2007 Annual Report

Message to Shareholders

INTRODUCTION

Homeserve Technology Inc. ("Homeserve") announced net income of $6.0 million for the year ended February 28, 2007 as compared to net income of $7.4 million for the year ended February 28, 2006. After the payment of preferred share dividends, income available to common shareholders was $0.02 per share and $0.80 per share, for Fiscal 2007 and Fiscal 2006, respectively. The most significant elements contributing to the $1.5 million year-over-year decrease in net income were $1.4 million in costs associated with the Aeromove program, a $1.9 million increase in intangible amortization resulting from additional consideration earned under terms of the ICON acquisition and a $0.3 million increase in income tax expense. Partially offsetting these amounts were a $0.5 million increase in contribution margin generated from the ICON operations due to increased file activities, a $0.3 million increase in investment income and a $1.0 million increase in the gains realized on the sale of certain holdings within the Company's investment portfolio.

ICON

In April 2004, the Company acquired Centract's Residential Property Service's ("Centract") ICON software and entered into licensing arrangements, among other matters with Centract. ICON is a customizable software application that manages all aspects of a residential home relocation. Centract uses ICON to manage the relocation requirements of approximately 24,000 new relocation files per year for approximately 400 of Canada's largest companies, the Department of National Defense, the RCMP and the Treasury Board of Canada.

During the year, ICON licensing and consulting activities generated $11.1 million in revenue from the relocation and asset recovery license agreements and consulting services, up 7% from 2006. The underlying relocation and asset recovery file activity was slightly ahead of management's expectations and ahead of prior year activity. Operating costs in the amount of $1.3 million were in line with management's expectations.

HOME-LINK OPERATIONS

Home-Link's move services offering continues to experience an overall decline in its operations. For the year ended February 28, 2007, Home-Link's operations generated a contribution margin loss of $0.2 million as compared to a contribution margin loss of $0.4 million for the same period of Fiscal 2006. The decrease in the overall loss of $0.2 million was due primarily to the downsizing of Home-Link's operations in response to a decline in current transaction volumes.

SOFTWARE DEVELOPMENT AND LICENSING INITIATIVES

We continue to actively engage a number of potential financial and retail clients in developing viable business applications for the use of our underlying CRM applications. For the year ended February 28, 2007, these operations generated a contribution margin loss of $1.7 million as compared to a contribution margin loss of $0.3 million for the same period of Fiscal 2006. This loss includes costs associated with the "Aeromove" program which was launched on February 26, 2007.

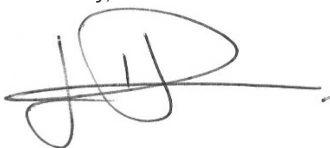
OUTLOOK

Homeserve is well positioned to be a leading technology and marketing services company in the home and move sector by leveraging its technology assets, relationships with related Brookfield companies in the Centract Residential Real Estate portfolio and through a strategic focus on marketing services in relevant sectors. In addition to Aeromove, we look to leveraging the move services platform by developing partnerships with other loyalty programs which seek to reach the Canadian moving population with a one-stop move services program.

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 future growth.

On behalf of the Company, I want to thank you for 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 financial statements. Ernst & Young, LLP, the independent auditors appointed by the shareholders, have examined the consolidated financial statements set out on pages 25 through 40 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 26.

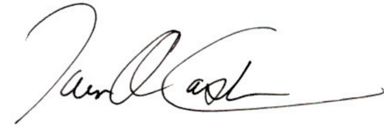
The financial statements have been further examined by the Board of Directors and by its Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors. The auditors have direct and full access to the Audit Committee and meet with 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 17, 2007

James B. Dunbar

President and Chief Executive Officer



Kevin Cash

Chief Financial Officer

Management's Discussion and Analysis of Financial Condition and Results of Operation For the year ended February 28, 2007

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, 2006 to February 28, 2007. This MD&A has been prepared as at May 17, 2007. This MD&A should be read in conjunction with our audited consolidated financial statements for the year ended February 28, 2007. Additional information, including the Company's Annual Audited Financial Statements, Annual Information Form and Management Information Circular, are available on the Company's website at *www.homeserve.ca* or on SEDAR's website 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 and non-voting common shares of the Company, is Brookfield Asset Management Inc. 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"), (ii) ICON software and its development and support personnel, which we acquired on April 13, 2004, and (iii) our co-ownership of the Credit Adjudication & Lending Management System ("CALMS"). As at the date of this MD&A, these operations are supported by 24 personnel and Centract's shared management services platform.

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 of the Company is limited.

OPERATIONS OVERVIEW

In August 2006, the Company signed a national, multi-year agreement with Aeroplan to offer Aeroplan members the opportunity to earn Aeroplan miles on various moving services through a newly developed move and home program called *Aeromove*™. This partnership allows Homeserve to leverage its proprietary move services technology platform and extensive relationships with leading Canadian real-estate providers. Aeromove is expected to generate revenue for the Company through a combination of fees earned from move service participants and a participation in the margin on Aeroplan miles earned through the Aeromove program. We launched the Aeromove program on February 26, 2007.

In April 2004, the Company acquired Centract's ICON software and entered into licensing arrangements (see "ICON Transaction"). 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, the Company acquired 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. CARE II CRM provides solutions to banking and retail companies and we are currently in discussions with a number of Canadian 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. No assurance is provided that such pilot projects will result in contract implementations.

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 was contracted to utilize Home-Link's services to June 30, 2005, and has not renewed the contract, but continues to utilize these services on a limited basis.

RESULTS OF OPERATIONS: FISCAL 2007 COMPARED TO FISCAL 2006

($ thousands, except per share amounts)	**2007**	2006
Revenue	**11,204**	10,467
Operating costs – selling, general and administrative	**3,846**	2,530
Operating costs – amortization	**3,557**	1,661
Income from operations	**3,801**	6,276
Investment income	**1,445**	1,119
Gain on sale of investments	**1,211**	244
Net income for the period before income tax	**6,457**	7,639
Income tax expense	**(500)**	(200)
Net income for the period	**5,957**	7,439
Basic and diluted earnings per common share		
Basic	**$ 0.02**	$ 0.80
Diluted	**$ 0.02**	$ 0.41

As summarized in the chart above, the Company reported net income of $6.0 million for the year ended February 28, 2007 ("Fiscal 2007") as compared to net income of $7.4 million for the year ended February 28, 2006 ("Fiscal 2006"). After the payment of preferred share dividends, income available to common shareholders was $0.02 per share and $0.80 per share, for Fiscal 2007 and Fiscal 2006, respectively, and on a diluted basis $0.02 and $0.41 per share for the same periods, respectively. The most significant elements contributing to the $1.5 million year-over-year decrease in net income were $1.4 million in costs associated with the Aeromove program, a $1.9 million increase in intangible amortization resulting from additional consideration earned under terms of the ICON acquisition, and a $0.3 million increase in income tax expense. Partially offsetting these amounts were a $0.5 million increase in contribution margin generated from the ICON operations due to increased file activities, a $0.3 million increase in investment income, and a $1.0 million increase in the gains realized on the sale of certain holdings within the Company's investment portfolio. A summary of the contribution margin by business line for Fiscal 2007 and 2006 is summarized in the table below and a more detailed discussion of the year-over-year results follows.

Contribution margin by segment *($ thousands)*	**2007**	2006
ICON licensing and consulting		
Revenue	**11,146**	10,388
Operating costs	**(1,250)**	(991)
	9,896	9,397
Software development and licensing		
Revenue	**—**	—
Operating costs	**(1,698)**	(283)
	(1,698)	(283)
Home-Link operations		
Revenue	**58**	79
Operating costs	**(306)**	(472)
	(248)	(393)
Other		
General and administration	**(592)**	(784)
	(592)	(784)
Contribution margin	**7,358**	7,937
Comprised of:		
Revenue	**11,204**	10,467
Operating costs – selling, general and administration	**(3,846)**	(2,530)
	7,358	7,937

ICON licensing and consulting ("ICON") activities consist of $11.1 million in revenue generated from contracted relocation and asset recovery license agreements (see "ICON Transaction") with Centract. Of the $11.1 million in revenue, $10.1 million in licensing revenue (2006 – $9.6 million) and $0.8 million (2006 – $0.6 million) in consulting revenue were earned from Centract's Relocation business and $0.2 million from Centract's Asset Recovery business. As summarized in the chart below the year-to-date underlying file activity for Centract's Relocation business was 8% ahead of prior year levels and slightly ahead of management's expectations. Asset Recovery full year file activity was 10% ahead of last year and slightly ahead of management expectations. ICON operating costs relate to staffing, selling, premises and administrative costs associated with our development and support personnel. These costs were in line with management's expectations.

