



1st Quarter 2011

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

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The following Management's Discussion and Analysis of Results and Financial Condition ("MD&A") of Homeserve Technologies Inc. ("Homeserve" or the "Company") covers the three months ended May 31, 2010 (the "Quarter", the first quarter of Fiscal 2011). This MD&A has been prepared as at July 9, 2010 and should be read in conjunction with our audited financial statements for the 12 months ended February 28, 2010 and the attached interim unaudited financial statement for the three months ended May 31, 2010. These interim financial statements are prepared in accordance with Canadian generally accepted accounting principles and have not been subject to a review by the Company's auditors. 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](http://www.homeserve.ca) or on SEDAR's website at [www.sedar.com](http://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 Brookfield Residential Property Services ("BRPS"), its residential real estate services division.

As at the date of this MD&A, these operations are supported by BRPS's shared management services platform. Homeserve is not listed for trading on any recognized stock exchange. Accordingly, a shareholder's ability to buy or sell shares of the Company is limited.

### OPERATIONS OVERVIEW

The Company has a multi-year agreement with Aeroplan<sup>®</sup> to offer Aeroplan<sup>®</sup> members the opportunity to earn Aeroplan<sup>®</sup> miles on various moving services through a national move and home program called Aeromove<sup>™</sup>. This partnership allows Homeserve to leverage its proprietary move services technology platform and extensive relationships with leading Canadian real-estate providers. Aeromove<sup>™</sup> generates revenue for the Company through a combination of fees earned from move service participants and a participation in the margin on Aeroplan<sup>®</sup> miles earned through the Aeromove<sup>™</sup> program. The Company launched the Aeromove<sup>™</sup> program on February 26, 2007.

ICON is a customizable software application that manages all aspects of a residential home relocation. This transaction provides an 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 divisions of BRPS are the sole licensees of the ICON software.

## RESULTS OF OPERATIONS: FIRST QUARTER IN 2011 AS COMPARED TO THE SAME PERIOD IN 2010

| <b>Three Months Ended May 31,</b>                     |               |        |
|---|---------------|--------|
| <i>(\$ thousands, except per share amounts)</i>       | <b>2010</b>   | 2009   |
| Revenue   | <b>5,706</b>  | 5,366  |
| Cost of sales   | <b>92</b>     | 63     |
| Gross margin  | <b>5,614</b>  | 5,303  |
| Operating costs – selling, general and administrative | <b>706</b>    | 867    |
| Operating costs – amortization                        | <b>1,238</b>  | 1,272  |
| Net income from operations                            | <b>3,670</b>  | 3,164  |
| Investment income                                     | –             | 65     |
| Net income for the period                             | <b>3,670</b>  | 3,229  |
| Preferred share dividends                             | <b>(994)</b>  | (994)  |
| Basic and diluted earnings to common shareholders     | <b>2,676</b>  | 2,235  |
| Basic and diluted earnings per common share           | <b>\$0.39</b> | \$0.32 |

As summarized in the chart above, the Company reported net income of \$3.7 million for the Quarter as compared to net income of \$3.2 million for the same period in Fiscal 2010, which after the payment of preferred share dividends, represents earnings per common share of \$0.39 and \$0.32 respectively, for the Quarter and for the same period in Fiscal 2010. Significant elements contributing to the \$0.5 million quarter-over-quarter increase in net income was attributed to increased revenue of \$0.3 million on higher relocation file volumes and reduced costs of \$0.2 million, due primarily to reduced staffing requirements.

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.

| <b>Contribution margin by segment</b>                 |              |       |
|---|--------------|-------|
| <i>(\$ thousands)</i>                                 | <b>2010</b>  | 2009  |
| <b>ICON licensing and consulting</b>                  |              |       |
| Revenue   | <b>5,537</b> | 5,240 |
| Operating costs                                       | <b>(227)</b> | (139) |
|   | <b>5,310</b> | 5,101 |
| <b>Software development and licensing</b>             |              |       |
| Revenue   | <b>169</b>   | 126   |
| Cost of sales   | <b>(92)</b>  | (63)  |
| Operating costs                                       | <b>(244)</b> | (610) |
|   | <b>(167)</b> | (547) |
| <b>Other</b>  |              |       |
| General and administration                            | <b>(235)</b> | (118) |
|   | <b>(235)</b> | (118) |
| <b>Contribution margin</b>                            | <b>4,908</b> | 4,436 |
| Comprised of:   |              |       |
| Revenue   | <b>5,706</b> | 5,366 |
| Cost of sales   | <b>(92)</b>  | (63)  |
| Operating costs – selling, general and administration | <b>(706)</b> | (867) |
|   | <b>4,908</b> | 4,436 |

