



2005 Annual Report

Message to Shareholders

Introduction

I am pleased to announce Homeserve Technology Inc.'s ("Homeserve") net income of \$8.8 million for the 12 months ended February 28, 2005 as compared to a loss of \$2.4 million for the 12 months ended February 29, 2004, which resulted in income available to common shareholders of \$1.83 per share compared to a loss of \$1.25 per share in the previous year. The most significant elements contributing to the \$11.2 million year-over-year increase in net income were a \$7.6 million contribution margin generated from the newly acquired ICON operations, a \$1.4 million decrease in Home-Link's contribution margin loss resulting from the downsizing activities undertaken in late fiscal 2004 and the recording of a recovery of future income taxes in the amount of \$3.2 million.

ICON

In April 2004, the Company acquired Contract's Residential Property Service's ("Contract") ICON software and entered into licensing arrangements, among other matters with Contract. ICON is a customizable software application that manages all aspects of a residential home relocation. Contract uses the ICON Software to manage approximately 400 of Canada's largest companies' employee relocations as well as members of the Department of National Defense, the RCMP and the Treasury Board of Canada. Contract services approximately 18,000 new relocation files per year.

During the year ICON licensing and consulting ("ICON") activities generated \$8.4 million in revenue from the underlying relocation and asset recovery license agreements and consulting services. The underlying relocation and asset recovery file activity was slightly ahead of management's expectations. Operating costs in the amount of \$0.8 million comprised of staffing, selling, premises and administrative costs associated with eight development and support personnel were in line with management's expectations.

Home-Link Operations

Home-Link's move services offering in its present form continues to experience an overall decline in its operations, consequently further downsizing actions were undertaken during the year to bring operations in line with operating activities. For the 12 months ended February 28, 2005, Home-Link's operations generated a contribution margin loss of \$0.6 million as compared to a contribution margin loss of \$2.0 million for the same period of fiscal 2004. The decrease in the overall loss of \$1.4 million was due primarily to reduced staffing levels.

Other Technology

We continue to actively engage a number of potential financial and retail clients in developing viable business applications for the use of the Home-Link's underlying CRM applications. In addition, we continue to seek and develop opportunities to further incorporate the functionality of CALMS into our existing and future product offerings.

Outlook

While markets for software remain uncertain, we are optimistic that the sustainable stable cash flows from the ICON acquisition combined with licensing opportunities from the Company's CRM software and move services program model, will position the Company well for the future growth.

On behalf of the Company, I want to thank your continued support.

Sincerely,



James B. Dunbar
President and Chief Executive Officer

Management's Report to Shareholders

The accompanying financial statements and other financial information have been prepared by the Company's management which is responsible for their integrity and objectivity. To fulfill this responsibility, the Company maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate. These policies and procedures are designed to provide a high degree of assurance that relevant and reliable financial information is produced.

These financial statements have been prepared in conformity with accounting principles generally accepted in Canada, and where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this annual report is generally consistent with the information contained in the accompanying consolidated financial statements. Ernst & Young, LLP, the independent auditors appointed by the shareholders, have examined the consolidated financial statements set out on pages 23 through 39 in accordance with auditing standards generally accepted in Canada to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out on page 25.

The consolidated financial statements have been further examined by the Board of Directors and by its Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors. The auditors have direct and full access to the Audit Committee and meet with the Committee both with and without management present. The Board of Directors, directly and through its Audit Committee, oversees management financial reporting responsibilities and is responsible for reviewing and approving the financial statements.

Toronto, Canada
May 19, 2005



James B. Dunbar
President and Chief Executive Officer



Kevin Cash
Chief Financial Officer

Management's Discussion and Analysis
of Financial Condition and
Results of Operations
For the year ending February 28, 2005

Management's Discussion and Analysis of Results and Financial Condition

The following Management's Discussion and Analysis of Results and Financial Condition ("MD&A") of Homeserve Technologies Inc. ("Homeserve" or the "Company") covers the period from March 1, 2004 to February 28, 2005. This MD&A has been prepared as at May 19, 2005. This MD&A should be read in conjunction with our audited consolidated financial statements for the 12 months ended February 28, 2005. Additional information, including the Company's Annual Audited Financial Statements, Annual Information Form and Management Information Circular, are available on the Company's web site at www.homeserve.ca or on SEDAR's web site at www.sedar.com. External economic and industry factors remain substantially unchanged, unless otherwise noted.

Homeserve is a technology company focused on the development and application of proprietary software solutions. Our focus is to increase shareholder value through the leveraging of our technology expertise and the development, acquisition and integration of proprietary software solutions to create profitable businesses comprised of, transaction fee-based services, licensing fee-based software solutions and consulting fee-based software development and support activities. Homeserve's largest shareholder and customer, which owns 48% of the Common shares and all of the preferred shares of the Company, is Brascan Corporation operating through certain subsidiaries as Centract Residential Property Services ("Centract"), its residential real estate services division.

Homeserve's software solutions are comprised of (i) CARE II Customer Relationship Management software ("CARE II CRM"), from which we currently earn transaction-based fees from our Home-Link operations, (ii) our co-ownership of the Credit Adjudication & Lending Management System ("CALMS"), from which we earn licensing fees and (iii) ICON software and its development and support personnel, which we acquired on April 13, 2004 and from which we earn licensing and consulting fees. As at the date of this MD&A these operations are supported by 16 personnel and Centract's shared management services platform.

Due to the inability of Homeserve to meet the continued listing requirements of the Toronto Stock Exchange ("TSX"), Homeserve's Common shares were delisted from trading on the TSX on August 29, 2002. Currently, Homeserve is not listed for trading on any recognized stock exchange. As Homeserve is not listed on a stock exchange a shareholder's ability to buy or sell shares is limited. The Company will consider seeking a re-listing of the Company's Common shares when there is a reasonable probability of returning value to common shareholders after having considered the overall capitalization of the Company and in particular the servicing of the obligations related to the Company's preferred shares, including their potential redemption (see "ICON Transaction" and "Outlook").

Operations Overview

In April 2004, the Company acquired Centract's ICON software and entered into licensing arrangements, among other matters (see "ICON Transaction") with Centract. ICON is a customizable software application that manages all aspects of a residential home relocation. This transaction provides a substantial opportunity for the Company to increase shareholder value through the re-licensing and sale of the software to non-North American markets and the provision of additional functionality and consultative services, for a fee. Currently, the only licensees for the ICON software are divisions of Centract.

In April 2003, Home-Link acquired, for US\$100,000, a permanent, exclusive, royalty-free, transferable, license to use its CARE II CRM software in Canada and to sub-license its use to others in Canada. As a result of this transaction, Home-Link saved over US\$220,000 per year in license payments. The Company considers this both a significant financial saving for the Company and an opportunity to market its CARE II CRM solutions to banking and retail companies. As such, we are currently in discussions with a number of financial institutions and retail companies to commence pilot operations, which will allow us to demonstrate the ability of CARE II CRM software to better manage their respective mortgage portfolios and customer base.

During fiscal 2004, Home-Link's operations were downsized to better align with current transaction volume levels with a view to increasing operations as greater adoption of existing program offerings occur or as volumes are increased through new CARE II CRM initiatives. Substantially all of Home-Link's revenue is generated from Centract or supplier transaction fees derived from the Centract relationship. Centract is contracted to utilize Home-Link's services to June 30, 2005.

During the month of November 2004, the sole licensee of our CALMS software gave notice of its intention to discontinue the use of our CALMS software product by the end of 2004. For the current year we have recorded revenue of \$10,000 and in the prior fiscal year we recorded revenue of \$58,000 from our CALMS software product. While we currently have no agreements in place for the use of CALMS, we continue to seek opportunities to further incorporate the functionality of CALMS into our existing and future product offerings.

Fiscal 2004 represented the first full year of operations since the Company emerged from the restructuring of its operations under the Companies Creditors Arrangement Act (“CCAA”) and the subsequent restructuring of its remaining operations in fiscal 2003. This activity is evident in the eight quarters of supplemental financial information, which has been provided as part of this MD&A.

Results of Operations : Fourth Quarter 2005 Compared to Fourth Quarter 2004

<i>(\$ thousands, except per share amounts)</i>	2005	2004
Revenue	2,046	589
Cost of sales	—	—
Margin	2,046	589
Operating costs	676	207
Contribution margin	1,370	382
Investment income	266	194
Amortization	(571)	(413)
Net income for the period before income tax	1,065	163
Income tax recovery	3,200	—
Net income for the period	4,265	163
Basic and diluted earnings (loss) per common share		
Basic	\$ 0.96	\$ (0.09)
Diluted	\$ 0.48	\$ (0.09)

As summarized in the chart above, the Company reported net income of \$4.3 million for the quarter ended February 28, 2005 (the “Quarter”) as compared to income of \$0.2 million for the three months ended February 29, 2004. After the payment of preferred share dividends this represents earnings available to common shareholders of \$0.96 per share and a loss of \$0.09 per share, respectively. The most significant elements contributing to the \$4.1 million quarter-over-quarter increase in net income were a \$1.7 million contribution margin generated from the newly acquired ICON operations, a \$0.2 million decrease in Home-Link’s contribution margin loss resulting from the downsizing activities undertaken in fiscal 2004, a recovery of future income taxes of \$3.2 million (see “Critical Accounting Estimates”) and a \$0.1 million increase in investment income. Partially offsetting these amounts was a decrease in contribution from our Software development and licensing business of \$0.5 million, a \$0.4 million increase in general and administration costs due to a reversal of an excess tax provision in the previous year and an increase of \$0.2 million in amortization due to the amortization of the recently purchased ICON software system. A summary of the contribution margin for the Quarter as compared to the same period of fiscal 2004 by business line is summarized in the table below and a more detailed discussion of the quarter-over-quarter results follows.