	2007	2006
Relocation files	**24,397**	22,585
Asset recovery files	**3,177**	2,885

Approximately 70% of the Company's ICON licensing revenues for Fiscal 2007 were derived from two significant Centract contracts under which Homeserve provides relocation services to the Canadian Department of National Defence, Government of Canada and the Royal Canadian Mounted Police (collectively "G of C Contracts"). During the third quarter of Fiscal 2005, Centract was awarded a five-year contract for these contracts commencing on December 1, 2004 with a two-year renewal option. 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 and the matter was ultimately forwarded to the Federal Court of Appeal for a ruling. On January 11, 2006, the Federal Court of Appeal ruled on the matter with the net effect to Homeserve being that the contract, as awarded to Centract, stands. Subsequent to this decision the Office of the Auditor General undertook an audit of the process for awarding the Relocation contracts. The audit was conducted at the request of the Standing Committee on Public Accounts ("SCPA") and the results of the audit were presented on November 30, 2006 as part of the Report of the Auditor General of Canada to the House of Commons (the "Report"). As a part of normal course proceedings the SCPA is reviewing the Report with stakeholders to gain additional perspective and to determine if further action, if any, is required. This report is expected to be tabled in the House of Commons in the near future.

Software Development and Licensing ("SDL"), which includes consulting activities and development of the Company's CARE II CRM initiatives, generated a contribution margin loss of $1.7 million for Fiscal 2007 as compared to a contribution margin loss of $0.3 million for Fiscal 2006. The current year loss of $1.7 million relates primarily to salary, selling and administrative costs associated with the development of the Company's CARE II CRM initiatives and the "Aeromove" program, which launched on February 26, 2007.

Home-Link's operating activities consist of a contribution margin loss of $0.2 million for Fiscal 2007 as compared to a contribution margin loss of $0.4 million for Fiscal 2006. The year-over-year decrease in the overall loss was due primarily to a decrease in overall operating expenses. These cost savings were the result of the downsizing of Home-Link's operations due to a decline in transaction volumes. Substantially all of Home-Link's revenue for Fiscal 2007 was generated from related parties or supplier transaction fees derived from the related-party relationship. Management continues to work with third-party clients and suppliers to enhance the Home-Link value proposition.

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, finance and investment management services (see "Transactions with Related Parties"). These costs are estimated at $550,000 to $650,000 per annum and are partially offset by income earned on cash balances. The year-over-year $0.2 million decrease in general and administrative expenses was attributed to a settlement of pre CCAA taxes in Fiscal 2006.

Investment income relates to income earned on the Company's short-term investments. The investment income of $1.4 million for Fiscal 2007 was up $0.3 million from Fiscal 2006 due primarily to a $6.3 million increase in the average portfolio balance during Fiscal 2007 as compared to Fiscal 2006. The portfolio has increased primarily as a result of the positive cash flow generated from our ICON operation.

Amortization for Fiscal 2007 of $3.6 million increased $1.9 million over Fiscal 2006. The increase was due primarily to amortization associated with the year-over-year increase in intangible assets resulting from additional consideration earned under terms of the ICON acquisition.

Income tax expense for Fiscal 2007 was $0.5 million as compared to an expense of $0.2 million for Fiscal 2006. The income tax expense for Fiscal 2007 represents the adjustment required to bring the Company's future income tax asset ("FIT") in line with management's $2.5 million estimate as at February 28, 2007. The components of this $0.5 million expense is comprised of management's estimated $2.5 million tax recovery in respect of Fiscal 2008, less the actual income tax expense of $2.4 million for Fiscal 2007 and the reversal of the remaining $0.6 million of the $3.0 million FIT recorded as at February 28, 2006 in respect of the expected income tax recovery for Fiscal 2007. The FIT represents the anticipated future income tax expense recoveries for all deductible temporary differences between accounting and tax, unused tax losses and income tax reductions of the Company, reduced in accordance with GAAP by a valuation allowance to the amount of the future income tax benefit that management expects to realize within a probability of greater than 50%. Due to continued uncertainty surrounding the duration of Centract's G of C relocations contracts and the start-up nature of the Aeroplan operations, management has prudently recorded a FIT in the amount of $2.5 million, which represents the expected tax benefit to be realized in respect of Fiscal 2008 activity. This estimate is consistent with Fiscal 2007 when management recorded a FIT in the amount of $3 million which represented the expected tax benefit to be realized in respect of Fiscal 2007.

As at February 28, 2007, the total estimated FIT of the Company is $19.6 million of which $15.4 million is attributed to non-capital loss carryforwards of $11.4 million and capital losses of $4 million. The remaining $4.2 million is comprised of book to accounting differences on our capital and intangible assets.

RESULTS OF OPERATIONS: FOURTH QUARTER 2007 COMPARED TO FOURTH QUARTER 2006

Three months ended February 28 *($ thousands, except per share amounts)*	**2007**	2006
Revenue	**2,032**	1,726
Operating costs – selling, general and administrative	**1,353**	880
Operating costs – amortization	**889**	82
Net income (loss) from operations	**(210)**	764
Investment income	**361**	337
Gain on sale of investments	**962**	32
Net income for the period before income taxes	**1,113**	1,133
Income tax expense	**(500)**	(200)
Net income for the period	**613**	933
Basic and diluted loss per common share		
Basic	**$ (0.42)**	$ (0.60)
Diluted	**$ (0.42)**	$ (0.30)

As summarized in the chart above, the Company reported net income of $0.6 million for the three months ended February 28, 2007 (the "Quarter") as compared to income of $0.9 million for the same period in Fiscal 2006, which after the payment of preferred share dividends for the Quarter represents a basic and diluted loss per share to common shareholders of $0.42 per share, as compared to basic loss per share of $0.60 and diluted loss of $0.30 per share for the same period in Fiscal 2006. The most significant elements contributing to the $0.3 million quarter-over-quarter decrease in net income was attributed to increased amortization associated with the year-over-year increase in intangible assets resulting from additional consideration earned out under terms of the ICON acquisition, costs associated with the Aeromove program and an increase in income tax expense. Partially offsetting these amounts was an increase in ICON operations' contribution margin as a result of increased relocation file activity and a gain realized on the sale of certain holdings within the Company's investment portfolio. A summary of the contribution margin by business line is summarized in the table below and a more detailed discussion of the quarter-over-quarter results follows.

Contribution margin by segment Three months ended February 28 *($ thousands)*	**2007**	2006
ICON licensing and consulting		
Revenue	**2,011**	1,722
Operating costs	**(303)**	(273)
	1,708	1,449
Software development and licensing		
Revenue	**—**	—
Operating costs	**(803)**	(106)
	(803)	(106)
Home-Link operations		
Revenue	**21**	4
Operating costs	**(39)**	(103)
	(18)	(99)
Other		
General and administration	**(208)**	(398)
	(208)	(398)
Contribution margin	**679**	846
Comprised of:		
Revenue	**2,032**	1,726
Operating costs – selling, general and administration	**(1,353)**	(880)
	679	846

ICON licensing and consulting ("ICON") activities consist of $2.0 million in revenue generated from our contracted relocation and asset recovery license agreements (see "ICON Transaction") with Centract, as compared to $1.7 million for the same period of Fiscal 2006. Of the $2.0 million in revenue for the Quarter, $1.8 million was earned from licensing revenue and $0.2 million from consulting services. The underlying relocation and asset recovery file activity for the Quarter as summarized in the chart below was 16% higher than the same period in the prior year. Operating costs relate to staffing, selling, premises and administrative costs associated with our development and support personnel. These costs were in line with management's expectations.

Three months ended February 28	**2007**	2006
Relocation files	**4,198**	3,479
Asset recovery files	**732**	753

Software Development and Licensing ("SDL"), which includes consulting activities and development of the Company's CARE II CRM initiatives, generated a contribution margin loss of $0.8 million for the Quarter as compared to a contribution margin loss of $0.1 million for the same period of Fiscal 2006. 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 and launch of the "Aeromove" program on February 26, 2007.

Home-Link's operating activities consist of a contribution margin loss of less than $0.1 million for the Quarter as compared to a contribution margin loss of $0.1 million for the same period of Fiscal 2006. 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. Management continues to work with third-party clients and suppliers to enhance the Home-Link value proposition.

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, finance and investment management services (see "Transactions with Related Parties"). The $0.2 million of administrative costs for the Quarter are in line with management's expectations. The decrease of $0.2 million in the Quarter over the same period of Fiscal 2006 was due primarily to the settlement of pre CCAA taxes in Fiscal 2006.

Investment income relates to income earned on the Company's short-term investments. Investment income of $0.4 million for the Quarter increased $0.1 million over the same period of Fiscal 2006. This increase was due primarily to an increase in the Company's average portfolio balance to $28.7 million from $25.1 million in Fiscal 2006. Currently 50% of our investment portfolio is invested in the bonds of Real Estate Investment Trusts or companies with substantial real estate holdings. The remaining 50% is invested in short-term bankers acceptances.

Amortization for the Quarter increased $0.8 million over the same period of Fiscal 2006 due primarily to amortization associated with the year-over-year increase in intangible assets resulting from additional consideration earned under terms of the ICON acquisition and management's revision of the estimated useful life of the CARE II CRM system from five years to seven years at the end of Fiscal 2005, with the full year impact of the revision recorded in the fourth Quarter of Fiscal 2006.

Income tax expense for the Quarter was $0.5 million as compared to an expense of $0.2 million for the same period of Fiscal 2006 as described earlier.