**ICON licensing and consulting (“ICON”)** revenue for the Quarter of \$5.5 million [Fiscal 2010 - \$5.2 million] was generated from our contracted relocation and asset recovery, ICON licensing agreements (see “ICON Licensing Arrangements”) with BRPS. Approximately 86% [Fiscal 2010 – 87%] of Homeserve’s ICON licensing revenue for the Quarter is derived from BRPS contracts with the Government of Canada (“GOC”) for the provision of relocation services (see BRPS GOC Contracts). The recovery in the worldwide economy has positively impacted the Company’s ICON fees as they relate to corporate relocation activity which has increased approximately 17% in quarter-over-quarter file volumes,

while GOC file volumes which are driven in part by Government policy and programs has increased approximately 6% quarter-over-quarter. A summary of the Company's ICON file volumes is provided in the table below.

|                      | 2010   | 2009   |
|----------------------|--------|--------|
| Relocation files     | 12,056 | 11,235 |
| Asset recovery files | 353    | 561    |

**Software Development and Licensing**, which includes the development of the Company's Aeromove™ and MSAP initiatives, generated a contribution margin loss of \$0.2 million for the Quarter as compared to a contribution margin loss of \$0.5 million for the same period in Fiscal 2010, due primarily to reduced staffing requirements for the Aeromove™ operations. The operating costs for the Quarter relate primarily to salary, selling and administrative costs associated with the development of the Company's Aeromove™ and MSAP operations.

**General and administrative** operations are comprised of public operating costs related to shareholder communications, audit, regulatory filing fees, insurance costs, administrative expenditures and a management fee from BRPS for operations, finance and investment management services (see "Transactions with Related Parties"). The increase in general and administrative cost of \$0.1 million for the Quarter is due primarily to increased foreign exchange loss on our cash and cash equivalents denominated in U.S. dollars.

**Amortization** for the Quarter was consistent with the same period in Fiscal 2010.

**Investment income** is derived from income earned on the Company's cash and cash equivalents and realized income and losses on its short-term investments. Changes in the fair value of the Company's short-term investments representing unrealized gains and losses, net of tax, are recorded as part of accumulated other comprehensive income (see Comprehensive Income). The Company did not record any investment income during the Quarter as the Company divested its investments in June 2009 and reinvested proceeds for a 48% share in the High-Yield Advantage Fund (the "HYAF"), which is managed by Brookfield Investment Funds Management Inc. ["BIFMI"], a related party (see "Transactions with Related Parties").

As at May 31, 2010, the Company's short term investment in the HYAF has a fair value of \$32.7 million.

**Other Comprehensive Income** for the Quarter of \$0.8 million is due primarily to a 3.2% increase in the fair value of the HYAF, partially offset by 0.6% depreciation in the US dollar against the Canadian dollar.

## **LIQUIDITY AND CAPITAL RESOURCES**

| <i>(\$ thousands)</i>                       | As at<br>May 31, 2010 | As at<br>February 28, 2010 |
|---|-----------------------|----------------------------|
| <b>Current assets</b>                       |                       |                            |
| Cash and cash equivalents                   | 13,280                | 8,621                      |
| Short-term investments                      | 32,663                | 31,844                     |
| Accounts receivable                         | 1,358                 | 1,945                      |
| Prepaid and other assets                    | 250                   | 272                        |
| Current portion of future income tax assets | 713                   | 713                        |
|   | <b>48,264</b>         | 43,395                     |
| <b>Current liabilities</b>                  |                       |                            |
| Accounts payable and accrued liabilities    | 324                   | 209                        |
| Income taxes payable                        | 76                    | 76                         |
| Dividend payable                            | 659                   | 638                        |
|   | <b>1,059</b>          | 923                        |
| <b>Net current asset position</b>           | <b>47,205</b>         | 42,472                     |

As at May 31, 2010 and as summarized in the chart above, the Company had positive working capital of \$47.2 million, up \$4.7 million from February 28, 2010.