<i>(\$ thousands)</i>	2005	2004
Software development and licensing		
Revenue	22	524
Operating costs	(52)	(69)
	(30)	455
ICON licensing and consulting		
Revenue	1,973	—
Operating costs	(257)	—
	1,716	—
Home-Link operations		
Revenue	51	65
Operating costs	(177)	(356)
	(126)	(291)
Other		
General and administration	(190)	218
	(190)	218
Contribution margin		
Revenue	2,046	589
Operating costs	(676)	(207)
	1,370	382

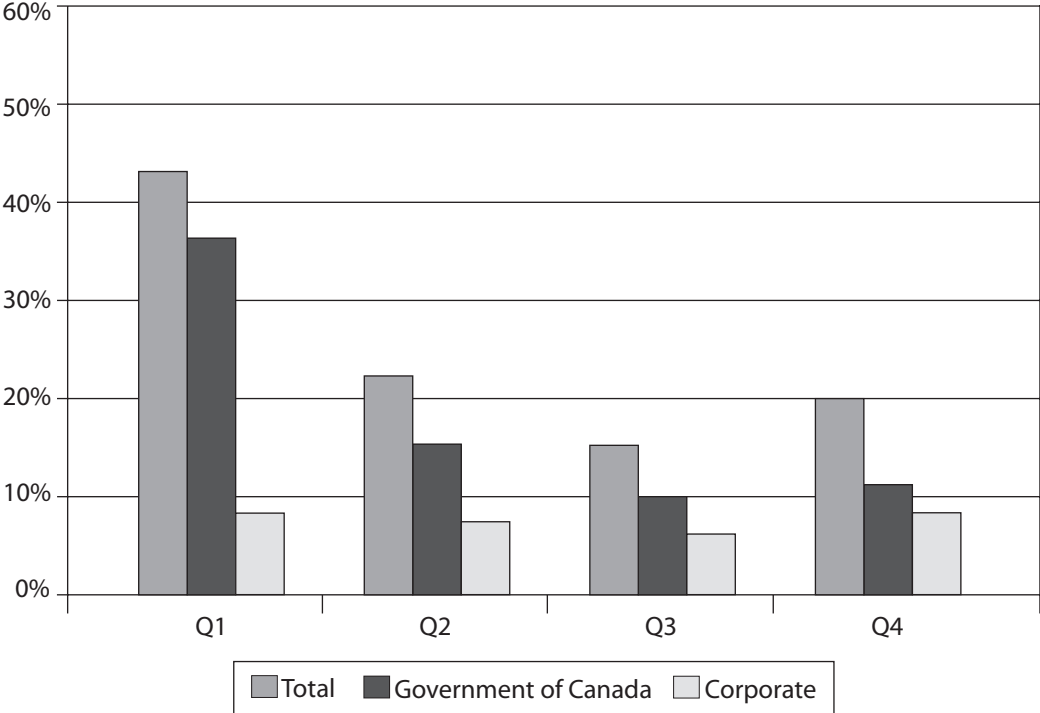
Software development and licensing (“SDL”), which includes consulting activities, development of the Company’s CARE II CRM initiatives and royalties from our co-ownership of CALMS, operated at breakeven for the Quarter, a decrease of \$0.5 million from the same period of last year. The prior year activity related primarily to a development and upgrade contract for Centract. This contract was completed in fiscal 2004 and since that time and as at the date of this MD&A there were no consulting contracts of a similar nature. The operating costs for the Quarter relate primarily to salary, selling and administrative costs associated with the development of the Company’s CARE II CRM initiatives. As mentioned previously, during the third quarter of fiscal 2005 the sole licensee of our CALMS software gave notice of its intention to discontinue the use of our CALMS software product.

ICON licensing and consulting (“ICON”) activities for the Quarter consist of \$1.9 million in revenue generated from its contracted relocation and asset recovery license agreements (see “ICON Transaction”) with Centract and \$0.1 million in consulting revenue. Of the \$2.0 million in revenue \$1.8 million in licensing revenue and \$0.1 million in consulting revenue were earned from Centract’s relocation business. The balance was earned from Centract’s asset recovery business. The underlying relocation and asset recovery file activity for the Quarter was 35% ahead of the same period from the prior year and ahead of management’s expectations. ICON operating costs relate to staffing, selling, premises and administrative costs associated with eight development and support personnel who entered into employment agreements with the Company as part of the ICON Transaction. These costs were in line with management’s expectations.

Approximately 54% of the Company’s ICON licensing revenues for the Quarter were derived from two significant Centract contracts. These contracts are for the provision of relocation services to the Canadian Department of National Defense, Government of Canada and the Royal Canadian Mounted Police (collectively “Government of Canada Relocation Contracts” or the “Contract”). During the Quarter, Centract was awarded a five-year Contract commencing on December 1, 2004 with a two-year renewal option for the provision of these services. Subsequent to the award of the Contract, complaints were filed with the Canadian International Trade Tribunal (“CITT”) with respect to the award of this Contract. At this time the CITT is still in the process of considering these issues and the outcome is uncertain at this time.

Approximately 99% of the anticipated annual ICON licensing fees are derived on a per new file opened basis from Centract’s relocation business, where a file represents a new transferee. The underlying estimated annual relocation file activity for our ICON licensing revenue on an annualized basis is derived as 72% from the Government of Canada Relocation Contracts and the balance from over 400 corporate clients. The relocation file activity is subject to variability between quarters as to each client’s relocation timing, business and budget considerations, all of which are outside the control of the Company and Centract. The most pronounced relocation file timing element is attributed to the Government of Canada Relocation Contract where these clients in the past have initiated the bulk of their relocation activity in the late winter and spring. It would appear that this trend may be continuing although there can be no guarantee that this will be the case. A summary of the variability in file counts for fiscal 2005 is summarized in the chart below:

Fiscal 2005 Source of Relocation File Volumes



Home-Link's operating activities consist of a contribution margin loss of \$0.1 million for the Quarter as compared to a contribution margin loss of \$0.3 million for the same period of last year. The decrease in the overall loss of \$0.2 million is due primarily to reduced staffing levels. These savings are the result of the downsizing of Home-Link's operations to service the current decline in transaction volumes, which were precipitated by a decline in a number of third-party clients who chose not to utilize Home-Link's services. As described earlier, substantially all of Home-Link's revenue for the Quarter was generated from related parties or supplier transaction fees derived from the related party relationship. These related parties have contracted to utilize Home-Link's services to June 30, 2005. Home-Link's management continues to work with third-party clients and suppliers to enhance the Home-Link value proposition and is expected to benefit from transaction volumes, which would arise from the servicing of CARE II CRM opportunities as described earlier under SDL operations.

General and administrative operations are comprised of public operating costs related to shareholder communications, audit, regulatory filing fees, insurance costs, administrative expenditures and a management fee from Centract for operations, accounting and investment management services (see "Transactions with Related Parties"). The \$0.2 million of administrative costs for the Quarter is in line with management's expectations. The increase of \$0.4 million in the Quarter over the same period of last year is due primarily to the reversal of an excess tax provision in the prior fiscal period and a realignment of a \$0.2 million management fee charge to General & Administration operations in the current year, which in prior years was charged to Home-Link operations.

Investment income relates to income earned on the Company's short-term investments. The investment income of \$0.3 million for the quarter increased \$0.1 million over the same period of the prior year. The additional investment income arises from an increase in our average portfolio balance to \$17 million for the Quarter from \$14.7 million for the same period of last year and an increase in the average rate of return on our portfolio. The average rate of return increased as a result of the repositioning of our portfolio, to investments which are of a high quality with more favourable risk return profiles. Currently 85% of our investment portfolio is invested in the bonds of Real Estate Investment Trusts or companies with substantial real estate holdings.

Amortization for the Quarter was up \$0.2 million over the same period of last year. The increase is due primarily to additional amortization from the intangible assets and property, plant and equipment arising on the ICON acquisition.

The Company has not recorded a provision for income tax expense in the current year as it is utilizing tax loss carryforwards to bring taxable income to nil. The Company has recorded an income tax recovery of \$3.2 million which represents the benefit of the tax losses which the Company will use in future years based on management's current estimate of income that will more likely than not be generated by the Company to use these tax losses. Management assesses on a quarterly basis the likelihood of recovering these tax losses and adjusts the valuation allowance recorded against the future tax asset accordingly. As at February 28, 2005 the Company had federal and provincial non-capital tax loss carryforwards of \$48.9 million and \$56.4 million, respectively, available to offset future years' taxable income.

Results of Operations: Fiscal 2005 compared to Fiscal 2004

<i>(\$ thousands, except per share amounts)</i>	2005	2004
Revenue	8,608	2,002
Cost of sales	—	586
Margin	8,608	1,416
Operating costs	2,534	2,651
Severance and other	—	258
Contribution margin (loss)	6,074	(1,493)
Investment income	936	752
Gain on sale of investments	809	—
Amortization	(2,154)	(1,653)
Interest expense	(19)	—
Net income (loss) for the period before income tax	5,646	(2,394)
Income tax recovery	3,200	—
Net income (loss) for the period	8,846	(2,394)
Basic and diluted earnings (loss) per common share		
Basic	\$ 1.83	\$ (1.25)
Diluted	\$ 0.99	\$ (1.25)

As summarized in the previous table, the Company reported net income of \$8.8 million for the 12 months ended February 28, 2005 as compared to a loss of \$2.4 million for the 12 months ended February 29, 2004. After the payment of preferred share dividends, income available to common shareholders was \$1.83 per share and a loss of \$1.25 per share, for the 12 months ended February 28, 2005 and February 29, 2004, respectively. The most significant elements contributing to the \$11.2 million year-over-year increase in net income were a \$7.6 million contribution margin generated from the newly acquired ICON operations, a recovery of future income taxes of \$3.2 million, a \$1.4 million decrease in Home-Link's contribution margin loss resulting from the downsizing activities undertaken in late fiscal 2004, a \$0.8 million gain realized on the sale of certain holdings within the Company's investment portfolio, a decrease in severance costs of \$0.3 million, and a decrease in capital asset amortization of \$0.2 million as a result of Home-Link selling surplus assets and a \$0.2 million increase in investment income. Partially offsetting these amounts was an increase of \$0.7 million in intangible amortization due to the amortization of the recently purchased ICON software system, an increase of \$0.6 million in general and administration costs primarily due to a reversal of an excess income tax provision which was determined in the previous fiscal year to no longer be necessary and a \$1.0 million reduction in Software development and licensing contribution margin as the underlying development and upgrade contract with Centract was completed in fiscal 2004. A summary of the contribution margin by business line for the 12 months ended February 28, 2005 and February 29, 2004, respectively, is summarized in the table below and a more detailed discussion of the year-over-year results follows.

<i>(\$ thousands)</i>	2005	2004
Software development and licensing		
Revenue	30	1,585
Cost of sales	—	(579)
Operating costs	(233)	(180)
	(203)	826
ICON licensing and consulting		
Revenue	8,353	—
Operating costs	(796)	—
	7,557	—
Home-Link operations		
Revenue	225	417
Cost of sales	—	(7)
Operating costs	(855)	(2,432)
	(630)	(2,022)
Other		
General and administration	(650)	(39)
Severance and other	—	(258)
	(650)	(297)
Contribution margin		
Revenue	8,608	2,002
Cost of sales	—	(586)
Operating costs	(2,534)	(2,909)
	6,074	(1,493)

Software Development and Licensing (“SDL”) which includes consulting activities, development of the Company’s CARE II CRM initiatives and royalties from our co-ownership of CALMS, generated a contribution margin loss of \$0.2 million for the 12-month period ended February 28, 2005 versus a contribution margin of \$0.8 million for the same period last year. Activity in the prior year related primarily to a development and upgrade contract for Centract. This contract was completed in fiscal 2004 and as at the date of this MD&A there have been no consulting contracts of a similar nature nor are any expected in the near future. The current year loss of \$0.2 million relates primarily to salary, selling and administrative costs associated with the development of the Company’s CARE II CRM initiatives offset by income from our CALMS license and the recognition of deferred revenue from the Centract contract.

ICON licensing and consulting (“ICON”) activities consist of \$8.4 million in revenue generated from contracted relocation and asset recovery license agreements (see “ICON Transaction”) with Centract. Of the \$8.3 million in revenue, \$7.9 million in licensing revenue and \$0.3 million in consulting revenue were earned from Centract’s Relocation business and \$0.1 million from Centract’s Asset Recovery business. The year-to-date underlying file activity for Centract’s Relocation business is slightly ahead of prior year levels and of management’s expectations. Asset Recovery full year file activity is 60% ahead of last year, due primarily to new clients and an increased penetration of existing client volumes, and is slightly ahead of management’s

expectations. ICON operating costs relate to staffing, selling, premises and administrative costs associated with eight development and support personnel who entered into employment agreements with the Company as part of the ICON Transaction and were in line with management's expectations.