LIQUIDITY AND CAPITAL RESOURCES

($ thousands)	**As at February 28, 2007**	As at February 28, 2006
Current assets		
Cash and cash equivalents	**15,740**	7,634
Short-term investments	**14,701**	18,972
Accounts receivable	**893**	1,079
Prepaid and other assets	**167**	113
Future tax assets	**2,500**	3,000
	34,001	30,798
Current liabilities		
Accounts payable and accrued liabilities	**1,245**	446
Income taxes payable	**454**	493
Dividend payable	**3,244**	2,916
	4,943	3,855
Net current asset position	**29,058**	26,943

As at February 28, 2007, and as summarized in the chart above, the Company had positive working capital of $29.1 million, up $2.1 million from February 28, 2006. The increase in working capital was driven by $9.7 million of cash flow generated from operations which after dividend payments of $5.5 million and capital expenditures of $1.6 million was invested in cash, cash equivalents and short-term investments.

As at February 28, 2007, short-term investments were comprised of corporate bonds with an average yield to maturity ranging from 4% to 9%.

In Fiscal 2007, approximately 99% of the Company's revenue was derived from the Company's ICON licensing and consulting arrangements with the bulk of this amount being attributed to a per file charge for the setup of a relocation file. The underlying relocation file activity is seasonal in nature with the most pronounced timing being the Government of Canada's active posting season which typically occurs in the spring. In addition to this variability, the Company's ICON licensing fees per file (see "ICON Transaction") decreases as certain volume thresholds are achieved, with these thresholds being met on a calendar year basis. In Fiscal 2007, the relocation file and ICON development and licensing fee revenue by quarter was earned as follows:

	Number of files	Revenue
Q1	45%	49%
Q2	22%	21%
Q3	16%	12%
Q4	17%	18%

The Company has sufficient funds in the next 12 months to meet its operating requirements and current annual cumulative dividend requirements of $3.9 million (see "Capital Structure"). 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:

($ thousands)	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Premises lease	468	144	288	36	Nil
Aeromove marketing	2,423	423	1,000	1,000	Nil
Aeromove mile commitment[1]	3,310	80	1,330	1,900	Nil

1. The mileage commitment of $3,310 has been assumed by a related party.

CAPITAL RESOURCES

The financial resources available to the Company include $15.7 million in cash and cash equivalents and $14.7 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, 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, 2007, Centract had the following shareholdings:

Share Class	Number of shares held	Percentage of shares held
Common	1,652,905	48%
Non-voting common	3,500,000	100%
Series A preferred shares	1,280,000	100%
Series B preferred shares	22,000,000	100%
Series C preferred shares	9,787,250	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. Centract acquired its 3,500,000 Series D preferred shares as part of the consideration from the ICON Transaction which, upon meeting a pre-defined financial hurdle were automatically redeemed into 3,500,000 non-voting common shares in Fiscal 2007. During Fiscal 2005, 24,189 Series C preferred shares were earned as part of the consideration from the ICON Transaction (see "ICON Transaction") and were issued in the second quarter of Fiscal 2006. During Fiscal 2006, 9,763,061 Series C preferred shares were earned as part of the consideration from the ICON Transaction (see "ICON Transaction") and were issued in the first quarter of Fiscal 2007. During Fiscal 2008, an additional 8,712,750 Series C preferred shares earned under the Fiscal 2007 ICON earn-out are expected to be issued. Following this issuance, a total of 18,500,000 Series C preferred shares will be issued which is the maximum number of shares to be issued under the ICON earn-out. 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, 2007 and February 28, 2006, respectively are as follows:

	Three months ended		Twelve months ended	
($ millions)	**February 28, 2007**	February 28, 2006	**February 28, 2007**	February 28, 2006
Revenue				
ICON	**2.0**	1.7	**11.2**	10.4
Home-Link service fees	**—**	—	**—**	0.1
Expenses				
Management fees	**—**	0.1	**0.3**	0.4
Premises rent	**—**	—	**0.1**	0.1
Dividends				
Series A preferred shares	**—**	0.1	**0.1**	0.1
Series B preferred shares	**0.6**	0.9	**2.1**	2.4
Series C preferred shares	**2.9**	2.0	**3.6**	2.1
Series D preferred shares	**—**	—	**—**	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 in buildings owned and managed by Centract. There is an economic dependence on Centract as 99.9% of revenue is derived from Centract.

CAPITAL STRUCTURE

The Company's capital structure as at February 28, 2007 is comprised of common shares, non-voting common shares and preferred shares. The Company's Series A preferred shares, Series B preferred shares and Series C 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, if at all.

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

	Three months ended		Twelve months ended	
($ thousands except number of shares and per share amounts)	**February 28, 2007**	February 28, 2006	**February 28, 2007**	February 28, 2006
Net income	**$ 613**	$ 933	**$ 5,957**	$ 7,439
Preferred share dividends	**(3,505)**	(3,014)	**(5,821)**	(4,688)
Net income (loss) available to common shareholders	**$ (2,892)**	$ (2,081)	**$ 136**	$ 2,751
Weighted average outstanding common shares	**6,944**	3,444	**6,944**	3,444
Dilutive effect of the conversion of preferred shares	**—**	3,500	**—**	3,500
Common shares and common share equivalents	**6,944**	6,944	**6,944**	6,944
Adjustment to net income available to common shareholders	**—**	$ 30	**—**	$ 123
Diluted income (loss) per common share	**$ (0.42)**	$ (0.30)	**$ 0.02**	$ 0.41

In addition to ongoing quarterly preferred share dividend obligations, income available to common shareholders has been reduced by an Annual Participation Dividend ("APD") and an Aggregate Dividend attributed to the Series C preferred shares earned under the ICON Transaction during Fiscal 2007. The APD is a payment of up to 20.89% of pre-defined consolidated pre-tax income of the Company as summarized in the chart below and discussed under ICON Transaction. The APD was $145 and $147 for Fiscal 2007 and 2006, respectively. The Aggregate Dividend represents the cumulative amount of cash that Centract would have received, since April 13, 2004, on the Series C preferred shares earned in Fiscal 2007 under the ICON Transaction. The Aggregate Dividend was $2,602 and $2,048 for Fiscal 2007 and 2006, respectively.

A summary of the Company's capital structure as at February 28, 2007 with pro forma adjustments for the issuance of 8,712,750 Series C preferred shares in respect of the Fiscal 2007 ICON earn-out is summarized in the chart below.

Share Class	**Number of Shares Issued and Outstanding**	**Carrying Value of Share Class** ($ thousands)	%	**Annualized Dividends** ($ thousands)	**Annual Participation Dividend**	**Percentage of Shares Held by Centract**
Common	3,443,687	3,012	—	—	—	48%
Non-voting common[1,5]	3,500,000	3,500	—	—	—	100%
Series A preferred shares[2,3]	1,280,000	1,280	9.00	115	0.64%	100%
Series B preferred shares[2,3]	22,000,000	22,000	9.00	1,980	11.00%	100%
Series C preferred shares[3,4,5]	18,500,000	18,500	10.00	1,850	9.25%	100%
Series D preferred shares[1,5]	—	—	—	—	—	—
		48,292		3,945	20.89%	

1. In accordance with the automatic conversion terms of these shares, these shares were converted into 3,500,000 non-voting common shares in the first quarter of Fiscal 2007.
2. Non-convertible, non-voting and redeemable by the Company for $1.00 per share after December 31, 2004.
3. Quarterly cumulative dividend.
4. Up to 18,500,000 Series C preferred shares may be issued under the ICON earn-out (see "ICON Transaction") at $1.00 per share. 24,189 Series C preferred shares were issued in Fiscal 2006 to fulfill the Fiscal 2005 ICON earn-out. In Fiscal 2007, an additional 9,763,061 Series C preferred shares were issued to fulfill the Fiscal 2006 ICON earn-out. During Fiscal 2008, an additional 8,712,750 Series C preferred shares earned under the Fiscal 2007 ICON earn-out are expected to be issued.
5. 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

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.

ICON

The acquisition of ICON and the subsequent awarding of the Government of Canada Relocation contract to Centract, was a significant development for our operations. The acquisition has and is expected to continue to provide significant licensing fee cash flows to the Company and licensing opportunities for markets outside of North America. In addition, our development and support personnel provide the basis for consulting fees earned on ICON software development and upgrade activities. The Company is in the early stages of developing the licensing and consulting opportunities for ICON which includes the utilization of ICON to fulfill the requirements of our Aeromove initiative. We continue to monitor developments with respect to the review of the Relocations contract award process as described in our year-over-year review of our ICON licensing and consulting activities.

Aeromove

On August 2, 2006, the Company signed a national, multi-year agreement with Aeroplan® to offer Aeroplan Members the opportunity to earn Aeroplan Miles on various moving services through a newly developed home and move services program called *Aeromove*™. This partnership allowed Homeserve to leverage its ICON and CARE II CRM assets to build an end-to-end move services platform. Aeromove is expected to generate revenue for the Company through a combination of fees earned from move services participants and a margin on Aeroplan Miles earned through the Aeromove program.