The primary driver of this increase in working capital was \$5.6 million generated from operating activities, partially offset by \$1.0 million in preferred dividend payments. Substantially all of the Company's revenue was derived from the Company's ICON licensing arrangements with the majority of this amount 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 Canadian Department of National Defence active posting season which typically occurs in the spring. In addition to this variability, the Company's ICON licensing fees per file (see "ICON Licensing Arrangements") decreases as certain volume thresholds are achieved, with these thresholds being measured on a calendar year basis.

The relocation file and ICON development and licensing fee revenue by quarter for Fiscal 2010 was earned as follows:

|    | Number of files | Revenue |
|----|-----------------|---------|
| Q1 | 44%             | 50%     |
| Q2 | 25%             | 24%     |
| Q3 | 16%             | 10%     |
| Q4 | 15%             | 16%     |

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").

#### **BRPS GOC CONTRACT**

Homeserve generates a significant amount of its ICON licensing and consulting fee revenue from BRPS's use of Homeserve's technology for the provision of relocation services under the GOC Contract, which was awarded to a subsidiary of BRPS on August 18, 2009, for a five year term and two one-year renewal options with an effective start date of December 1, 2009.

#### **CONTRACTUAL OBLIGATIONS**

The following is a summary of the Company's contractual obligations for the calendar year. As at May 31, 2010:

| <i>(\$ thousands)</i>     | Payments Due by Period |                     |              |              |                  |
|---------------------------|------------------------|---------------------|--------------|--------------|------------------|
|                           | Total                  | Less than<br>1 year | 2-3<br>years | 4-5<br>years | After<br>5 years |
| Contractual Obligations   |                        |                     |              |              |                  |
| Aeromove™ marketing       | 500                    | 250                 | 250          | Nil          | Nil              |
| Aeroplan® mile commitment | 743-855                | 330-380             | 413-475      | Nil          | Nil              |

Mile commitments are expressed in a range as different cost per mile are applied against different MSAP products.

#### **CAPITAL RESOURCES**

The financial resources available to the Company include \$13.3 million in cash and cash equivalents. The Company currently has no debt financing arrangements in place.

The Board of Directors discussed the appropriate terms under which it would seek to list the Corporation's common shares and reaffirmed that listing should be sought when there is a reasonable probability of returning value to common shareholders after having considered the overall capitalization of the Corporation and in particular, the servicing of the obligations related to the Corporation's preferred shares.

#### **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 BRPS. As at May 31, 2010, BRPS 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 | 18,500,000            | 100%                      |

### 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 Quarter with comparative figures for the prior year is as follows:

#### Three Months Ended May 31

| <i>(\$ millions)</i>               | 2010       | 2009 |
|------------------------------------|------------|------|
| <b>Revenue</b>                     |            |      |
| ICON                               | <b>5.5</b> | 5.2  |
| Software development and licensing | <b>0.1</b> | –    |
| <b>Expenses</b>                    |            |      |
| Management fees                    | <b>0.3</b> | 0.1  |
| Premises rent                      | –          | 0.1  |
| <b>Dividends</b>                   |            |      |
| Series A preferred shares          | –          | –    |
| Series B preferred shares          | <b>0.5</b> | 0.5  |
| Series C preferred shares          | <b>0.5</b> | 0.5  |

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 BRPS. Premises rent is for space occupied by Homeserve in buildings owned and managed by BRPS. There is an economic dependence on BRPS as substantially all of Homeserve's revenue is derived from BRPS.

Homeserve invested \$27.9 million in a 48% share in the HYAF managed by BIFMI, a related party. The HYAF is a fund comprising a diversified portfolio of high-yield investments with an expected return consistent with the Company's investment policy of seeking returns in excess of the dividend rate on the Company's preferred shares. To deliver these returns, the HYAF seeks to assume measured credit and market risk for higher current income and price appreciation potential while emphasizing capital preservation. BIFMI earns a management fee and a fee based on the performance of the fund for managing the fund.