Home-Link's operating activities consist of a contribution margin loss of \$0.6 million for the 12 months ended February 28, 2005 as compared to a contribution margin loss of \$2.0 million for the same period last year. The decrease in the overall loss of \$1.4 million was due primarily to salary savings of \$1.3 million and reduced advertising and travel costs of \$0.1 million, reduced licensing fees and other administrative costs of \$0.2 million, partially offset by a decrease in revenue of \$0.2 million. These cost savings were the result of the downsizing of Home-Link's operations due to a decline in current transaction volumes, which was precipitated by a decline in the number of third-party clients who chose not to utilize Home-Link's services. As described earlier, substantially all of Home-Link's revenue for the 12-month period was generated from related parties or supplier transaction fees derived from the related party relationships. These related parties have contracted to utilize Home-Link's services to June 30, 2005. Home-Link's management continues to work with third-party clients and suppliers to enhance the Home-Link value proposition and is expected to benefit from transaction volumes, which would arise from the servicing of CARE II CRM opportunities as described earlier under SDL operations.

General and administrative operations are comprised of public operating costs related to shareholder communications, audit, regulatory filing fees, insurance costs, administrative expenditures and a management fee from Centract for, operations, accounting and investment management services (see "Transactions with Related Parties"). These costs are estimated at \$550,000 to \$650,000 per annum and are offset by income earned on cash balances. The \$0.6 million increase in costs for the 12 months ended February 28, 2005 as compared to the same period last year, was as a result of the reversal of an excess income tax provision of \$0.4 million which was determined in the prior year to no longer be necessary, higher interest income earned on cash balances in prior years and a management fee of \$0.2 million charged for the current year versus no such charge in the prior year. The income tax provision related to amounts prior to the Company filing for protection under the CCAA and was no longer necessary. During the current year the management fee arose from the splitting of the fee between Homeserve and Home-Link to better reflect the involvement of the Centract shared services platform, whereas in prior years the management fee was charged completely to the operations of Home-Link.

Investment income relates to income earned on the Company's short-term investments. The investment income of \$0.9 million for the 12 months ended February 28, 2005 was \$0.2 million higher than the same period in 2004. The increase is due to a higher average investment yield on the investment portfolio and a \$0.7 million increase in the average portfolio balance during the 12 months ended February 28, 2005 as compared to the 12 months ended February 29, 2004. The portfolio has increased as a result of the positive cash flow derived from our ICON acquisition. During the year, we sold the majority of our portfolio, resulting in a gain of \$0.8 million. We have reinvested in high quality bonds, which have a more favourable risk return profile.

Amortization for the 12 months ended February 28, 2005 was up \$0.5 million as compared to the same period last year. The increase is the result of the amortization of intangible and property plant and equipment arising on the ICON acquisition of \$0.7 million, partially offset by a decrease in the amortization of Home-Link's capital assets of \$0.2 million. Capital asset amortization has decreased as Home-Link has sold surplus assets as part of the downsizing of its operations.

As previously discussed, the Company has not recorded a provision for income tax expense as non capital income tax loss carryforwards are being utilized to reduce the current and future tax expense to nil. The Company has recorded an income tax recovery of \$3.2 million which represents the benefit of the tax losses which the Company will use in future years based on management's current estimate of income that will more likely than not be generated by the Company. Management assesses on a quarterly basis the likelihood of recovering these tax losses and adjusts the valuation allowance recorded against the future tax asset accordingly.

Liquidity and Capital Resources

<i>(\$ thousands)</i>	As at February 28, 2005	As at February 29, 2004
Current assets		
Cash and cash equivalents	2,714	476
Short-term investments	16,986	14,372
	19,700	14,848
Accounts receivable	1,400	634
Prepaid expenses and other assets	78	—
Future tax assets	2,660	402
	23,838	15,884
Current liabilities		
Accounts payable and accrued liabilities	472	399
Income and other taxes payable	485	485
Dividends payable	842	315
Deferred revenue	56	87
	1,855	1,286
	21,983	14,598

As at February 28, 2005 and as summarized in the chart above, the Company had positive working capital of \$22.0 million, up \$7.4 million from February 29, 2004 with \$8.0 million arising from increased current asset balances partially offset by a \$0.6 million increase in current liabilities. The following three items of note drove the net increase in working capital:

- \$7.0 million in cash flow from operations which after dividend payments of \$2 million were invested in cash, and short-term investments;
- \$0.1 million increase in dividends payable arising from preferred shares issued and earned under the ICON Transaction and a \$0.4 million increase due to a profit participation dividend;
- the impact of the ICON Transaction which resulted in an increase in receivables as the related licensing fees are due one month in arrears, an increase in payables associated with ICON development and support activities and a decrease in prepaid and other assets as a result of the non-cash transfer of related assets to ICON intangible assets; and
- the recognition of a future tax asset of \$3.2 million, \$2.7 million of which we expect to be recognized within the next 12 months.

As at February 28, 2005, short-term investments were comprised of a mix of corporate bonds with an average yield to market ranging from 6% to 8%.

The Company has sufficient funds in the near term to meet its operating requirements and current annual cumulative dividend requirements as at May 19, 2005 of \$2.4 million. The Company's liquidity may be reduced by the redemption of its preferred shares and the payment of participation dividends (see "Capital Structure").

Contractual Obligations

The following is a summary of the Company's contractual obligations:

	Total	Payments Due by Period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual Obligations					
Premises lease	286,000	76,000	87,000	82,000	41,000

Capital Resources

The financial resources available to the Company include \$2.7 million in cash and \$17 million in marketable securities. The Company currently has no debt financing arrangements in place.

We will assess financing alternatives such as the issuance of additional share capital or debt when funding requirements, such as potential acquisition opportunities when they present themselves.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at the date of this MD&A.

Related Party Transactions

Share Ownership

The Company's most significant shareholder is Centract. As at February 28, 2005 Centract had the following shareholdings:

Share Class	Number of shares held	Percentage of shares held
Common	1,652,905	48%
Series A preferred shares	1,280,000	100%
Series B preferred shares	22,000,000	100%
Series D preferred shares	3,500,000	100%

Centract acquired its Common shares and Series A preferred share holdings from the Company in the third quarter of fiscal 2003 as consideration for the sale of its 100% ownership of Home-Link Services Canada Ltd. Centract acquired 20,000,000 of its Series B preferred shares on September 13, 2002 for cash consideration of \$20 million and the remaining 2,000,000 Series B preferred shares on July 12, 2004 upon the conversion of the \$2,000,000 subordinated debenture it received as part of the consideration from the ICON Transaction. In addition, Centract acquired its 3,500,000 Series D preferred shares as part of the consideration from the ICON Transaction. See Capital Structure for further information regarding the Company's share structure.

Transactions with Related Parties

Transactions with related parties are recorded at contracted rates or at exchange amounts approximating fair market value. A summary of these amounts for the three- and 12-month periods ended February 28, 2005 and February 29, 2004, respectively, are as follows:

(\$ millions)	Three months ended		Twelve months ended	
	February 28 2005	February 29 2004	February 28 2005	February 29 2004
Revenue				
ICON	2.0	—	8.3	—
Home-Link service fees	—	—	0.2	0.2
IRP software and upgrade fees	—	0.5	—	1.5
Expenses				
Management fees	0.1	0.2	0.6	0.4
Premises rent	—	—	0.1	0.1
Dividends				
Series A preferred shares	—	—	0.1	0.1
Series B preferred shares	0.8	0.4	2.3	1.4
Series D preferred shares	—	—	0.1	—
Other				
Sale of capital assets	—	—	—	0.1

Management fees relate to services such as accounting, payroll, internal audit and other administrative activities related to the day-to-day activities of the Company as well as strategic planning and guidance provided by senior executives of Centract. Premises rent is for space occupied by Homeserve and Home-Link in buildings owned and managed by Centract.

ICON Transaction

On April 13, 2004, the Company's shareholders approved the ICON Transaction, which resulted in Centract selling its interest in the ICON software and entering into licensing, premises lease and employment arrangements with the Company for potential consideration of up to \$24 million comprised of:

- A \$2 million debenture bearing interest at prime, payable quarterly in arrears, maturing in five years. The debenture is repayable by the Company at any time and is convertible at any time at the option of the holder into Series B preferred shares on the basis of one Series B preferred share for each \$1.00 of debenture principal converted. These debentures were converted to 2,000,000 Series B preferred shares on July 12, 2004; plus
- \$3.5 million paid by the issuance of 3,500,000 Series D preferred shares with a non-cumulative annual dividend of 3.5%. The Series D preferred shares are redeemable by the Company at any time subject to meeting certain conditions on the basis of \$1.00 for each share redeemed. The shares at the holder's option, subject to adjustment, or automatically subject to meeting certain criteria, are convertible into Non-Voting Common shares on the basis of one Non-Voting Common share for each Series D preferred share converted. The Company has agreed to use reasonable commercial efforts to list such Non-Voting Common shares on a recognized Canadian stock exchange at the holder's request at any time after five years from the issuance of the shares; plus
- An earn-out option, which provides for the issuance of up to 18,500,000 Series C preferred shares issuable on the basis of one Series C preferred share for each \$1.00 of cumulative licensing fee revenue earned by the Company from its two license arrangements described below, in excess of \$8 million for the period from April 13, 2004 to February 29, 2008. The Series C preferred shares are also entitled to a cumulative quarterly dividend of 2.5% and a cumulative aggregate preferential annual participation dividend of 9.25% of pre-defined consolidated pre-tax income of the Company. As at February 28, 2005, the Company has earned cumulative licensing revenue from both Centract contracts of \$8.023 million and accordingly 23,000 Series C preferred shares at a value of \$1.00 each will be issued subsequent to year end; plus
- An increase in the Series B preferred share cumulative aggregate preferential annual participation dividend from 10% to 11% of pre-defined consolidated pre-tax income of the Company based on the weighted average number of Series B preferred shares outstanding dividend by 22,000,000. As at February 28, 2005 there are 22,000,000 Series B preferred shares outstanding, as a result of the conversion of the Company's \$2.0 million debenture to 2,000,000 Series B preferred shares on July 12, 2004. The weighted average number of Series B preferred shares outstanding was 21,265,753 for the 12-month period ended February 28, 2005.

As at February 28, 2005, the Company has recorded \$6.0 million with respect to our purchase of ICON, which was comprised of \$5.5 million in intangible and capital assets summarized in the chart below and \$0.5 million in legal, valuation, accounting and shareholder communication costs associated with the transaction which were paid for with cash. The amount recorded for the purchase of ICON and subsequent amortization of this asset will increase in accordance with the earn out provisions of the purchase and sale agreement as described earlier.

(\$ millions)

Assets acquired	
Intangible assets	5.4
Capital assets	0.1
	5.5
Consideration provided	
Subordinated debenture	2.0
Series D preferred shares	3.5
	5.5

The ICON licensing arrangements are comprised of the following two licenses:

1. A seven-year transferable and renewable license with Centract or its designee for the exclusive use of the ICON software in the North American relocation market for which Centract will pay the Company a license fee equal to: (i) \$500 per file for the first 10,000 files opened in any calendar year, (ii) \$400 per file opened for the next 10,000 files in any calendar year and (iii) \$250 per file opened in excess of 20,000 files in any calendar year. The license agreement commenced on April 13, 2004 with an initial term to March 31, 2011 with successive two-year renewal terms. On renewal, the license fee during such renewal period will be equal to the lower of \$200 per file opened or the lowest fee charged by the Company to any licensee from whom the Company generates annual license fees in excess of \$500,000. During the 12 months ended February 28, 2005 the Company earned \$7.9 million in related licensing fees on 16,559 files opened. As noted above the licensing fee per file opened is based on the number of files opened in a calendar year, not on the Company's fiscal year.