The program successfully launched on February 26, 2007 with two national partners offering real estate and moving services. The real estate services are provided through Centract and the moving services are provided by Atlas Van Lines. Aeromove is expected to add new partners to the program in a phased approach over the next 24 months in order to provide its members with a destination source for all home and moving needs related to the purchase and/or sale of their property.

New Business Initiatives

Similar to the Aeromove initiative, we will seek to leverage the move services platform by developing new white-labeled offers with other loyalty programs to reach the Canadian moving population with a one-stop home and move services program.

Home-Link

Our Home-Link initiative earns transaction-based revenue through the use of our CARE II CRM software and contact centre 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. We continue to develop our Home-Link service offering and expect to benefit from transaction volumes that would arise from the servicing of new CARE II CRM opportunities described above. While management believes that Home-Link will ultimately develop into a successful business, 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 $14.7 million as at February 28, 2007 has a yield to maturity ranging from 4% to 9%. Management will continue to evaluate higher yield investment opportunities, which meets its risk and liquidity tolerances.

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.

SUPPLEMENTAL INFORMATION

This section contains information required by applicable continuous disclosure guidelines and to facilitate additional analysis.

QUARTERLY RESULTS

The tables, Condensed Statements of Net Income on page 22 and Condensed Segmented Information on page 24 set forth selected unaudited financial information of the Company for the eight quarters ended February 28, 2007. In the opinion of management, this information has been prepared on the same basis as the audited financial statements to present fairly the unaudited quarterly results when read in conjunction with the Company's audited financial statements. The operating results for any quarter should not be relied upon as any indication of results for any future period.

For the Four Quarters Ended February 28, 2007

Significant Items Causing Variations in Quarterly Results
For the four quarters ended February 28, 2007, the following are the significant items:

- Revenues are primarily attributed to licensing fees earned on Centract government and corporate relocation activity. The government volumes made up approximately 70% of the sales in Fiscal 2007 with a significant amount of file volume typically being generated during the first quarter when the military's active posting season is heaviest. The remaining government and corporate relocation file volumes are tied to client specific initiatives and as such can vary from quarter to quarter. In addition to this variability, the Company's ICON licensing fees per file (see "ICON Transaction") decreases as certain volume thresholds are achieved, with these thresholds being attained on a calendar year basis.
- Selling, general and administrative costs in all four quarters of Fiscal 2007 increased over the four quarters of Fiscal 2006 due primarily to costs associated with the Aeromove program which launched on February 26, 2007.
- Amortization expense increased year over year and quarter over quarter due to increased amortization associated with the increase in intangible assets arising from additional consideration provided under the ICON earn-out as previously described.
- The timing of gains and losses on sale of investments are dependent upon management realizing on these investments as the opportunities present themselves and as such the related gains and losses may vary from quarter to quarter. During the fourth quarter of Fiscal 2007, the Company realized a gain of $1.0 million on the sale of certain holdings within the Company's investment portfolio which did not occur during the same period of 2006.
- During Fiscal 2007, the Company recorded an income tax expense of $0.5 million as compared to $0.2 million in Fiscal 2006. The income tax expense for Fiscal 2007 represents the adjustment required to bring the Company's FIT in line with management's estimated FIT of $2.5 million as at February 28, 2007.

For the Four Quarters Ended February 28, 2006

Significant Items Causing Variations in Quarterly Results
For the four quarters ended February 28, 2006, the following are the significant items:

- The variability of quarterly revenues and gain (loss) on sale of investments for Fiscal 2006 are effected by the same factors previously described for the four quarters ended February 28, 2007.
- Quarterly selling, general and administrative costs for Fiscal 2006 were lower then the same periods in Fiscal 2007 due primarily to costs associated with the development of the Aeromove program which occurred in Fiscal 2007, with exception of the fourth quarter of Fiscal 2006 which included a settlement of pre CCAA taxes
- In the fourth quarter of Fiscal 2006, the Company recorded reduced amortization expense of $0.1 million due primarily to management's revision of the estimated useful life of the CARE II CRM system from five years to seven years proactive to the beginning of the fiscal year, with the full amount of the adjustment being booked in the fourth quarter of Fiscal 2006.

Income tax expense for the fourth quarter of Fiscal 2006 was $0.2 million as compared to $0.5 million for the same period of Fiscal 2007. In Fiscal 2005, the Company recorded a $3.2 million income tax recovery and corresponding future tax asset ($2.7 million current, $0.5 million long-term) which represented the benefit of losses expected to be utilized to offset future taxable income. During the 12 months ended February 28, 2006, the full $3.2 million was utilized to offset taxable income in Fiscal 2006 and a further $3 million income tax recovery was recorded, resulting in a corresponding $0.2 million income tax expense for Fiscal 2006.

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. The full amount of this consideration has been earned as at February 28, 2007. This consideration was comprised of:

- A $2 million debenture which was converted into 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%. In accordance with the automatic conversion terms of these shares, these shares were converted in Fiscal 2007 into 3,500,000 non-voting common shares; plus
- An earn-out option, which provides for the issuance of up to 18,500,000 Series C preferred shares at $1.00 per share upon meeting certain pre-defined criteria (see "Outstanding shares"). As at February 28, 2007, 18,500,000 of these shares have been earned of which 9,787,250 have been issued and 8,712,750 which were earned in Fiscal 2007 are expected to 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 divided by 22,000,000. As at February 28, 2007, there are 22,000,000 Series B preferred shares outstanding.

As at February 28, 2007, the Company has recorded $24.5 million with respect to our purchase of ICON, which is represented by $23.9 million in intangible assets, $0.1 million in capital assets and $0.5 million in legal, valuation, accounting and shareholder communication costs associated with the transaction. The amount recorded for the purchase of ICON and subsequent amortization of this asset increased in accordance with the earn-out provisions of the purchase and sale agreement as described earlier.

ICON LICENSING ARRANGEMENTS

The ICON licensing arrangements arising from the ICON Transaction 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 Fiscal 2007, the Company earned $10.2 million in related licensing fees on 24,397 files opened.

   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 Fiscal 2007, the Company earned $0.8 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 Fiscal 2007, the Company earned $0.2 million in related fees on 2,342 files opened.

The premises lease arrangement is comprised of the lease of 5,000 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.

OUTSTANDING SHARES

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

	2007	2006
Common shares	**3,443,687**	3,443,687
Series A preferred shares	**1,280,000**	1,280,000
Series B preferred shares	**22,000,000**	22,000,000
Series C preferred shares	**9,787,250**	24,189
Series D preferred shares	**—**	3,500,000
Non-voting common shares	**3,500,000**	—

The Series A and Series B preferred shares are redeemable by the Company 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"). These shares are 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 ICON license arrangements, in excess of $8 million of cumulative licensing fees expected to be realized for the period from April 13, 2004 to February 29, 2008 plus an amount in cash equal to the aggregate dividends that would have been received by Centract if Centract had received the Series C preferred shares on April 13, 2004. 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, 2007, the Company has earned cumulative licensing revenue from its ICON license arrangements of $28.2 million, and accordingly, an additional 8,712,750 Series C preferred shares at a value of $1.00 each are expected to be issued subsequent to the Fiscal 2007 year end which will bring the total number of Series C preferred shares issued to 18,500,000.

During the first quarter of Fiscal 2007, the 3,500,000 Series D preferred shares which were issued on April 13, 2004 were automatically converted upon meeting certain pre-defined criteria to 3,500,000 non-voting common shares.

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") which on July 12, 2004 was converted 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 since Fiscal 2004 and as such the Company has no stock options outstanding as at the date of this MD&A.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's 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 lives 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.

Impairment

The impairment of long-lived assets, comprising the Company's Property, Plant and Equipment 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, the ICON Transaction and the build-out of the Aeromove system. The original allocation to the intangible Home-Link assets and CRM software was $5.7 million. These intangible assets are being amortized over a seven-year period and had a net book value of $1.5 million as at February 28, 2007. The allocation to February 28, 2007 (see "ICON Transaction") to the Company's intangible ICON assets was $24.5 million. These assets are being amortized over a seven-year period and had a net book value of $20.1 million as at February 28, 2007. The costs incurred to develop the Aeromove software to February 28, 2007 and net book value as at this date was $1.2 million. These intangible assets are being amortized over a five-year period commencing in Fiscal 2008. The valuation of these intangible assets is subject to management's estimates and is reviewed each year to ensure that there is no impairment in the carrying value of these assets. A change in the estimate would affect the net earnings of the Company, but would have no direct cash flow implications.

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 Fiscal 2006, the Company recognized a $3.0 million future tax asset of which $2.4 million was utilized to offset Fiscal 2007 income tax expense. During the fourth quarter of Fiscal 2007, the Company recorded an income tax recovery of $2.5 million and reversed the $0.6 million remaining from the future tax asset recorded as of Fiscal 2006. The $2.5 million represents the benefit of the tax losses which the Company expects to utilize in Fiscal 2008 based on management's current estimate of income that will more likely than not be generated by the Company to utilize these tax losses. 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 $17.2 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, prepaid expenses and other assets, accounts payable, accrued liabilities and dividends payable. Management estimates that the fair values of these financial instruments approximate the 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.