## CAPITAL STRUCTURE AND OUTSTANDING SHARES

The Company's capital structure as at May 31, 2010 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 net income per share is as follows:

| <b>Three Months Ended May 31,</b>               |               |        |
|---|---------------|--------|
| <i>(\$ thousands, except per share amounts)</i> | <b>2010</b>   | 2009   |
| Net income for the period                       | <b>3,670</b>  | 3,229  |
| Preferred share dividends                       | <b>(994)</b>  | (994)  |
| Net income to common shareholders               | <b>2,676</b>  | 2,235  |
| Weighted average outstanding common shares      | <b>6,944</b>  | 6,944  |
| Basic and diluted earnings per common share     | <b>\$0.39</b> | \$0.32 |

Subject to Homeserve being profitable for the current fiscal year and the approval of the Board of Directors, income available to common shareholders may be further reduced by a payment of an Annual Participation Dividend of up to 20.89% of pre-defined pre-tax income of the Company as summarized in the chart below.

A summary of the Company's capital structure as at May 31, 2010 is summarized in the chart below.

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

1. Non-convertible, non-voting and redeemable by the Company for \$1.00 per share.

2. Quarterly cumulative dividend.

3. 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.

The Series A, Series B and Series C preferred shares are redeemable by the Company upon the payment of the sum of \$1.00 for each share to be redeemed.

The Company has an agreement with the holders of the Series C preferred shares to use its reasonable commercial efforts to seek a listing for the Series C preferred shares and the non-voting common shares, on a recognized Canadian stock exchange upon written request by the holders of such shares at any time.

## 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

ICON is expected to continue to provide significant licensing fee cash flows to the Company and opportunities to exploit licensing to 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 continues to assess licensing and consulting opportunities for ICON which includes the utilization of ICON to fulfill the requirements of our Aeromove™ initiatives.

On November 13, 2008, BRPS announced that it had acquired various Residential Property Services operations of GMAC. Included in these operations are GMAC's Relocation operations which have a worldwide presence providing services from offices in the United States, London, Singapore and Shanghai. These operations have subsequently been rebranded as Brookfield Global Relocation Services ("BGRS"). Although these operations utilize a different software platform to manage their relocation activities, the increase in BRPS's ability to service client's relocation needs on a much broader international

basis may provide further volumes and associated licensing fees to BRPS's Canadian relocation operations which currently utilize the Company's ICON software. Conversely, there is also the risk that BGRS may decide to migrate its relocation activity to its current software platform which would negatively impact the Company's contribution from the ICON business segment.

The award of the GOC Contract for the combined Canadian Forces, Government of Canada Department and Agencies and the Royal Canadian Mounted Police to a subsidiary of BRPS for a five year term with two one-year renewal options, which commenced on December 1, 2009, secures significant relocation volumes from which the Company earns fees. Management anticipates the fees earned from the GOC Contract will provide sustainable cash flows for the Company for the immediately foreseeable future.

#### **Aeromove™**

The Aeromove™ program successfully launched on February 26, 2007 with two national partners offering real estate and moving services and various move related suppliers. The real estate services are provided through BRPS, the moving services are provided by Atlas Van Lines and move related suppliers include 1-800 GOTJUNK and Amerispec of Canada.

The year over year increase in Aeromove™ revenue is a result of increased transaction flow from developments of new sales channels.

#### **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.

#### **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. Management will continue to evaluate higher yield investment opportunities, which meet its risk and liquidity tolerances.

#### **Forward-looking Statements**

This 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 quarterly 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.

### Selected Quarterly Information

The table below sets forth selected condensed quarterly information for the last eight quarters.