As part of the licensing agreement Centract is to receive at no additional cost, maintenance and technological support and normal course upgrades. Consulting Services provided for development upgrades or modifications are provided to Centract at cost plus 20%. During the 12 months ended February 28, 2005 the Company earned \$0.3 million from these services.

2. A five-year, non-transferable license with Asset Recovery, a division of Centract, which currently uses ICON in exchange for a monthly license fee equal to \$50 per administrative file and \$100 per Home Sale file. The license agreement commenced on April 13, 2004 with an initial term to March 31, 2009 with successive two-year renewal terms. During the 12 months ended February 28, 2005 the Company earned \$0.1 million in related fees on 1,911 files opened.

The premises lease arrangement is comprised of the lease of 2,000 square feet at market rates for a period that is the earlier of the date of termination of the Centract license and upon 30 days prior written notice.

Employment arrangements consist of employment agreements with eight former employees of Centract who are required for the development and support of the ICON software. The employment agreements are substantially the same as the terms of employment provided by Centract.

Critical Accounting Estimates

The preparation of the Company's Consolidated Financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates could have a significant adverse effect on operating results and financial position. The following significant accounting estimates are considered critical in that they involve a higher degree of judgment and complexity than others.

Useful life of Intangible Assets and Property Plant and Equipment ("PP&E")

The estimated useful life of intangible assets and PP&E is used to determine amortization expense. An asset's useful life is estimated when the asset is acquired. The estimate is based upon past experience with similar assets, taking into account expected technological changes, prospective economic utilization and physical condition of the assets concerned. A reassessment of the economic lives is conducted when events or changes in circumstances indicate that their useful life may not be as long as originally anticipated. Adjustments to their expected lives would be made after considering historical experience, market demands and other factors.

Homeserve purchased Home-Link Services Canada Ltd. ("Home-Link") in September of 2003 and recorded an intangible asset of \$5,130,000 to represent the value of the CRM system acquired as a part of the Home-Link transaction and \$570,000 in related licensing fees and other costs. Initially management estimated the useful life of the asset to be five years, however, due to the length of time that it has taken to develop the market for the CRM system and the acquisition in 2004 of an exclusive right to use and sub-license the CARE II software in Canada, management has revised the estimated useful life of the CRM system to seven years. As this is a change in estimate, the prior periods will not be adjusted and the remaining net book value will be amortized over a period of four and one half years.

Impairment

The impairment of long-lived assets, comprising the Company's PP&E and intangible assets are assessed when events or changes in circumstances indicate that the Company may not be able to recover their carrying values. Factors considered important which would result in an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of the Company's use of its assets or the strategy of the overall business; and
- significant negative industry or economic trends.

Impairment of such assets is determined using a projected undiscounted cash flow method. If the asset's carrying value is greater than the value indicated under the undiscounted cash flow method, an impairment charge would be recorded. This requires judgment to be made by management estimating future cash flows and economic life, among other assumptions. Different assumptions could yield materially different results.

Management believes that estimates of future cash flows and fair value that it has used in evaluating impairment of such assets are reasonable. The assumptions used in preparing these estimates are consistent with internal planning and reflect best estimates based on factors including past operating results, budgets, economic projections, and market trends. These estimates, however, have inherent uncertainties that management may not be able to control. As a result, the amounts reported for these items could be different if different assumptions were used or if conditions changed in the future. A change in the estimate would affect the net earnings of the Company, but would have no direct cash flow implications.

The Company has recorded intangible assets related to the purchase of Home-Link, the purchase of the license and sub-license for use of Home-Link's CRM software in Canada and the ICON Transaction. The original allocation to the Intangible Home-Link assets and CRM software was \$5.7 million. These intangible assets are being amortized over a five-year period and had a net book value of \$3 million as at February 28, 2005. The allocation to date (see "ICON Transaction") to the Company's intangible ICON assets was \$6.0 million. These assets are being amortized over a seven-year period and had a net book value of \$5.2 million as at February 28, 2005. The Company has PP&E with a net book value of \$0.1 million as at February 28, 2005. Management has reviewed the value of these assets as of the date of this MD&A and determined that there is no impairment in the carrying value of these assets.

Accounting for income taxes

The Company is required to estimate the amount of tax payable for the current year and the future income tax assets and liabilities recorded in the accounts for future tax consequences of events that have been reflected in its financial statements. Significant management judgment is required to assess the timing and probability of the ultimate tax impact. The Company records valuation allowances on future tax assets to reflect the expected realizable future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, changes in the jurisdictions in which the Company operates, the inability to generate sufficient future taxable income or unpredicted results from potential examinations or determinations of each year's liability by taxing authorities.

Valuation allowances primarily relate to potential future tax assets arising from accounting depreciation claimed in excess of tax depreciation and tax losses carried forward. Management must assess both positive and negative evidence when determining whether it is more likely than not that future tax assets will be recoverable in future periods. Based on this assessment, a valuation allowance must be established where management has determined, based on current facts and reasonable assumptions, that such future tax assets will not likely be realized by the Company. Realization is based on the Company's ability to generate sufficient future taxable income. During the fourth quarter of 2005, the Company recognized a future tax asset related to tax losses carried forward. A change in material assumptions occurred in the quarter in relation to the relative significance of positive and negative evidence related to the income from our ICON acquisition. Based on the track record of the relocation and asset recovery volumes underlying the ICON licensing fees, management determined that the valuation allowance should be reduced. The net impact on earnings from releasing this valuation allowance is a recovery of taxes of \$3.2 million. The Company intends to maintain a valuation allowance for the balance of the future tax asset until sufficient positive evidence exists to support its reversal. Changes in material assumptions can occur from period to period due to the aging of prior year's losses, the cumulative effect of current period taxable income and other sources of positive and negative evidence. If these changes in material assumptions were to provide sufficient positive evidence, the Company could record the net benefit of \$24.7 million, or a portion thereof, as a recovery of income taxes in the period when realization becomes more likely than not and a corresponding increase in net future income tax assets.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued liabilities and dividends payable. Management estimates that the fair values of these financial instruments approximate their carrying value. The Company has interest rate risk due to the term of the bonds that are held in its investment portfolio. The Company mitigates the interest rate risk by investing in high quality securities and limiting the amount of investment in any single security to 20% of the total investment portfolio.

Adoption of Accounting Policies

The April 13, 2004 acquisition of the ICON system and the entering into related agreements gave rise to the adoption of following accounting policy:

Revenue recognition – ICON software and development

The Company recognizes ICON licensing revenue on a per transaction basis at the time a new file is opened on the ICON system. A new file represents a new relocation transferee or new asset recovery file opened by a client of the Company. Recognition of revenue by the Company is not affected by the agreement between the relocation company, which has a license to use ICON, and the client for which the relocation service is being performed.

The Company recognizes ICON consulting revenue over the term of the software development contracts based on an appropriate measure of the percentage of the contract that has been completed.

Outstanding Shares

As at February 28, 2005, the number of issued and outstanding shares of the Company are as follows:

Description	As at February 28, 2005
Common shares	3,443,687
Series A preferred shares	1,280,000
Series B preferred shares	22,000,000
Series C preferred shares	—
Series D preferred shares	3,500,000
Non-Voting Common shares	—

The Series A and Series B preferred shares are redeemable by the Company at any time after December 31, 2004 upon the payment of the sum of \$1.00 for each share to be redeemed.

The Company may issue up to 18,500,000 Series C preferred shares at \$1.00 per share. The issuance of these shares is subject to meeting certain earn-out criteria related to the Company's ICON Transaction (see "ICON Transaction").

The Series D preferred shares are redeemable by the Company at any time subject to meeting certain conditions, on the basis of \$1.00 for each share redeemed. The Series D preferred shares were issued on April 13, 2004. The Series D preferred shares are, at the holder's option, subject to adjustment, or automatically upon meeting certain criteria, convertible into Non-Voting Common shares of the Company on the basis of one Series D preferred share for one Non-Voting Common share.

In addition to the above noted classes of shares, the Company issued a \$2 million Debenture in connection with the ICON Transaction (see "ICON Transaction"). The Debenture is repayable by the Company at any time and is convertible at any time at the option of the holder into Series B preferred shares on the basis of one Series B preferred share for each \$1.00 of Debenture principal outstanding, subject to adjustment. On July 12, 2004, Centract converted its Debenture holdings into 2,000,000 Series B preferred shares.

The Company has entered into an agreement with the holders of the Series C preferred shares and Series D preferred shares to use its reasonable commercial efforts to seek a listing for the Series C preferred shares and the Non-Voting Common shares issuable upon conversion of the Series D preferred shares, on a recognized Canadian stock exchange, upon written request by the holders of such shares at any time after five years from the date of their respective issuance by the Company.

As a result of our restructuring efforts and proceedings under CCAA in fiscal 2003, all pre-existing stock options have either terminated or otherwise expired. The Company has not issued any stock options in fiscal 2004 and as such the Company has no stock options outstanding as at the date of this MD&A.

Capital Structure

The Company's capital structure as at February 28, 2005 is comprised of Common shares, Non-Voting Common shares and preferred shares. The Company's Series A preferred shares, Series B preferred shares, Series C preferred shares issuable in connection with the ICON Transaction and Series D preferred shares can be redeemed by the Company for \$1.00 per share. Redemption of the preferred shares could significantly reduce the Company's cash and cash equivalents and short-term investments.

Given the number of preferred shares of the Company that are issuable or outstanding, the related dividends and the potential redemption of such preferred shares, there is a possibility that holders of the Company's Common shares will not realize any appreciable return on their Common shares in the short to medium term.

A summary of the components of the Company's diluted earnings per share is as follows:

	Three months ended		Twelve months ended	
	February 28 2005	February 29 2004	February 28 2005	February 29 2004
(\$ thousands)				
Net income (loss)	\$ 4,265	\$ 163	\$ 8,846	\$ (2,394)
Preferred share dividends	(942)	(479)	(2,527)	(1,920)
Net income (loss) available to common shareholders	\$ 3,323	\$ (316)	\$ 6,319	\$ (4,314)
Weighted average outstanding common shares	3,444	3,444	3,444	3,444
Dilutive effect of the conversion of preferred shares	3,500	—	3,068	—
Common shares and common share equivalents	6,944	3,444	6,512	3,444
Adjustment to net income available to common shareholders	30	—	107	—
Diluted earnings (loss) per common share	\$ 0.48	\$ (0.09)	\$ 0.99	\$ (1.25)

Subject to the approval of the Board of Directors, income available to Common shareholders will be further reduced by a payment of an Annual Participation Dividend ("APD") of up to 11.64% of pre-defined consolidated pre-tax income of the Company as summarized in the chart below and discussed under the ICON Transaction. The APD for the 12 months ended February 28, 2005 was \$396,000. An APD was not declared for the 12 months ended February 29, 2004.

A summary of the Company's capital structure as at February 28, 2005 is summarized in the chart below:

Share Class	Number of Shares Issued and Outstanding	Carrying Value of Share Class (\$ thousands)	Annualized		Annual Participation Dividend	Percentage of Shares Held by Centract
			%	(\$ thousands)		
Common ¹	3,443,687	3,012	—	—	—	48%
Non-Voting Common ^{2,7}	—	—	—	—	—	—
Series A preferred shares ^{3,4}	1,280,000	1,280	9.00	115	0.64%	100%
Series B preferred shares ^{3,4}	22,000,000	22,000	9.00	1,980	11.00%	100%
Series C preferred shares ^{4,5,7}	—	—	10.00	—	—	100%
Series D preferred shares ^{2,6,7}	3,500,000	3,500	3.50	315	—	100%
		29,792		2,410		

1. On September 5, 2003 at the Company's annual general meeting the shareholders approved the consolidation of the Company's Common shares on the basis of 25 for one.