RECENT CHANGES TO ACCOUNTING STANDARDS AND ACCOUNTING POLICIES

The Company's financial statements have been prepared using the same accounting policies as described in Note 2 of the Company's audited financial statements for the year ended February 28, 2007. In addition, during the year the Company adopted section 3831 of the CICA Handbook, *Non-Monetary Transactions*, as described below.

The CICA reissued section 3830 of the CICA Handbook as section 3831, *Non-Monetary Transactions*, which establishes standards for the measurement and disclosure of non-monetary transactions. Section 3831 also includes criteria for defining "commercial substance" which replace the criteria for defining "culmination of the earnings process" in the former section. These changes came into effect for fiscal years beginning on or after January 1, 2006 and were adopted by Homeserve on March 1, 2006. These changes did not have an effect on Homeserve's financial statements.

The Company regularly monitors new accounting standards and policies and reports on those adopted subsequent to the end of the most recently completed financial year. No new accounting policies that were not already disclosed above or in our last annual MD&A were adopted in Fiscal 2007.

FUTURE CHANGES TO ACCOUNTING STANDARDS

Comprehensive Income
The CICA issued section 1530 of the CICA Handbook, *Comprehensive Income*. This section is effective for fiscal years beginning on or after October 1, 2006. The section describes how to report and disclose comprehensive income and its components.

Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net earnings, such as unrealized gains or losses on available-for-sale investments.

The CICA also made changes to section 3250 of the CICA Handbook, *Surplus*, and reissued it as section 3251, *Equity*. The section also comes into effect for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of section 1530, *Comprehensive Income*.

When we adopt these sections on March 1, 2007, we will report the following items in the financial statements:

- comprehensive income and its components
- accumulated other comprehensive income and its components.

Financial Instruments – Recognition and Measurement
The CICA issued section 3855 of the CICA Handbook, *Financial Instruments – Recognition and Measurement*. This section is effective for fiscal years beginning on or after October 1, 2006. It describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

The CICA has also reissued section 3860 of the CICA Handbook as section 3861, *Financial Instruments – Disclosure and Presentation*, which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. These revisions come into effect for fiscal years beginning on or after October 1, 2006.

It is expected that the Company's short-term investments will be classified as available for sale and as such under this new standard the change in the market value of the Company's short-term investments which is currently disclosed but not recorded in the Company's financial statements, will be recorded as part of Comprehensive Income. When the investments are realized the change in the fair market value of the related investment will be reclassified to the Statement of Income. This new standard will be adopted for our fiscal year commencing March 1, 2007.

Hedges
The CICA recently issued section 3865 of the CICA Handbook, *Hedges*. The section is effective for fiscal years beginning on or after October 1, 2006, and describes when and how hedge accounting can be used.

As the Company currently does not engage in hedge activity we do not expect the new standard to effect on our financial results.

Capital Disclosures
The CICA issued section 1535 of the CICA Handbook, *Capital Disclosures*. This section is effective for the Company's fiscal year commencing March 1, 2008. It specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; and (iii) whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance.

Financial Instruments – Disclosures and Presentation
The CICA issued section 3862 of the CICA Handbook, *Financial Instruments – Disclosures* and section 3863 of the CICA Handbook, *Financial Instruments – Presentation* replacing the existing section 3861, *Financial Instruments – Disclosure and Presentation*. These sections are effective for the Company's fiscal year commencing March 1, 2008. The new sections revise and enhance disclosure requirements, and carry forward unchanged existing presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains appropriate information systems, procedures and controls to ensure that new information disclosed externally is complete, reliable and timely. The Chief Executive Officer and the Chief Financial Officer of the Company evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at February 28, 2007 and have concluded that such disclosure controls and procedures are operating effectively.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The design of internal controls over financial reporting was evaluated in accordance with the COSO control framework and Multilateral Instrument 52-109. Based on the results of this evaluation, Management concluded that the internal controls over financial reporting are designed to provide reasonable assurance that its financial reporting is reliable and that the financial statements were prepared in accordance with GAAP.

Management took appropriate steps that enabled it to conclude that during the fourth quarter ended February 28, 2007, no changes were made to internal controls over financial reporting that would have materially affected, or would be reasonably considered to materially affect, these controls.

Homeserve Technologies Inc.
Condensed Balance Sheets

As at *($ thousands, unaudited)*	**May 31, 2005**	**Aug. 31, 2005**	**Nov. 30, 2005**	**Feb. 28, 2006**	**May 31, 2006**	**Aug. 31, 2006**	**Nov. 30, 2006**	**Feb. 28, 2007**
ASSETS								
Current								
Cash and cash equivalents	5,932	7,216	6,675	7,634	5,138	6,180	12,112	15,740
Short-term investments	17,907	17,905	19,494	18,972	23,019	23,021	17,414	14,701
	23,839	25,121	26,169	26,606	28,157	29,201	29,526	30,441
Accounts receivable, prepaids and other assets	1,623	1,147	1,029	1,192	1,407	1,298	853	1,060
Future tax asset	2,660	2,660	2,660	3,000	3,000	3,000	3,000	2,500
Total current assets	28,122	28,928	29,858	30,798	32,564	33,499	33,379	34,001
Future tax asset	540	540	540	—	—	—	—	—
Capital assets, net	89	59	43	49	44	51	59	424
Intangible assets, net	7,736	7,236	6,737	16,426	15,597	14,967	14,629	22,785
	36,487	36,763	37,178	47,273	48,205	48,517	48,067	57,210
LIABILITIES AND SHAREHOLDERS' EQUITY								
Current								
Accounts payable and accrued liabilities	620	421	472	446	427	468	614	1,245
Income and other taxes payable	485	515	538	493	493	493	493	454
Dividends payable	767	408	432	2,916	514	522	514	3,244
Deferred revenue	15	—	—	—	—	—	—	—
Total current liabilities	1,887	1,344	1,442	3,855	1,434	1,483	1,621	4,943
Shareholders' equity								
Capital stock	29,792	29,816	29,816	29,816	39,579	39,579	39,579	39,579
Shares to be issued	24	—	—	9,763	—	—	—	8,713
Retained earnings	4,784	5,603	5,920	3,839	7,192	7,455	6,867	3,975
Total shareholders' equity	34,600	35,419	35,736	43,418	46,771	47,034	46,446	52,267
	36,487	36,763	37,178	47,273	48,205	48,517	48,067	57,210

Homeserve Technologies Inc.
Condensed Statements of Retained Earnings

As at *($ thousands, unaudited)*	**May 31, 2005**	**Aug. 31, 2005**	**Nov. 30, 2005**	**Feb. 28, 2006**	**May 31, 2006**	**Aug. 31, 2006**	**Nov. 30, 2006**	**Feb. 28, 2007**
Net income for the three-month period	4,255	1,382	869	933	4,128	1,038	178	613
Preferred share dividends	(559)	(563)	(552)	(3,014)	(775)	(775)	(766)	(3,505)
Change in period	3,696	819	317	(2,081)	3,353	263	(588)	(2,892)
Retained earnings, beginning of the period	1,088	4,784	5,603	5,920	3,839	7,192	7,455	6,867
Retained earnings, end of period	4,784	5,603	5,920	3,839	7,192	7,455	6,867	3,975

Homeserve Technologies Inc.
Condensed Statements of Net Income

($ thousands, except per share amounts, unaudited)	**Three months ended May 31, 2005** (reported)	**Six months ended Aug. 31, 2005** (reported)	**Nine months ended Nov. 30, 2005** (reported)	**Twelve months ended Feb. 28, 2006** (reported)	**Three months ended May 31, 2006** (reported)	**Six months ended Aug. 31, 2006** (reported)	**Nine months ended Nov. 30, 2006** (reported)	**Twelve months ended Feb. 28, 2007** (reported)
Sales	5,089	7,321	8,742	10,467	5,434	7,793	9,171	11,204
Operating costs								
Selling, general and administration	527	1,088	1,651	2,530	810	1,579	2,493	3,846
Amortization of property, plant and equipment and intangible assets	533	1,063	1,580	1,661	885	1,781	2,668	3,557
	1,060	2,151	3,231	4,191	1,695	3,360	5,161	7,403
Income from operations before undernoted	4,029	5,170	5,511	6,276	3,739	4,433	4,010	3,801
Investment income	267	508	782	1,119	366	709	1,084	1,445
Gain (loss) on sale of investments	(41)	(41)	211	244	23	23	250	1,211
Net income for the period before income taxes	4,255	5,637	6,504	7,639	4,128	5,165	5,344	6,457
Income tax expense	—	—	—	(200)	—	—	—	(500)
Net income for the period	4,255	5,637	6,504	7,439	4,128	5,165	5,344	5,957
Basic income per common share	1.07	1.31	1.40	0.80	0.48	0.52	0.44	0.02
Diluted income per common share	0.54	0.66	0.71	0.41	0.48	0.52	0.44	0.02
File Activity:								
Relocations	10,341	15,423	19,074	22,553	10,990	16,348	20,199	24,397
Asset Recovery	741	1,482	2,132	2,885	761	1,511	2,445	3,177

