to long-lived assets	$ 10,991	$ 3,942	$ 7,749	$ 7,781	$ 41	$ 30,504

2002	Residential Property Management	Integrated Security Services	Consumer Services	Business Services	Corporate	Consolidated
Revenues	$ 205,376	$ 95,507	$ 64,826	$ 127,478	$ 364	$ 493,551
Depreciation and amortization	3,716	1,377	1,780	4,964	116	11,953
Operating earnings	15,118	5,158	10,184	17,412	(4,585)	43,287
Interest, net						(12,952)
Income taxes						(10,195)
Minority interest						(3,658)
Net earnings from continuing operations						16,482
Net earnings from discontinued operations						547
Net earnings						$ 17,029
Total assets	$ 106,268	$ 57,515	$ 77,060	$ 117,874	$ 7,212	$ 365,929
Total additions to long-lived assets	$ 13,237	$ 5,154	$ 8,984	$ 13,365	$ 478	$ 41,218

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

	2004	2003	2002
Canada			
Revenues	**$ 174,992**	$ 149,570	$ 149,531
Total long-lived assets	**68,408**	68,710	53,082
United States			
Revenues	**$ 434,802**	$ 373,557	$ 344,020
Total long-lived assets	**204,715**	182,941	180,685
Consolidated			
Revenues	**$ 609,794**	$ 523,127	$ 493,551
Total long-lived assets	**$ 273,123**	$ 251,651	$ 233,767

21. Impact of recently issued accounting standards

In February 2003, FASB Interpretation No. 46, *Consolidation of Variable Interest Entities (an interpretation of ARB No. 51)* ("FIN 46") was issued. In December 2003, FASB issued FASB Interpretation No. 46 (revised December 2003) ("FIN 46R"). FIN 46R addresses consolidation by business enterprises of variable interest entities having certain characteristics and replaces FIN 46. FIN 46R is effective for the Company's annual financial statements for the year ended March 31, 2004, and had no impact on the consolidated financial statements.

In May 2003, FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* ("SFAS 150"), which was effective for the Company on July 1, 2003. SFAS 150 establishes standards for how to classify and measure certain financial instruments with characteristics of both liabilities and equity. The adoption of SFAS 150 had no impact on the consolidated financial statements.

22. Reconciliation to Canadian GAAP

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

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

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

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

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

	2004	2003
Balance, beginning of year	**$ 68,631**	$ 50,448
Net earnings	**19,024**	18,440
Subordinate Voting Shares purchased for cancellation	**-**	(257)
Balance, end of year	**$ 87,655**	$ 68,631

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

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

As at March 31, 2003	United States GAAP	Reconciling adjustments	Canadian GAAP
Assets			
Interest rate swaps	$ 6,279	$ (6,279)	$ -
Subtotal non-current assets	266,649	(6,279)	260,370
Total assets	$ 389,031	$ (6,279)	$ 382,752
Liabilities			
Long-term debt less current portion	$ 161,889	$ (6,279)	$ 155,610
Subtotal non-current liabilities	195,117	(6,279)	188,838
Shareholders' equity			
Capital stock	60,571	(5,683)	54,888
Retained earnings	62,948	5,683	68,631
Subtotal shareholders' equity	123,406	-	123,406
Total liabilities and shareholders' equity	$ 389,031	$ (6,279)	$ 382,752

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

Directors
AND OFFICERS

Board of Directors

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

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

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

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

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

1 LEAD DIRECTOR
2 AUDIT COMMITTEE
3 EXECUTIVE COMPENSATION COMMITTEE
4 NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

Senior Officers

Jay S. Hennick
Chairman, President and
Chief Executive Officer

D. Scott Patterson
Executive Vice-President

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

Roman Kocur
Vice President, Acquisitions

Douglas G. Cooke
Corporate Controller and Treasurer

Christian Mayer
Manager, Financial Reporting & Analysis

Kevin Roy
Manager, Acquisitions

Neil D. Chander
Director, Tax Planning and Compliance

Michael H. Appleton QC
Corporate Secretary

Lynda A. Cralli
Assistant Corporate Secretary

Residential Property Management

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

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

FirstService Financial, INC
Peter Gordon, Chief Operating Officer

Integrated Security

FirstService Security
Security Services & Technologies
Frank Brewer, Chief Executive Officer

Intercon Security LTD
Rene Gulliver, President

Franchise Services

The Franchise Company, INC
Steven Rogers, Chief Executive Officer

Business Services

Resolve Corporation
Tom Aiton,
Co-Chief Executive Officer
Lawrence Zimmering,
Co-Chief Executive Officer

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Boca Raton, Florida 33487
Phone: 561-989-5100

Legal Counsel

Canada
Fogler, Rubinoff

United States
Shearman & Sterling

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants

Lenders

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

Prudential Capital Group
PPM America
Pacific Life

Registrar and Transfer Agent

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

Investor Relations

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

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

Stock Exchange Listings

FirstService shares are listed and traded on:

NADSAQ National Market
Symbol-FSRV

Toronto Stock Exchange
Symbol-FSV

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

Earnings and Corporate News

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

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

Copies of FirstService's Annual Report, Annual Information Form and Quarterly filings may be obtained on-line through the company's website.

Research Coverage

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

· CIBC World Markets
· Credit Suisse First Boston
· Dundee Securities Corporation
· National Bank Financial
· Northern Securities Inc.
· Pacific International Securities
· Raymond James Inc.
· TD Securities
· William Blair & Co.

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

CREATIVE: ECHO ADVERTISING + MARKETING, TORONTO

Notice of Shareholders Meeting The annual meeting of the shareholders will be held on Wednesday June 23 at 4:00 pm at The Toronto Stock Exchange Conference Centre, The Exchange Tower, 130 King St. West, Toronto, Ontario.