2. Series D preferred shares are convertible into 3,500,000 Non-Voting Common shares on the basis of one Non-Voting Common share, for each Series D preferred share. Series D preferred shares are also redeemable by the Company upon meeting certain conditions, on the basis of \$1.00 for each share redeemed.

3. Non-convertible, non-voting and redeemable by the Company for \$1.00 per share after December 31, 2004.

4. Quarterly cumulative dividend.

5. Up to 18,500,000 Series C preferred shares may be issued under an earn-out calculation (see "ICON Transaction") at \$1.00 per share.

6. Annual non-cumulative dividend.

7. At holder's request the Company will use reasonable efforts to list such shares on a recognized exchange at any time after five years from their date of issuance.

Outlook

Our primary objective is to improve and stabilize the operations of the Company and to prudently invest the Company's surplus cash balances. A summary of the outlook for our individual business operations is as follows:

ICON

The acquisition of ICON and subsequent awarding of the Government of Canada Relocation contracts to Centract for a five-year term effective December 1, 2004, with a two-year renewal at the option of the government, is a significant development for our operations. The award of these contracts, however, is currently under review by the Canadian International Trade Tribunal and as such there can be no certainty as to the continuation of these contracts until the review process is completed. The acquisition of ICON is expected to provide significant licensing fee cash flows to the Company and licensing opportunities for markets outside of North America. In addition, the eight development and support personnel who were hired as part of the ICON transaction, will also provide the basis for consulting fees earned on software development and upgrade activities. The Company is in the early stages of developing the licensing and consulting opportunities for ICON.

Software Development and Licensing

We are in discussions with a number of financial institutions and retail companies to commence pilot operations that will demonstrate our CARE II CRM capabilities and assist them to better manage their respective mortgage portfolios and customer base. Based on prior experience, we anticipate that the timeframe from pilot to contracted volumes could take from three to 12 months, if not longer.

We are currently assessing opportunities for our co-ownership of CALMS software and how we can further develop this product offering.

Home-Link

Home-Link earns transaction-based revenue through the use of our CARE II CRM software and call center operations to facilitate the provision of services to consumers during the home purchasing and selling cycle. Home-Link has never been profitable and has incurred significant losses since it started business in mid-2000. Home-Link continues to develop its service offerings and is expected to benefit from transaction volumes that would arise from the servicing of new CARE II CRM opportunities described above. It is expected that Home-Link will continue to incur losses for the foreseeable future.

Investment Operations

The Company intends to invest its excess available cash in instruments that have the potential to generate a current yield that would offset, or partially offset, the dividend rate on the Company's preferred shares. The Company's existing investment portfolio of \$17 million as at February 28, 2005 has a yield to maturity ranging from 6% to 8%. Management will continue to evaluate higher yield investment opportunities, which meets its risk and liquidity tolerances. To mitigate risk, no more than 20% of our portfolio is invested in any one single company.

Re-listing of the Company's Common Shares

As discussed earlier the ICON Transaction resulted in the issue of preferred shares and an obligation to issue additional preferred shares in certain circumstances. The Company will consider seeking a re-listing of the Company's Common shares when there is a reasonable probability of returning value to common shareholders after having considered the overall capitalization of the Company and in particular the servicing of the obligations related to the Company's preferred shares, including their potential redemption.

Forward-looking Statements

This annual report contains forward-looking statements that involve risks and uncertainties, which may cause actual results to differ materially from the statements made. When used in this annual report, the words "anticipate", "believe", "could", "estimate", "expect", "intend", "may", and "would" and similar expressions are intended to identify forward-looking statements. Such statements reflect Homeserve's current views with respect to current events and are subject to such risks and uncertainties. Many factors could cause our actual results to differ materially from the statements made including those factors detailed from time to time in filings made by Homeserve with Canadian securities regulatory underlying authorities. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated or expected. Homeserve does not intend and does not assume any obligation to update these forward-looking statements.

Supplementary Information
Homeserve Technologies Inc.
Condensed Consolidated Balance Sheet

	As at May 31, 2003	As at Aug. 31, 2003	As at Nov. 30, 2003	As at Feb. 29, 2004	As at May 31, 2004	As at Aug. 31, 2004	As at Nov. 30, 2004	As at Feb. 28, 2005
<i>(\$ thousands, unaudited)</i>								
ASSETS								
Current								
Cash and cash equivalents	2,635	1,036	514	476	1,183	4,237	2,154	2,714
Short-term investments	15,621	15,585	14,976	14,372	14,681	14,002	16,993	16,986
	18,256	16,621	15,490	14,848	15,864	18,239	19,147	19,700
Accounts receivable, prepaids and other assets	1,112	1,440	1,133	1,036	1,839	1,207	1,002	4,138
Total current assets	19,368	18,061	16,623	15,884	17,703	19,446	20,149	23,838
Future tax asset	—	—	—	—	—	—	—	—
Property, plant and equipment, net	800	688	565	307	300	252	199	124
Intangible assets, net	5,057	4,758	4,456	4,156	9,673	9,198	8,707	8,233
	25,225	23,507	21,644	20,347	27,676	28,896	29,055	32,735

LIABILITIES AND SHAREHOLDERS' EQUITY

Current								
Accounts payable, accrued liabilities and other payables	1,088	838	485	399	433	438	467	472
Income and other taxes payable	932	955	831	485	485	485	485	485
Dividends payable	321	325	320	315	335	396	426	842
Deferred revenue	1,010	750	631	87	42	155	120	56
Total current liabilities	3,351	2,868	2,267	1,286	1,295	1,474	1,498	1,855
Subordinated debentures	—	—	—	—	2,000	—	—	—
	3,351	2,868	2,267	1,286	3,295	1,474	1,498	1,855
Shareholders' equity								
Capital stock and contributed surplus	27,652	27,652	24,292	24,292	27,792	29,792	29,792	29,792
Retained earnings (deficit)	(5,778)	(7,013)	(4,915)	(5,231)	(3,411)	(2,370)	(2,235)	1,088
Total shareholders' equity	21,874	20,639	19,377	19,061	24,381	27,422	27,557	30,880
	25,225	23,507	21,644	20,347	27,676	28,896	29,055	32,735

Supplementary Information
Homeserve Technologies Inc.
Consolidated Statement of Retained Earnings (Deficit)

	As at May 31, 2003	As at Aug. 31, 2003	As at Nov. 30, 2003	As at Feb. 29, 2004	As at May 31, 2004	As at Aug. 31, 2004	As at Nov. 30, 2004	As at Feb. 28, 2005
<i>(\$ thousands, unaudited)</i>								
Net income (loss) for the three-month period	(1,018)	(754)	(785)	163	2,317	1,577	687	4,265
Preferred share dividends	(483)	(481)	(477)	(479)	(497)	(536)	(552)	(942)
Reduction of stated capital	—	—	3,360	—	—	—	—	—
Change in period	(1,501)	(1,235)	2,098	(316)	1,820	1,041	135	3,323
Deficit, beginning of the period	(4,277)	(5,778)	(7,013)	(4,915)	(5,231)	(3,411)	(2,370)	(2,235)
Retained earnings (deficit), end of period	(5,778)	(7,013)	(4,915)	(5,231)	(3,411)	(2,370)	(2,235)	1,088

Supplementary Information
Homeserve Technologies Inc.
Condensed Consolidated Statements of Income (Loss)

	Three months ended May 31, 2003	Six months ended Aug. 31, 2003	Nine months ended Nov. 30, 2003	Twelve months ended Feb. 29, 2004	Three months ended May 31, 2004	Six months ended Aug. 31, 2004	Nine months ended Nov. 30, 2003	Twelve months ended Feb. 28, 2005
<i>(\$ thousands, except per share amounts, unaudited)</i>	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)
Sales	718	1,264	1,415	2,002	2,461	5,001	6,562	8,608
Cost of sales	323	547	588	586	—	—	—	—
Gross profit	395	717	827	1,416	2,461	5,001	6,562	8,608
Operating costs								
Selling, general and administration	1,130	1,908	2,580	2,651	503	1,257	1,859	2,534
Severance and other costs	37	122	122	258	—	—	—	—
	1,167	2,030	2,702	2,909	503	1,257	1,859	2,534
Income (loss) from operations before undernoted	(772)	(1,313)	(1,875)	(1,493)	1,958	3,744	4,703	6,074
Investment income	149	356	558	752	181	394	671	936
Gain on sale of investments	—	—	—	—	663	809	809	809
Interest expense	—	—	—	—	(10)	(19)	(19)	(19)
Amortization of property, plant and equipment and intangible assets	(395)	(815)	(1,240)	(1,653)	(475)	(1,034)	(1,583)	(2,154)
Net income (loss) for the period before income taxes	(1,018)	(1,772)	(2,557)	(2,394)	2,317	3,894	4,581	5,646
Income tax recovery	—	—	—	—	—	—	—	3,200
Net income (loss) for the period	(1,018)	(1,772)	(2,557)	(2,394)	2,317	3,894	4,581	8,846
Basic earnings (loss) per common share	(0.44)	(0.79)	(1.16)	(1.25)	0.53	0.83	0.87	1.83
Diluted earnings (loss) per common share	(0.44)	(0.79)	(1.16)	(1.25)	0.35	0.48	0.48	0.99

Supplementary Information
Homeserve Technologies Inc.
Condensed Consolidated Statements of Net Income (Loss)

	Three months ended May 31, 2003	Three months ended Aug. 31, 2003	Three months ended Nov. 30, 2003	Three months ended Feb. 29, 2004	Three months ended May 31, 2004	Three months ended Aug. 31, 2004	Three months ended Nov. 30, 2004	Three months ended Feb. 28, 2005
<i>(\$ thousands, except per share amounts, unaudited)</i>	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)
Sales	718	546	151	589	2,461	2,540	1,561	2,046
Cost of sales	323	224	41	—	—	—	—	—
Gross profit	395	322	110	589	2,461	2,540	1,561	2,046
Operating costs								
Selling, general and administration	1,130	778	672	71	503	754	602	676
Severance and other costs	37	85	—	136	—	—	—	—
	1,167	863	672	207	503	754	602	676
Income (loss) from continuing operations before undernoted	(772)	(541)	(562)	382	1,958	1,786	959	1,370
Investment income	149	207	202	194	181	213	277	266
Gain on sale of investments	—	—	—	—	663	146	—	—
Interest expense	—	—	—	—	(10)	(9)	—	—
Amortization of property, plant and equipment and intangible assets	(395)	(420)	(425)	(413)	(475)	(559)	(549)	(571)
Net income (loss) for the period before income taxes	(1,018)	(754)	(785)	163	2,317	1,577	687	1,065
Income tax recovery	—	—	—	—	—	—	—	3,200
Net income (loss) for the period	(1,018)	(754)	(785)	163	2,317	1,577	687	4,265
Basic earnings (loss) per common share	(0.44)	(0.36)	(0.37)	(0.09)	0.53	0.30	0.04	0.96
Diluted earnings (loss) per common share	(0.44)	(0.36)	(0.37)	(0.09)	0.35	0.15	0.02	0.48

Supplementary Information
Homeserve Technologies Inc.
Condensed Statement of Cash Flows