Homeserve Technologies Inc.
Condensed Statements of Net Income

Three months ended *($ thousands, except per share amounts, unaudited)*	**May 31, 2005** (reported)	**Aug. 31, 2005** (reported)	**Nov. 30, 2005** (reported)	**Feb. 28, 2006** (reported)	**May 31, 2006** (reported)	**Aug. 31, 2006** (reported)	**Nov. 30, 2006** (reported)	**Feb. 28, 2007** (reported)
Sales	5,089	2,232	1,420	1,726	5,434	2,360	1,378	2,032
Operating costs								
Selling, general and administration	527	561	562	880	810	769	914	1,353
Amortization of property, plant and equipment and intangible assets	533	530	516	82	885	896	887	889
	1,060	1,091	1,078	962	1,695	1,665	1,801	2,242
Income (loss) from operations before undernoted	4,029	1,141	342	764	3,739	695	(423)	(210)
Investment income	267	241	274	337	366	343	375	361
Gain (loss) on sale of investments	(41)	—	253	32	23	—	226	962
Net income for the period before income taxes	4,255	1,382	869	1,133	4,128	1,038	178	1,113
Income tax expense	—	—	—	(200)	—	—	—	(500)
Net income for the period	4,255	1,382	869	933	4,128	1,038	178	613
Basic income (loss) per common share	1.07	0.24	0.09	(0.60)	0.48	0.04	(0.08)	(0.42)
Diluted income (loss) per common share	0.54	0.12	0.05	(0.30)	0.48	0.04	(0.08)	(0.42)
File Activity:								
Relocations	10,309	5,114	3,651	3,479	10,990	5,358	3,851	4,198
Asset Recovery	741	741	650	753	761	750	934	732

Homeserve Technologies Inc.
Condensed Statements of Cash Flows

Three months ended	May 31, 2005	Aug. 31, 2005	Nov. 30, 2005	Feb. 28, 2006	May 31, 2006	Aug. 31, 2006	Nov. 30, 2006	Feb. 28, 2007
($ thousands, unaudited)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)
Operating Activities								
Net income for the period	4,255	1,382	869	933	4,128	1,038	178	613
Add (deduct) items not affecting cash	579	532	265	253	861	894	660	430
Net change in non-cash working capital balances	(15)	254	192	(195)	(235)	150	591	385
	4,819	2,168	1,326	991	4,754	2,082	1,429	1,428
Financing Activities								
Payment of preferred dividends	(634)	(922)	(529)	(529)	(3,178)	(766)	(775)	(775)
	(634)	(922)	(529)	(529)	(3,178)	(766)	(775)	(775)
Investing Activities								
Sale (purchase) of short-term investments	(1,000)	—	(1,339)	585	(4,023)	—	5,835	3,672
Capital expenditures and other	33	38	1	(88)	(49)	(274)	(557)	(697)
	(967)	38	(1,338)	497	(4,072)	(274)	5,278	2,975
Cash and cash equivalents								
Increase (decrease) during the period	3,218	1,284	(541)	959	(2,496)	1,042	5,932	3,628
Balance, beginning of period	2,714	5,932	7,216	6,675	7,634	5,138	6,180	12,112
Balance, end of period	5,932	7,216	6,675	7,634	5,138	6,180	12,112	15,740

Homeserve Technologies Inc.
Condensed Segmented Information
Contribution Margin

Three months ended *($ thousands, unaudited)*	**May 31, 2005** (reported)	**Aug. 31, 2005** (reported)	**Nov. 30, 2005** (reported)	**Feb. 28, 2006** (reported)	**May 31, 2006** (reported)	**Aug. 31, 2006** (reported)	**Nov. 30, 2006** (reported)	**Feb. 28, 2007** (reported)
Segmented information								
ICON development and licensing								
Revenue	5,040	2,211	1,415	1,722	5,422	2,348	1,365	2,011
Operating costs	(219)	(222)	(277)	(273)	(353)	(295)	(299)	(303)
	4,821	1,989	1,138	1,449	5,069	2,053	1,066	1,708
Software development and licensing								
Revenue	—	—	—	—	—	—	—	—
Operating costs	(53)	(52)	(72)	(106)	(214)	(269)	(412)	(803)
	(53)	(52)	(72)	(106)	(214)	(269)	(412)	(803)
Home-Link operations								
Revenue	49	21	5	4	12	12	13	21
Operating costs	(142)	(128)	(99)	(103)	(111)	(85)	(71)	(39)
	(93)	(107)	(94)	(99)	(99)	(73)	(58)	(18)
Other								
General and administration	(113)	(159)	(114)	(398)	(132)	(120)	(132)	(208)
	(113)	(159)	(114)	(398)	(132)	(120)	(132)	(208)
Contribution margin	4,562	1,671	858	846	4,624	1,591	464	679
Comprised of:								
Revenue	5,089	2,232	1,420	1,726	5,434	2,360	1,378	2,032
Operating costs – selling, general and administration	(527)	(561)	(562)	(880)	(810)	(769)	(914)	(1,353)
	4,562	1,671	858	846	4,624	1,591	464	679

Financial Statements

Homeserve Technologies Inc.

February 28, 2007

Auditors' Report

To the Shareholders of
Homeserve Technologies Inc.

We have audited the balance sheets of **Homeserve Technologies Inc.** [the "Company"] as at February 28, 2007 and 2006 and the statements of income and retained earnings 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 financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
May 8, 2007.

Chartered Accountants
Licensed Public Accountants

HOMESERVE TECHNOLOGIES INC.
Balance Sheets

As at February 28 *($ thousands)*	**2007**	2006
ASSETS		
Current		
Cash and cash equivalents	**15,740**	7,634
Short-term investments *[note 5]*	**14,701**	18,972
Accounts receivable *[note 12]*	**893**	1,079
Prepaid expenses and other assets	**167**	113
Future tax assets *[note 9]*	**2,500**	3,000
Total current assets	**34,001**	30,798
Property, plant and equipment, net *[note 6]*	**424**	49
Intangible assets, net *[note 7]*	**22,785**	16,426
	57,210	47,273
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 12]*	**1,245**	446
Income and other taxes payable	**454**	493
Dividends payable *[note 12]*	**3,244**	2,916
Total current liabilities	**4,943**	3,855
Commitments and contingencies [notes 10 and 15]		
Shareholders' equity		
Capital stock *[note 8]*	**39,579**	29,816
Shares to be issued *[note 8]*	**8,713**	9,763
Retained earnings	**3,975**	3,839
Total shareholders' equity	**52,267**	43,418
	57,210	47,273

See accompanying notes

On behalf of the Board:

James B. Dunbar
Director

Joseph S. Freedman
Director

Homeserve Technologies Inc.
Statements of Income and Retained Earnings

Years ended February 28 *($ thousands)*	**2007**	2006
Revenue *[notes 12 and 13]*	**11,204**	10,467
Operating expenses		
Selling, general and administrative	**3,846**	2,530
Amortization of property, plant and equipment *[note 6]*	**42**	91
Amortization of intangible assets *[note 7]*	**3,515**	1,570
Income from operations before the undernoted	**3,801**	6,276
Investment income	**1,445**	1,119
Gain on sale of short-term investments	**1,211**	244
Income from operations before income taxes	**6,457**	7,639
Provision for income taxes [note 9]	**500**	200
Net income for the year	**5,957**	7,439
Preferred share dividends *[notes 8 and 12]*	**(5,821)**	(4,688)
Basic earnings available to common shareholders	**136**	2,751
Retained earnings, beginning of year	**3,839**	1,088
Retained earnings, end of year	**3,975**	3,839
Basic earnings available to common shareholders *[note 8]*	**136**	2,751
Basic earnings per common share *[note 8]*	**$0.02**	$0.80
Diluted earnings available to common shareholders *[note 8]*	**136**	2,874
Diluted earnings per common share *[note 8]*	**$0.02**	$0.41

See accompanying notes

Homeserve Technologies Inc.
Statements of Cash Flows

Years ended February 28 *($ thousands)*	**2007**	2006
Operating Activities		
Net income for the year	**5,957**	7,439
Add (deduct) items not affecting cash		
Amortization of bond premium (discount)	**(1)**	12
Amortization of property, plant and equipment	**42**	91
Amortization of intangible assets	**3,515**	1,570
Provision for income taxes	**500**	200
Gain on sale of short-term investments	**(1,211)**	(244)
	8,802	9,068
Net change in non-cash working capital balances related to operations *[note 14]*	**892**	236
Cash provided by operating activities	**9,694**	9,304
Financing Activities		
Payment of preferred share dividends	**(5,493)**	(2,614)
Cash used in financing activities	**(5,493)**	(2,614)
Investing Activities		
Net decrease (increase) in short-term investments	**5,483**	(1,754)
Acquisition of property, plant and equipment	**(417)**	(18)
Proceeds on disposal of property, plant and equipment	**—**	2
Acquisition of intangible assets	**(1,161)**	—
Cash provided by (used in) investing activities	**3,905**	(1,770)
Net increase in cash and cash equivalents during the year	**8,106**	4,920
Cash and cash equivalents, beginning of year	**7,634**	2,714
Cash and cash equivalents, end of year	**15,740**	7,634
Supplemental cash flow information		
Interest income received	**1,445**	1,119
Supplemental disclosure of non-cash investing and financing activities		
Increase in intangible assets and shares to be issued	**8,713**	9,763
Preferred shares issued in connection with acquisition of ICON	**9,763**	24

See accompanying notes

Notes to Financial Statements

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

February 28, 2007

1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

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 and non-voting common shares of the Company, is Brookfield Asset Management Inc. [formerly Brascan Corporation], operating through certain subsidiaries as Centract Residential Property Services [“Centract”], its residential real estate services division.

As at February 28, 2007, the Company had 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 financial statements have been prepared in accordance with Canadian generally accepted accounting principles [“GAAP”] as prescribed by The Canadian Institute of Chartered Accountants [“CICA”]. The significant accounting policies are summarized as follows:

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 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 these estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash balances and highly liquid investments that are readily convertible to cash with maturities of 90 days or less at the date of purchase.

Short-term investments

Short-term investments consist of bonds and are carried at the lower of amortized cost and market value. 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
Leasehold improvements	over term of the lease

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 statements of income and retained earnings in the period such impairment is determined.

Intangible assets

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

Licensing fees and other costs	5 years
Software systems	7 years or over the initial term of the underlying contract

The Company reviews intangible assets 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 contract 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.

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

Homeserve follows the liability method of tax allocation in accounting for income taxes. Under this method, 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 period 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 tax assets will not be realized.

Earnings per share

Earnings per share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the dilution that would occur if Series D preferred shares were converted to non-voting common shares.

Future accounting and reporting changes

Accounting Changes

In July 2006, the Accounting Standards Board issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ["CICA Handbook"] Section 1506, Accounting Changes ["Section 1506"]. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. Section 1506 also requires disclosures of information relevant to assessing the possible impact that the application of a new GAAP standard will have on the Company's financial statements in the period of initial application. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes. The Company is currently evaluating the impact of adoption of Section 1506 effective March 1, 2007 on its financial statements.

Financial Instruments

The CICA has issued three new accounting standards: CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3855, Hedges; and Section 1530, Comprehensive Income. These standards are effective for the Company beginning March 1, 2007. The primary impacts of the standards are as follows:

Financial Instruments – Recognition and Measurement

Financial assets will be classified as available-for-sale, held-to-maturity, trading, or loans and receivables. Financial liabilities will be classified as trading or other. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value. Subsequent measurement is to be determined by the classification of each financial asset and financial liability. Realized and unrealized gains and losses on financial assets and financial liabilities that are held-for-trading will continue to be recorded in the statements of income and retained earnings. Unrealized gains and losses on financial assets that are held as available-for-sale will be recorded in other comprehensive income until realized, when they will be recorded in the statements of income and retained earnings. All derivatives, including embedded derivatives, must be separately accounted for and will be recorded at fair value in the balance sheets.

Hedges

In a cash flow hedge, the change in fair value of the derivative, to the extent effective, will be recorded in other comprehensive income until the asset or liability being hedged affects the statements of income and retained earnings, at which time the related change in fair value of the derivative will also be recorded in the statements of income and retained earnings. Any hedge ineffectiveness will be recorded in the statements of income and retained earnings.

Comprehensive Income

Changes in the fair value of financial assets and financial liabilities held as available-for-sale and cash flow hedging instruments will be recorded in a statement of other comprehensive income until recognized in the statements of income and retained earnings. Other comprehensive income will form part of shareholders' equity.

Transitional impact

The transitional impact of these new standards is still being evaluated by management, but an expected impact is the recognition of the fair value of the Company's short-term investments, with any unrecognized gains or losses flowing through comprehensive income. As at February 28, 2007, the Company has not entered into any hedging or derivative arrangements.

The CICA released three new accounting standards that are effective for the Company's fiscal year commencing March 1, 2008: Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation.

Capital Disclosures

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; and (iii) whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance.

Financial Instruments – Disclosures and Presentation

Sections 3862 and 3863 replace the existing Section 3861, Financial Instruments – Disclosure and Presentation. The new sections revise and enhance disclosure requirements, and carry forward unchanged existing presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

3. ACQUISITIONS

Acquisition of ICON

On April 13, 2004, the Company acquired Centract's interest in its ICON software and entered into licensing, premises lease and employment arrangements with Centract for potential consideration of $24 million which has been earned as at February 28, 2007. This consideration was comprised of:

- A $2.0 million debenture that 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 8 – Capital Stock]*. In accordance with the automatic conversion terms of these shares, these shares were converted in the first quarter of Fiscal 2007 into 3,500,000 non-voting common shares; plus
- An earn-out option which provides for issuances 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, in excess of $8 million for the period from April 13, 2004 to February 29, 2008, plus an amount in cash equal to the aggregate dividends that would have been received by Centract if Centract had received the Series C preferred shares on April 13, 2004. 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 pre-tax income of the Company [*see note 8 – Capital Stock*]. In Fiscal 2006, 24,189 Series C preferred shares were issued under the earn-out for Fiscal 2005, an additional 9,763,061 Series C preferred shares were issued in Fiscal 2007 under the earn-out for Fiscal 2006, and an additional 8,712,750 Series C preferred shares have been earned since February 28, 2006 and are expected to be issued after February 28, 2007 *[see note 8 – Capital Stock]*; plus
- An increase in the Series B preferred share cumulative aggregate preferential annual participation dividend from 10% to 11% of pre-defined pre-tax income of the Company based on the weighted average number of Series B preferred shares outstanding divided by 22,000,000. As at February 28, 2007, there are 22,000,000 Series B preferred shares outstanding.

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 and $0.5 million in legal, valuation, accounting and shareholder communication costs associated with the transaction. As a result of the earn-out option, an additional $9.8 million and $8.7 million of intangible assets were added during Fiscal 2006 and Fiscal 2007, respectively, bringing the total ICON intangible assets and property, plant and equipment related consideration to $24.0 million as summarized in the table below.

	($)
Assets acquired	
Intangible assets	23,946
Property, plant and equipment	54
	24,000
Consideration provided	
Convertible debenture	2,000
Series C preferred shares	18,500
Series D preferred shares	3,500
	24,000

4. MATERIAL CONTRACTS

The Company has two material contracts, the details of which are as follows:

[a] ICON licensing arrangements

The ICON licensing arrangements are comprised of the following two licenses [fee per file in actual dollars]:

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 year ended February 28, 2007, the Company earned $10,166 in ICON licensing fees on 24,397 files opened [2006 – $9,569 in ICON licensing fees on 22,585 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 year ended February 28, 2007, the Company earned $779 [2006 – $626] in consulting revenue from the 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 year ended February 28, 2007, the Company earned $200 in Asset Recovery licensing fees on 2,342 files opened [2006 – $194 in Asset Recovery licensing fees on 2,204 files opened].

[b] Aeromove™ licensing arrangements

On August 2, 2006, the Company signed a national, multi-year agreement with Aeroplan to offer Aeroplan members the opportunity to earn Aeroplan miles through a move and home CRM program called Aeromove, which utilizes the Company's CARE II and ICON platforms. Aeromove generates revenue for the Company through a combination of fees earned from the move, service participants and a margin on Aeroplan miles earned through the Aeromove program. The program formally launched on February 26, 2007.

5. SHORT-TERM INVESTMENTS

Short-term investments are comprised of corporate bonds with a yield to maturity ranging from 4.1% to 9.3% and the maturity dates of the high-grade securities range from one to seven years. The market value of the Company's short-term investments as at February 28, 2007 is $18,403 [2006 – $19,750].

February 28, 2007

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2007			2006		
($)	**Cost**	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Computer equipment and software	**1,180**	**770**	**410**	776	756	20
Furniture and office equipment	**262**	**252**	**10**	254	241	13
Leasehold improvements	**83**	**79**	**4**	78	62	16
	1,525	**1,101**	**424**	1,108	1,059	49

During the year, amortization of $42 [2006 – $91] was charged to the statements of income and retained earnings.

7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	2007			2006		
($)	**Cost**	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Licensing fees and other costs	**569**	**501**	**68**	569	365	204
Software systems	**30,763**	**8,046**	**22,717**	20,889	4,667	16,222
	31,332	**8,547**	**22,785**	21,458	5,032	16,426

Gross book value of operating systems increased by $9,873 [2006 – $9,763] and includes $8,713 related to the ICON earn-out calculation *[note 8]* and other system additions of $1,160.