	Three months ended May 31, 2003	Three months ended Aug. 31, 2003	Three months ended Nov. 30, 2003	Three months ended Feb. 29, 2004	Three months ended May 31, 2004	Three months ended Aug. 31, 2004	Three months ended Nov. 30, 2004	Three months ended Feb. 28, 2005
<i>(\$ thousands, unaudited)</i>	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)
OPERATING ACTIVITIES								
Net income (loss) for the period	(1,018)	(754)	(785)	163	2,317	1,577	687	4,265
Add (deduct) items not affecting cash	395	420	425	556	(164)	426	560	(2,625)
Net change in non-cash working capital balances	(118)	(779)	(252)	(990)	(1,310)	1,247	199	(904)
Cash provided by (used in) operating activities	(741)	(1,113)	(612)	(271)	843	3,250	1,446	736
FINANCING ACTIVITIES								
Payment of preferred dividends	(472)	(477)	(482)	(484)	(477)	(476)	(522)	(525)
Cash used in financing activities	(472)	(477)	(482)	(484)	(477)	(476)	(522)	(525)
INVESTING ACTIVITIES								
Sale (purchase) of short-term investments	—	—	572	572	330	812	(3,000)	1
Other	(214)	(9)	—	145	11	(532)	(7)	348
Cash provided by (used in) investing activities	(214)	(9)	572	717	341	280	(3,007)	349
Increase (decrease) in cash from operations, during the period	(1,427)	(1,599)	(522)	(38)	707	3,054	(2,083)	560
Cash and cash equivalents, beginning of period	4,062	2,635	1,036	514	476	1,183	4,237	2,154
Cash and cash equivalents, end of period	2,635	1,036	514	476	1,183	4,237	2,154	2,714

Supplementary Information
Homeserve Technologies Inc.
Condensed Consolidated Segmented Information
Contribution Margin

	Three months ended May 31, 2003	Three months ended Aug. 31, 2003	Three months ended Nov. 30, 2003	Three months ended Feb. 29, 2004	Three months ended May 31, 2004	Three months ended Aug. 31, 2004	Three months ended Nov. 30, 2004	Three months ended Feb. 28, 2005
	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)
<i>(\$ thousands, unaudited)</i>								
Segmented information								
Software development and licensing								
Revenue	576	409	76	524	—	9	—	22
Cost of sales	(316)	(222)	(41)	—	—	—	—	—
Operating costs	—	(49)	(62)	(69)	(69)	(74)	(39)	(52)
	260	138	(27)	455	(69)	(65)	(39)	(30)
ICON development and licensing								
Revenue	—	—	—	—	2,402	2,469	1,509	1,973
Operating costs	—	—	—	—	(74)	(260)	(205)	(257)
	—	—	—	—	2,328	2,209	1,304	1,716
Home-Link operations								
Revenue	142	137	75	63	59	62	53	51
Cost of sales	(7)	(2)	—	2	—	—	—	—
Operating costs	(909)	(674)	(493)	(356)	(232)	(236)	(210)	(177)
	(774)	(539)	(418)	(291)	(173)	(174)	(157)	(126)
Other								
General and administration	(85)	(55)	(117)	218	(128)	(184)	(148)	(190)
Severance and other	(173)	(85)	—	—	—	—	—	—
	(258)	(140)	(117)	218	(128)	(184)	(148)	(109)
Contribution margin								
Revenue	718	546	151	587	2,461	2,540	1,562	2,046
Cost of sales	(323)	(224)	(41)	2	—	—	—	—
Operating costs	(1,167)	(863)	(672)	(207)	(503)	(754)	(602)	(676)
	(772)	(541)	(562)	382	1,958	1,786	(960)	1,370

Consolidated Financial Statements

Homeserve Technologies Inc.

February 28, 2005

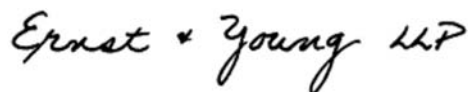
AUDITORS' REPORT

To the Shareholders of
Homeserve Technologies Inc.

We have audited the consolidated balance sheets of **Homeserve Technologies Inc.** as at February 28, 2005 and February 29, 2004 and the consolidated statements of income (loss) and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 February 28, 2005 and February 29, 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Toronto, Canada,
May 6, 2005.

Chartered Accountants

HOMESERVE TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS

<i>(\$ thousands)</i>	As at February 28, 2005	As at February 29, 2004
ASSETS		
Current		
Cash	2,714	476
Short-term investments <i>[note 13]</i>	16,986	14,372
Accounts receivable <i>[note 14]</i>	1,400	634
Prepaid expenses and other assets	78	402
Future tax assets <i>[note 11]</i>	2,660	—
Total current assets	23,838	15,884
Future tax assets <i>[note 11]</i>	540	—
Property, plant and equipment, net <i>[note 5]</i>	124	307
Intangible assets, net <i>[note 6]</i>	8,233	4,156
	32,735	20,347
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities <i>[notes 7 and 14]</i>	472	399
Income and other taxes payable	485	485
Dividends payable <i>[note 14]</i>	842	315
Deferred revenue <i>[note 14]</i>	56	87
Total current liabilities	1,855	1,286
<i>Commitments and contingencies [notes 12 and 17]</i>		
Shareholders' equity		
Capital stock <i>[note 9]</i>	29,792	24,292
Retained earnings (deficit)	1,088	(5,231)
Total shareholders' equity	30,880	19,061
	32,735	20,347

See accompanying notes

On behalf of the Board:



Director - James B. Dunbar



Director - Joseph S. Freedman

HOMESERVE TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)

	Year ended February 28 2005	Year ended February 29 2004
<i>(\$ thousands, except per common share amounts)</i>		
Sales <i>[note 14]</i>	8,608	2,002
Cost of sales	—	586
Gross profit	8,608	1,416
Operating expenses		
Selling, general and administrative <i>[note 14]</i>	2,534	2,651
Severance and other costs <i>[note 7]</i>	—	258
	2,534	2,909
Income (loss) from operations before the undernoted	6,074	(1,493)
Investment income	936	752
Gain on sale of short-term investments	809	—
Amortization of property, plant and equipment <i>[note 5]</i>	(235)	(476)
Amortization of intangible assets <i>[note 6]</i>	(1,919)	(1,177)
Interest expense	(19)	—
Income (loss) from operations before income taxes	5,646	(2,394)
Recovery of income taxes <i>[note 11]</i>	3,200	—
Net income (loss) for the year	8,846	(2,394)
Deficit, beginning of year	(5,231)	(4,277)
Preferred share dividends <i>[note 14]</i>	(2,527)	(1,920)
Reduction of stated capital <i>[note 9]</i>	—	3,360
Retained earnings (deficit), end of year	1,088	(5,231)
Basic earnings (loss) per common share <i>[note 9]</i>	\$1.83	\$(1.25)
Diluted earnings (loss) per common share <i>[note 9]</i>	\$0.99	\$(1.25)

See accompanying notes

HOMESERVE TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(\$ thousands)</i>	Year ended February 28 2005	Year ended February 29 2004
OPERATING ACTIVITIES		
Net income (loss) for the year	8,846	(2,394)
Add (deduct) items not affecting cash		
Amortization of bond premium	52	143
Amortization of property, plant and equipment	235	476
Amortization of intangible assets	1,919	1,177
Recovery of income taxes	(3,200)	—
Gain on sale of short-term investments	(809)	—
	7,043	(598)
Net change in non-cash working capital balances related to operations <i>[note 16]</i>	(768)	(2,139)
Cash provided by (used in) operating activities	6,275	(2,737)
FINANCING ACTIVITIES		
Payment of preferred share dividends	(2,000)	(1,915)
Cash used in financing activities	(2,000)	(1,915)
INVESTING ACTIVITIES		
Sale (purchase) of short-term investments	(1,857)	1,144
Acquisition of property, plant and equipment	(13)	(12)
Disposal of property, plant and equipment	15	123
Acquisition of intangible assets	(182)	(189)
Cash, provided by (used in) investing activities	(2,037)	1,066
Net increase (decrease) in cash during the year	2,238	(3,586)
Cash, beginning of year	476	4,062
Cash, end of year	2,714	476
Supplemental cash flow information		
Income taxes paid	—	65
Interest income received	936	752
Interest expense paid	19	—

See accompanying notes

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2005

1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Homeserve Technologies Inc. ("Homeserve" or the "Company") is a technology company focused on the development and application of proprietary software solutions comprised of, transaction fee-based services, licensing fee-based software solutions and consulting fee-based software development and support activities. Homeserve's largest shareholder and customer, which owns 48% of the common shares and all of the preferred shares of the Company, is Brascan Corporation operating through certain subsidiaries as Centract Residential Property Services ("Centract"), its residential real estate services division.

As at February 28, 2005, the Company operates in four reportable segments, ICON, Home-Link, Software Development and Licensing and General and Administration. ICON is a customizable software application that manages all aspects of a residential home relocation service. The Company earns licensing fees by providing a license to use this software to companies in the business of managing residential relocations. Home-Link revenues are generated from service fees, transaction fees, and marketing fees. Software Development and Licensing revenues are generated from software licensing and royalty fees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian GAAP. Significant accounting policies are summarized as follows:

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Home-Link Services Canada Ltd. ("Home-Link"). On consolidation, all inter-company transactions and balances have been eliminated. Subsequent to year end on March 1, 2005, the Company and Home-Link were amalgamated and continued as Homeserve Technologies Inc.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates made by management include reserves for uncollectible accounts, write-down of property, plant and equipment, impairment of intangible assets, recorded values of accrued liabilities and future tax assets. Actual results could differ from those estimates.

Short-term investments

Short-term investments consist of bonds and are carried at the lower of amortized cost or market. Amortized cost provides for amortization of discount or premium on a yield to maturity basis.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the following periods:

Computer equipment and software	3 years
Furniture and office equipment	5 years
Telephone equipment	5 years
Leasehold improvements	over term of the lease

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2005

Management reviews the carrying value of property, plant and equipment on a periodic basis to determine if an impairment in value has occurred. The Company measures any potential impairment by comparing the carrying value to the undiscounted amounts of expected future cash flows. Any impairment in the carrying value of property, plant and equipment is charged to the consolidated statements of income (loss) in the period such impairment is determined.

Intangible assets subject to amortization

Intangible assets subject to amortization are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the following periods:

ICON system	7 years
Licensing fees and other costs	5 years
CRM system	7 years

Impairment of long-lived assets

The Company reviews long-lived assets such as property, plant and equipment and intangible assets subject to amortization whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When indicators of impairment of the carrying value of the assets exist, and the carrying value is greater than the net recoverable value, an impairment loss is recognized to the extent that the fair value is below the carrying value.

Revenue recognition

ICON software and development

The Company recognizes ICON licensing revenue on a per transaction basis at the time a new file is opened on the ICON system. A new file represents a new relocation transferee or new asset recovery file opened by a client of the Company. Recognition of revenue by the Company is not affected by the agreement between the relocation company, which has a license to use ICON, and the client for which the relocation service is being performed.

The Company recognizes ICON consulting revenue over the term of the software development contracts based on an appropriate measure of the percentage of the contract that has been completed.

Home-Link

Service fees

Upon signing of a contract with the Company, the broker is obligated to pay a service fee. In most circumstances, the service fee is based on the number of residential real estate home sale transactions for the immediately prior fiscal year or 12-month period of the broker. In these cases, the service fees are recognized on a straight-line basis over the term of the contract. In other cases, the fee is based on the number of customers the broker enters into the Company's system. In these cases, the revenue is recognized over the term of the contract which approximates the service delivery period.