8. CAPITAL STOCK

Capital stock consists of the following:

($)		**2007**	2006
Authorized			
Unlimited preference shares issued in series			
Unlimited common shares			
Unlimited non-voting common shares			
Issued			
1,280,000	Series A preferred shares	**1,280**	1,280
22,000,000	Series B preferred shares	**22,000**	22,000
9,787,250	Series C preferred shares (2006 – 24,189)	**9,787**	24
Nil	Series D preferred shares (2006 – 3,500,000)	**—**	3,500
3,443,687	Common shares	**3,012**	3,012
3,500,000	Non-voting common shares (2006 – Nil)	**3,500**	—
		39,579	29,816
To be issued			
8,712,750 (2006 – 9,763,061) Series C preferred shares *[note 3]*		**8,713**	9,763

The Series A preferred shares, Series B preferred shares and Series C preferred shares are non-convertible, non-voting and redeemable by the Company for $1.00 per share. In the event of a liquidation, dissolution or wind-up of the Company, the holders of the Series A, Series B and Series C 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, Series B and Series C preferred share and no more. The par value of the Series A, Series B and Series C preferred shares is $1.00 per share.

The holders of the Series A preferred shares and Series B preferred shares are 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 holders of the Series A preferred shares are also entitled to receive a cumulative aggregate preferential annual participation dividend of 0.64% of the Company's annual net income before tax calculated in accordance with Canadian GAAP, less the fixed preferential cumulative quarterly dividend of 2.25% noted above. The annual Series A participation dividend declared for the year ended February 28, 2007 was $6 [2006 – $23].

The holders of the Series B preferred shares are also entitled to receive a cumulative aggregate preferential annual participation dividend of up to 11% of the Company's annual net income before tax calculated in accordance with Canadian GAAP, less the fixed preferential cumulative quarterly dividend of 2.25% noted above. The annual Series B participation dividend declared for the year ended February 28, 2007 was $96 [2006 – $394].

The holders of the Series C preferred shares are entitled to receive, if declared by the Board of Directors of the Company, a fixed preferential cumulative quarterly dividend of 2.5% of the redemption value of the Series C preferred shares.

The holders of the Series C preferred shares are also entitled to receive a cumulative aggregate preferential annual participation dividend of up to 9.25% of the Company's annual net income before tax calculated in accordance with Canadian GAAP, less the fixed preferential cumulative quarterly dividend of 2.5% noted above. The annual Series C participation dividend declared for the year ended February 28, 2007 was $43 [2006 – $1].

As outlined in note 3, 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 pre-tax income of the Company. As at February 28, 2007, 9,787,250 Series C preferred shares have been issued in respect of Fiscal 2005 and 2006 earn-outs. Subsequent to February 28, 2007, 8,712,750 Series C preferred shares are expected to be issued in respect of the earn-out for Fiscal 2007, at which time the full $24 million of consideration available under the ICON acquisition will have been earned. In addition, an amount in cash of $2,602 [2006 – $2,048], representing the aggregate dividend that would have been received by Centract if Centract had received the Series C preferred shares on April 13, 2004, is expected to be paid subsequent to year end.

The holders of the Series D preferred shares are entitled to receive, if declared by the Board of Directors of the Company, 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 Series D preferred shares shall automatically convert into non-voting common shares on the basis of one Series D preferred share into one non-voting common share in the event that the cumulative net income ["CNI"] of the Company exceeds $12,000, where CNI means the cumulative net income before tax of the Company calculated in accordance with Canadian GAAP since April 12, 2004. CNI as at February 28, 2006 was $12,264 and, as such, the 3,500,000 Series D preferred shares were automatically converted to non-voting common shares in the first quarter of Fiscal 2007. The par value of the Series D preferred shares was $1.00 per share.

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

Earnings per share

Basic earnings per share have been calculated using the weighted average number of common shares outstanding of 6,943,687 for the year ended February 28, 2007 and 3,443,687 for the year ended February 28, 2006. Diluted earnings per share for the year ended February 28, 2006 as summarized in the table below were calculated using the weighted average number of common shares outstanding of 6,943,687 to take into effect the conversion of Series D preferred shares into non-voting common shares.

Notes to Financial Statements

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

February 28, 2007

($)	2007	2006
Net income for the year	**5,957**	7,439
Dividends paid on preferred shares	**(5,821)**	(4,688)
Basic earnings available to common shareholders	**136**	2,751
Adjustment to net income on conversion of Series D preferred shares	**—**	123
Diluted earnings available to common shareholders	**136**	2,874

9. 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:

($)	2007	2006
Statutory income tax rate	**36.12%**	36.12%
Income tax expense based on the income from operations before income taxes	**2,332**	2,759
Permanent differences	**4**	1
Portion of capital gains not taxed	**(110)**	(44)
Changes in enacted tax rates	**2,380**	—
Increase (decrease) in valuation allowance	**(2,360)**	597
Future tax assets not previously recognized for accounting	**(1,746)**	(3,113)
Provision for income taxes	**500**	200

Significant components of the Company's future tax assets as at February 28, 2007 and 2006 are as follows:

($)	2007	2006
Future tax assets		
Tax loss carryforwards	**15,258**	19,440
Tax asset values in excess of accounting values	**4,253**	4,899
Investment tax credits	**146**	—
	19,657	24,339
Less valuation allowance	**17,157**	21,339
Net future tax assets	**2,500**	3,000

The Company has recognized future tax assets of $2,500 based on the current estimate of taxable income that will be available in the future loss carryforward periods.

As at February 28, 2007, the Company has approximately $24,568 in federal and provincial capital losses. In addition, the Company has federal non-capital tax losses of $28,789 and $41,522 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
2008	—	4,561
2009	15,454	16,157
2010	10,446	17,915
2011	2,315	2,315
Thereafter	574	574
	28,789	41,522

10. COMMITMENTS

AEROPLAN

In August 2006, the Company entered into an agreement resulting in minimum annual calendar year commitments of the following:

($)	**Miles**	**Marketing**	**Total**
2007	80	423	503
2008	380	500	880
2009	950	500	1,450
2010	950	500	1,450
2011	950	500	1,450
	3,310	2,423	5,733

The mileage commitment is based on the minimum number of miles that the Company is required to purchase. The mileage commitment of $3,310 has been assumed by a related party.

LEASES

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

($)	
2008	144
2009	144
2010	144
2011	36
2012	—
	468

11. FINANCIAL INSTRUMENTS

Fair values

The carrying values reported in the balance sheets for cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these financial instruments. The fair value of the short-term investments, which are comprised of high-grade securities, is $18,403.

Interest rate and credit risks

The yield to maturity of the bonds ranges from approximately 4% to 9% and the maturity dates of the high-grade securities range from one to seven years.

The Company mitigates its exposure to interest rate and credit risks 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.

Notes to Financial Statements

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

February 28, 2007

12. RELATED PARTY TRANSACTIONS

The Company had the following transactions with a related party of a significant shareholder of the Company. These transactions have been recorded at the exchange amount, which is the amount agreed to between the parties except where otherwise noted.

($)	**2007**	2006
Revenue	**11,195**	10,443
Expenses		
Management fee and cost reimbursement	**280**	402
Rent	**89**	78
Preferred share dividends	**5,821**	4,688

As at February 28, 2007, the Company has accounts receivable of $672 [2006 – $763], dividends payable of $3,244 [2006 – $2,916] and accounts payable of $208 [2006 – $126] with related parties.

13. ECONOMIC DEPENDENCE

For the year ended February 28, 2007, the Company derived $11,195 or 99.9% of its revenue from Centract.

14. STATEMENTS OF CASH FLOWS

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

($)	**2007**	2006
Accounts receivable	**186**	321
Prepaid expenses and other assets	**(54)**	(35)
Accounts payable and accrued liabilities	**799**	(2)
Income and other taxes payable	**(39)**	8
Deferred revenue	**—**	(56)
	892	236

15. 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.

16. SEGMENTED REPORTING

General description

The Company has 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. Home-Link provides services to buyers and sellers throughout the home purchasing and selling cycle through a proprietary software solution. Software Development and Licensing includes the Company's Aeromove™ operations, co-ownership of the CALMS software solution and the ongoing development and application of proprietary software solutions. 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. The CEO does not review asset information on a segmented basis in order to assess performance and allocate resources. Revenue and contribution margin by reportable segments reconciled to income from operations are as follows:

($)	**2007**	2006
Revenue		
ICON	**11,146**	10,388
Home-Link	**58**	79
	11,204	10,467
Contribution margin		
ICON	**9,896**	9,397
Home-Link	**(248)**	(393)
Software development and licensing	**(1,698)**	(283)
General and administration	**(592)**	(784)
	7,358	7,937
Investment income	**1,445**	1,119
Gain on sale of short-term investments	**1,211**	244
Amortization of property, plant and equipment	**(42)**	(91)
Amortization of intangible assets	**(3,515)**	(1,570)
Income from operations before income taxes	**6,457**	7,639

17. SUBSEQUENT EVENT

Subsequent to year end, on May 17, 2007, the Company issued 8,712,750 Series C preferred shares in accordance with the earn-out calculation of the ICON transaction.

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.

William J. Danis

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

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M5K 1J7

REGISTRAR & TRANSFER AGENT

Computershare Investor Services
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8th Floor
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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: Tiffany Fisher

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