Transaction fees

Transaction fees of a fixed amount or as a percentage of gross revenue are charged to suppliers who provide services to customers through the Company's service offering. The Company recognizes its share of these fees upon completion of the service to the customer.

Marketing fees

The Company earns fees annually from suppliers for the provision of access to the Company's service. This revenue is recognized on a straight-line basis over the term of the contract.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2005

Software Development and Licensing

The Company recognizes revenue over the term of the software development contract based on an appropriate measure of the percentage of the contract which has been completed. Royalty and licensing fees are recognized as earned, based on notification from the licensee that the sale has occurred.

Income taxes

Under the liability method of tax allocation, future tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the year in which the future tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that the future income tax assets will not be realized.

Stock-based compensation plan

The Company has a stock option plan, which is described in note 10. Compensation expense is recognized for the plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to capital stock.

Earnings (loss) per share

Earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share reflects the dilution that would occur if Series D preferred shares were converted to Non-Voting Common shares and the dilution that would occur if outstanding stock options and share purchase warrants were exercised or converted into common shares using the treasury stock method.

3. ACQUISITIONS

2005 activities

Acquisition of ICON

On April 13, 2004, the Company acquired Contract's interest in its ICON software and entered into licensing, premises lease and employment arrangements with the Company for potential consideration of \$24 million comprised of:

- A \$2.0 million debenture bearing interest at prime, payable quarterly in arrears, maturing in five years. The debenture is repayable by the Company at any time and is convertible at any time at the option of the holder into one Series B preferred share for each \$1.00 of debenture principal outstanding. The debenture was converted to 2,000,000 Series B preferred shares on July 12, 2004; plus
- \$3.5 million paid by the issuance of 3,500,000 Series D preferred shares with a non-cumulative annual dividend of 3.5% and conversion option to Non-Voting Common shares of the Company (see Note 9 Capital stock); plus
- An earn-out option which provides for issuances of up to 18,500,000 Series C preferred shares at \$1.00 per share with a cumulative quarterly dividend of 2.5% and a cumulative aggregate preferential annual participation dividend of 9.25% of pre-defined consolidated pre-tax income of the Company (see Note 9 Capital stock); plus
- An increase in the Series B preferred share cumulative aggregate preferential annual participation dividend from 10% to 11% of pre-defined consolidated pre-tax income of the Company based on the weighted average number of Series B preferred shares outstanding divided by 22,000,000. The weighted average number of Series B preferred shares outstanding during the 12 months ended February 28, 2005 was 21,265,753. As at February 28, 2005 there are 22,000,000 (2004 – 20,000,000) Series B preferred shares outstanding as a result of the conversion of the Company's \$2.0 million debenture to 2,000,000 Series B preferred shares on July 12, 2004.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2005

The initial ICON purchase price consideration was \$6.0 million and was comprised of \$5.5 million of intangible assets and property, plant and equipment as summarized below and \$0.5 million in legal, valuation, accounting and shareholder communication costs associated with the transaction.

	(\$)
Assets acquired	
Intangible assets	5,446
Property, plant and equipment	54
	<u>5,500</u>
Consideration provided	
Convertible debenture	2,000
Series D preferred shares	3,500
	<u>5,500</u>

The ICON licensing arrangements are comprised of the following two licenses (fee per file not in thousands):

1. A seven-year transferable and renewable license with Centract or its designee for the exclusive use of the ICON software in the North American relocation market for which Centract will pay the Company a license fee equal to: (i) \$500 per file for the first 10,000 files opened in any calendar year, (ii) \$400 per file opened for the next 10,000 files in any calendar year, and (iii) \$250 per file opened in excess of 20,000 files in any calendar year. The license agreement commenced on April 13, 2004 with an initial term to March 31, 2011 with successive two-year renewal terms. On renewal, the license fee during such renewal period will be equal to the lower of \$200 per file opened or the lowest fee charged by the Company to any licensee from whom the Company generates annual license fees in excess of \$500. During the 12 months ended February 28, 2005, the Company earned \$7,911 in ICON licensing fees on 16,559 files opened.

As part of the licensing agreement, Centract is to receive at no additional cost, maintenance and technological support and normal course upgrades. Any development upgrades or modifications are provided to Centract at cost plus 20%. During the 12 months ended February 28, 2005, the Company earned \$330 in consulting revenue from development upgrades and modifications.

2. A five-year, non-transferable license with Asset Recovery, a division of Centract, which currently uses the modules of ICON in exchange for a monthly license fee equal to \$50 per administrative file and \$100 per home sale file. The license agreement commenced on April 13, 2004 with an initial term to March 31, 2009 with successive two-year renewal terms. During the 12 months ended February 28, 2005, the Company earned \$112 in asset recovery licensing fees on 1,911 files opened.

As outlined above under the terms of the agreement to purchase ICON, the Company will issue one Series C preferred share at a par value of \$1.00 per share with a cumulative quarterly dividend of 2.5% and cumulative aggregate preferential annual participation dividend of 9.25% of pre-defined consolidated pre-tax income of the Company. For the 12-month period ended February 28, 2005, the Company earned \$8,023 in licensing revenue from Centract and accordingly, \$23 of Series C preferred shares will be issued subsequent to year end.

2004 activities

Acquisition of Home-Link license

On April 24, 2003, Home-Link announced that the U.S. licensor of its CARE II software, which had applied for protection under Chapter 11 of the Federal Bankruptcy Act in the United States, had been purchased by HomeCard Company, Inc. (“HomeCard”).

HomeCard has granted to Home-Link an exclusive, royalty-free, irrevocable, perpetual, sub-licensable, transferable license for use in Canada of the CARE II software (the “New License”) and assigned to Home-Link all Canadian Home-Link trademarks

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2005

acquired by HomeCard (the “Trademark Assignment”). In consideration of the grant of the New License, the Trademark Assignment and a release of all previous obligations, including the original CARE II software license, Home-Link paid to HomeCard the sum of US\$100. Under the original license agreement, Home-Link was obligated to pay the greater of (i) 5% of its annual revenue and (ii) US\$200 in annual license fees plus US\$20 in annual maintenance fees, until September 2010. The purchase price was recorded as a licensing fee and is being amortized over a five-year period. Also included as part of the purchase price is \$47 of professional fees associated with the acquisition.

4. SEGMENTED REPORTING

General description

The Company operates in four reportable operating segments, ICON, Home-Link, Software Development and Licensing and General and Administration.

ICON is a customizable software application that manages all aspects of a residential home relocation service. Software Development and Licensing includes the Company’s co-ownership of the CALMS software solution and the ongoing development and application of proprietary software solutions. Home-Link provides services to buyers and sellers throughout the home purchasing and selling cycle through a proprietary software solution. General and administration provides support to the three reporting segments, and manages the Company’s public reporting, compliance and investment activities.

The Company’s President and Chief Executive Officer (“CEO”) has been identified as the chief operating decision maker in assessing the performance of the segments and the allocation of resources to the segments. Each reportable segment is managed separately with each segment manager reporting directly to the CEO. Contribution margin represents the primary financial measure used by the CEO in assessing performance and allocating resources, and includes cost of sales, and selling, general and administrative expenses, for which the segment managers are held accountable. In addition, the CEO does not review asset information on a segmented basis in order to assess performance and allocate resources.

	Year ended February 28 2005	Year ended February 29 2004
Sales		
ICON	8,353	—
Home-Link	225	417
Software Development and Licensing	30	1,585
Total	8,608	2,002
Contribution margin		
ICON	7,557	—
Home-Link	(630)	(2,280)
Software Development and Licensing	(203)	826
General and Administration	(650)	(39)
	6,074	(1,493)
Investment income	936	752
Gain on sale of short-term investments	809	—
Amortization of property, plant and equipment	(235)	(476)
Amortization of intangible assets	(1,919)	(1,177)
Interest expense	(19)	—
Income (loss) from operations before income taxes	5,646	(2,394)

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2005

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

(\$)	February 28, 2005			February 29, 2004		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Computer equipment and software	760	735	25	753	646	107
Furniture and office equipment	254	220	34	209	196	13
Telephone equipment	210	178	32	210	75	135
Leasehold improvements	78	45	33	78	26	52
	1,302	1,178	124	1,250	943	307

During the year, amortization of \$235 (February 29, 2004 – \$476) was charged to the consolidated statements of income (loss).

6. INTANGIBLE ASSETS

Intangible assets consist of the following:

(\$)	February 28, 2005			February 29, 2004		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Licensing fees and other costs	569	253	316	569	141	428
CRM system	5,130	2,428	2,702	5,130	1,402	3,728
ICON system	5,996	781	5,215	—	—	—
	11,695	3,462	8,233	5,699	1,543	4,156

During the year, amortization expense totalled \$1,919 (February 29, 2004 – \$1,177).

7. SEVERANCE AND OTHER COSTS

Severance and other costs included in accounts payable and accrued liabilities consist of the following:

(\$)	February 28 2005	February 29 2004
Severance and other costs	—	71

There were no amounts expensed to severance and other costs during the year ended February 28, 2005 (2004 – \$258).

8. CONVERTIBLE DEBENTURE

As partial consideration for the purchase of ICON, the Company issued to Centract a convertible debenture in the principal amount of \$2 million, bearing interest at prime, payable quarterly in arrears, and maturing five years from April 13, 2004 with certain conversion rights and options.

On July 12, 2004, Centract exercised its conversion option and converted the debenture to 2,000,000 Series B preferred shares.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2005

9. CAPITAL STOCK

Capital stock consists of the following:

(\$)	February 28 2005	February 29 2004
Authorized		
Unlimited preference shares issued in series		
Unlimited common shares		
Issued		
1,280,000 Series A preferred shares	1,280	1,280
22,000,000 Series B preferred shares	22,000	20,000
3,500,000 Series D preferred shares	3,500	—
3,443,687 Common shares	3,012	3,012
	29,792	24,292

	Number of shares (in thousands)	Amount \$
Series A preferred shares		
Balance, February 29, 2004 and February 28, 2005	1,280	1,280
Series B preferred shares		
Balance, February 29, 2004	20,000	20,000
Issued on acquisition of conversion of debenture (note 8)	2,000	2,000
Balance, February 28, 2005	22,000	22,000
Series D preferred shares		
Balance, February 29, 2004	—	—
Issued on acquisition of ICON	3,500	3,500
Balance, February 28, 2005	3,500	3,500

The Series A preferred shares and Series B preferred shares are non-convertible, non-voting and redeemable by the Company for \$1.00 per share after December 1, 2004. In the event of a liquidation, dissolution or wind-up of the Company, the holders of the Series A and Series B preferred shares shall be entitled to receive, before any distribution of any part of the assets of the Company among the holders of the common shares, the sum of \$1.00 per Series A and B preferred share and no more.

The holder of the Series A preferred shares, Series B preferred shares is entitled to receive, if declared by the Board of Directors of the Company, a fixed preferential cumulative quarterly dividend of 2.25% of the redemption value of the Series A preferred shares and Series B preferred shares.

The holder of the Series A preferred shares is also entitled to receive a cumulative aggregate preferential annual participation dividend of 0.64% of the Company's annual consolidated net income before tax calculated in accordance with Canadian GAAP, less a fixed preferential cumulative quarterly dividend of 2.25% noted above, with the first such annual dividend accruing for the year ended February 28, 2003. Annual Series A participation dividend declared for the year ended February 28, 2005 was \$23 (2004 – nil).

The holder of the Series B preferred shares is also entitled to receive a cumulative aggregate preferential annual participation dividend of up to 11% of the Company's annual consolidated net income before tax calculated in accordance with Canadian

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2005

GAAP, less a fixed preferential cumulative quarterly dividend of 2.25% noted above, with the first such annual dividend accruing for the year ended February 28, 2003. Annual Series B participation dividend declared for the year ended February 28, 2005 was \$374 (2004 - nil).

Provided the Company has previously redeemed the Series A preferred shares and Series B preferred shares, the Company may redeem the Series D preferred shares at any time after December 1, 2005 upon payment of \$1.00 for each share redeemed.

The Series D preferred shares will entitle the holder thereof to receive, if declared by the Board of Directors, a fixed preferential non-cumulative annual dividend of 3.50% of the redemption value of the Series D preferred shares payable at the discretion of the Board of Directors with such dividend payable (if declared) on the last day of February in each year.

The holder of the Series D preferred shares shall have the right, exercisable at any time and from time to time to convert each Series D preferred share into one Non-Voting Common share, subject to adjustment. The Series D preferred shares shall automatically convert into Non-Voting Common shares on the basis of one Series D preferred shares into one Non-Voting Common share in the event that the Cumulative Net Income ("CNI") of the Company exceeds \$12,000,000, where CNI means the cumulative consolidated net income before tax of the Company calculated in accordance with GAAP since April 12, 2004. Provided the Company has previously redeemed the Series A preferred shares and the Series B preferred shares, the Company may redeem the Series D preferred shares at any time after December 1, 2005 upon payment of the sum of \$1.00 for each share to be redeemed. Upon receipt of a notice from the Company to redeem all or any portion of the Series D preferred shares, the holder of each Series D preferred share shall have the right, exercisable at any time not less than five days prior to such redemption date, to convert such number of Series D preferred shares as are subject to the redemption notice. CNI as at February 28, 2005 was \$4,625.

	Number of shares <i>(in thousands)</i>	Amount \$
Common shares		
Balance, February 28, 2003	86,092,184	5,455
Reduction of stated capital	—	(2,443)
Share consolidation	(82,648,97)	—
Balance, February 29, 2004 and February 28, 2005	3,443,687	3,012

The Common shares have no par value and entitle the holder to one vote per common share held.

Stated capital reduction

On September 5, 2003, a special resolution was passed by shareholders approving a share consolidation. Accordingly the number of Common shares was consolidated on the basis of one new Common share for each 25 Common shares then currently issued or authorized.

On September 5, 2003, a special resolution was passed by the shareholders of the Company to reduce the deficit of the Company by \$3,360 at February 29, 2004 by reducing the stated capital by \$2,443 and contributed surplus by \$917. This deficit was accumulated in connection with the Company's historical operations and did not relate to the Company's then current business mandate.

Earnings (loss) per share

Basic and diluted earnings (loss) per share has been calculated using the weighted average number of Common shares outstanding of 3,443,687 for both the 12 months ended February 28, 2005 and February 29, 2004. Diluted loss per share for 12 months ended February 28, 2005 was calculated using the weighted average number of Common shares outstanding of 6,512,180 to take into effect the conversion of Series D preferred shares into Non-Voting Common shares on April 12, 2005. There was no diluted loss per share for 12 months ended February 29, 2004 as the effect of potentially dilutive stock options is anti-dilutive.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2005

(\$)	Year ended February 28 2005	Year ended February 29 2004
Net income (loss)	8,846	(2,394)
Dividends paid on preferred shares	(2,527)	(1,920)
Basic earnings (loss) available to common shareholders	6,319	(4,314)
Adjustment to net income (loss) on conversion of Series D preferred shares	107	—
Diluted earnings (loss) available to common shareholders	6,426	(4,314)

10. STOCK-BASED COMPENSATION

Effective March 1, 2002 the Company adopted The Canadian Institute of Chartered Accountants' Handbook Section 3870, "Stock-based Compensation and Other Stock-Based Payments" ("CICA 3870"). As permitted by CICA 3870, the Company has applied this change prospectively for new awards granted on or after March 1, 2002. The Company recognizes compensation expense when stock options are granted to employees and directors under stock option plans with no cash settlement features. Direct awards of stock to employees and stock and stock option awards granted to non-employees have been accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock is determined by the quoted market price of the Company's stock and the fair value of stock options is determined using the Black-Scholes option pricing model. In periods prior to March 1, 2002, the Company recognized no compensation when stock or stock options were issued to employees.

For the years ended February 28, 2005 and February 29, 2004, the Company did not grant any options under its stock-based compensation plan. As a result, the fair market value method of valuing stock-based compensation plans, applied prospectively in accordance with CICA 3870, resulted in no compensation charge.

Pursuant to a plan authorized by the directors on April 1, 1996, as amended, options were granted to directors, officers, employees and other service providers, entitling the holders to purchase an aggregate of 330,000 common shares from treasury, exercisable at a price equal to or greater than the market price on the day preceding the date of grant. Each set of options vests under circumstances as described below.

As a result of the divestiture and sale of substantially all of the Company's previous operating business units, all of the stock options outstanding under both the fixed and performance-based programs expired in fiscal 2004.

Fixed options

These options vest over a three-year period, commencing on the first anniversary of the date of grant and expire on or before the tenth anniversary of the date of grant. A summary of the changes in the Company's option plan for the years ended February 28, 2005 and February 29, 2004 is as follows:

	February 28, 2005		February 29, 2004	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Balance, beginning of year	—	—	755,969	2.94
Granted	—	—	—	—
Cancelled	—	—	(755,969)	2.94
Balance, end of year	—	—	—	—
Exercisable, end of year	—	—	—	—

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2005

11. INCOME TAXES

Total income tax expense varies from the amount that would be computed by applying the statutory income tax rate to the income (loss) from operations before income taxes for the following reasons:

(\$)	Year ended February 28 2005	Year ended February 29 2004
Statutory income tax rate	36.12%	36.5%
Income tax expense (recovery) based on the income (loss) from operations before income taxes	2,039	(875)
Permanent differences	1	19
Non-capital losses not recognized during the year	343	1,419
Future tax assets not previously recognized for accounting	(5,583)	(563)
Recovery of income taxes	(3,200)	—

Significant components of the Company's future tax assets as at February 28, 2005 and February 29, 2004 are as follows:

(\$)	February 28 2005	February 29 2004
Future tax assets		
Tax loss carryforwards	23,308	21,194
Tax asset values in excess of accounting values	4,578	8,906
	27,886	30,100
Less valuation allowance	24,686	30,100
Net future tax assets	3,200	—

The Company has recognized future tax assets of \$3,200 based on the current estimate of taxable income that will be available in the future loss carryforward periods.

As at February 28, 2005, the Company has approximately \$25,291 in federal and provincial capital losses. In addition, the Company has federal non-capital tax losses of \$48,973 and \$56,443 in provincial non-capital tax losses. Capital losses can be carried forward indefinitely and used by the Company to offset any future capital gains. Non-capital losses may be carried forward to reduce future years' taxable income. These non-capital tax losses expire as follows:

(\$)	Federal	Provincial
2007	2	2
2008	17,222	17,222
2009	16,144	16,144
2010	10,446	17,916
Thereafter	5,159	5,159
	48,973	56,443

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2005

12. LEASE COMMITMENTS

The future minimum annual lease payments under operating leases for premises and office equipment are as follows:

	(\$)
2006	76
2007	46
2008	41
2009	41
2010	41
	245

13. FINANCIAL INSTRUMENTS

Fair values

The carrying values reported in the consolidated balance sheets for accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments. The fair value of the short-term investments, which are comprised of high-grade securities, is \$17,662.

Interest rate and credit risk

The yield to maturity of the bonds ranges from 6% to 8% and the maturity dates of the high-grade securities range from two to nine years.

The Company mitigates its exposure to interest rate and credit risk by restricting investments to high-grade securities and limiting the amount of investment in any single security to 20% of the Company's total investment portfolio.

14. RELATED PARTY TRANSACTIONS

The Company had the following transactions with a related party of a significant shareholder in the Company. The related party became a significant shareholder in fiscal 2003 as a result of exchanging 100% ownership of Home-Link for 1,652,906 common shares and 1,280,000 Series A preferred shares of the Company. In addition, during fiscal 2003 the shareholder also subscribed for 20,000,000 Series B preferred shares for cash proceeds of \$20 million. These transactions have been recorded at the exchange amount, which is the amount agreed to between the parties except where otherwise noted.

(\$)	Year ended February 28 2005	Year ended February 29 2004
Sales	8,513	1,727
Expenses		
Management fee and cost reimbursement	576	433
Rent	105	122
Dividends declared	2,527	1,920
Sale of property, plant and equipment	15	123

As at February 28, 2005, the Company had accounts receivable of \$1,035 (2004 – nil), dividends payable of \$842 (2004 – \$315), accounts payable of \$166 (2004 – \$124) and deferred revenue of \$56 (2004 – \$87) due to related parties.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2005

15. ECONOMIC DEPENDENCE

For the 12 months ended February 28, 2005 the Company derived \$8,513 or 99% of its sales from Contract.

16. CONSOLIDATED STATEMENTS OF CASH FLOWS

Non-cash working capital balances

The net change in non-cash working capital balances related to operations consists of the following:

(\$)	Year ended February 28 2005	Year ended February 29 2004
Accounts receivable	(766)	26
Prepaid expenses and other assets	(44)	(31)
Accounts payable and accrued liabilities	73	(122)
Income and other taxes payable	—	(425)
Deferred revenue	(31)	(1,587)
	(768)	(2,139)

Supplemental cash flow information

The consolidated statements of cash flows exclude the following non-cash transactions:

(\$)	Year ended February 28 2005	Year ended February 29 2004
Supplemental disclosure of non-cash financing activities		
Preferred shares issued in connection with acquisition of ICON	5,500	—

17. CONTINGENCIES

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers and suppliers. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the potential costs and losses, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the financial position of the Company.

18. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 consolidated financial statements.

19. SUBSEQUENT EVENT

Subsequent to year end, on March 1, 2005 Homeserve and its wholly-owned subsidiary Home-Link were amalgamated and continued as Homeserve Technologies Inc.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Joseph S. Freedman
Chairman of the Board,
Homeserve Technologies Inc.

James B. Dunbar
President &
Chief Executive Officer
Homeserve Technologies Inc.

Lawrence Davis

Jason D. Meretsky

Donald W. Paterson

SENIOR MANAGEMENT

James B. Dunbar
President &
Chief Executive Officer

Kevin Cash
Chief Financial Officer

Max M. Cohen
General Counsel & Secretary

CORPORATE HEADQUARTERS

39 Wynford Drive
4th Floor
Toronto, Ontario
M3C 3K5

Tel: (416) 386-6001
Fax: (416) 446-0050

www.homeserve.ca

AUDITORS

Ernst & Young LLP
222 Bay Street
Toronto, Ontario
M5K 1J7

REGISTRAR & TRANSFER AGENT

Computershare Investor Services
151 Front Street
8th Floor
Toronto, Ontario
M5J 2N1

STOCK LISTING

The Company's shares are currently
unlisted.

INVESTORS RELATIONS

Requests for a copy of the
Annual Report or additional
corporate materials should
be directed to:

Mansfield Communications Inc.
Attention: Eliza Walsh

Tel: (416) 599-0024
eliza@mcipr.com