|  | 2011  | 2010   | 2010    | 2010  | 2010  | 2009    | 2009    | 2009    |
|--|-------|--------|---------|-------|-------|---------|---------|---------|
|  | Q1    | Q4     | Q3      | Q2    | Q1    | Q4      | Q3      | Q2      |
| <i>(\$ thousands, except per share amounts)</i>                    |       |        |         |       |       |         |         |         |
| Revenue  | 5,706 | 1,950  | 1,217   | 2,874 | 5,366 | 1,971   | 1,577   | 2,784   |
| Cost of sales  | 92    | 98     | 120     | 216   | 63    | 67      | 72      | 138     |
| Gross profit   | 5,614 | 1,852  | 1,097   | 2,658 | 5,303 | 1,904   | 1,505   | 2,646   |
| Operating expenses   |       |        |         |       |       |         |         |         |
| Selling, general, and administration                               | 706   | 668    | 1,032   | 1,240 | 867   | 1,189   | 1,450   | 1,341   |
| Amortization of property and equipment and intangible assets       | 1,238 | 1,269  | 1,270   | 1,272 | 1,272 | 1,459   | 1,543   | 1,539   |
| Income (loss) from operations                                      | 3,670 | (85)   | (1,205) | 146   | 3,164 | (744)   | (1,488) | (234)   |
| Investment income  | —     | 1      | —       | 77    | 65    | 55      | 144     | 102     |
| Gain on sale of short-term investments                             | —     | —      | —       | 839   | —     | —       | —       | —       |
| Impairment of intangible assets                                    | —     | —      | —       | —     | —     | (1,564) | —       | —       |
| Income (loss) before income tax                                    | 3,670 | (84)   | (1,205) | 1,062 | 3,229 | (2,253) | (1,344) | (132)   |
| Current income tax recovery  | —     | 320    | —       | —     | —     | —       | —       | —       |
| Provision for future income tax expense                            | —     | (217)  | —       | —     | —     | —       | —       | —       |
| Net Income (loss)  | 3,670 | 19     | (1,205) | 1,062 | 3,229 | (2,253) | (1,344) | (132)   |
| Preferred share dividends  | (994) | (972)  | (984)   | (995) | (994) | (971)   | (981)   | (992)   |
| Basic and diluted earnings (loss) available to common shareholders | 2,676 | (953)  | (2,189) | 67    | 2,235 | (3,224) | (2,325) | (1,124) |
| Basic and diluted earnings (loss) per common share                 | 0.39  | (0.14) | (0.32)  | 0.01  | 0.32  | (0.46)  | (0.33)  | (0.16)  |

- Gross profit is primarily attributed to licensing fees earned on BRPS government and corporate relocation activity. The government volumes made up approximately 86% of the revenue during the Quarter. A significant amount of file volume is generated during the first quarter when the military's active posting season is heaviest. The remaining government and corporate relocation file volumes relate 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 decreases as certain volume thresholds are achieved, with these thresholds being attained on a calendar year basis.
- Operating expenses relate to selling, general, administrative, and amortization expense. These costs decreased in the current period compared to the same period of Fiscal 2009 due primarily to reduced staffing requirements to deliver ICON services. The staffing reductions were in part achieved through the assumption of certain personnel and their salary obligations by BRPS.
- Amortization for the Quarter was consistent with the same period in Fiscal 2010.
- Investment income is derived from income earned on the Company's cash and cash equivalents and realized income and losses on its short-term investments. Changes in the fair value of the Company's short-term investments representing unrealized gains and losses, net of tax, are recorded as part of accumulated other comprehensive income (see Comprehensive Income). The Company did not record any investment income during the Quarter as the Company divested its investments in June 2009 and reinvested proceeds for a 48% share in the High-Yield Advantage Fund (the "HYAF"), which is managed by Brookfield Investment Funds Management Inc. ["BIFMI"], a related party (see "Transactions with Related Parties").

## ICON LICENSING ARRANGEMENTS

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

1. A seven-year transferable and renewable license with BRPS or its designee for the exclusive use of the ICON software in the North American relocation market for which BRPS 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 \$0.5 million. During the Quarter, the Company earned \$5.5 million in related licensing fees on 12,056 files opened.

As part of the licensing agreement BRPS 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 BRPS at cost plus 20%. During the Quarter, the Company did not provide any consulting services.

2. A five-year, non-transferable license with Asset Recovery, a division of BRPS, 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 was renewed on October 15, 2009. During the Quarter, the Company earned \$0.1 million in related fees on 353 files opened.

## 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.

### *Estimated useful life of Intangible Assets and Property and Equipment*

The estimated useful life of intangible assets and property and equipment, 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 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 the license and sub-license for use of ICON and the build-out of the Aeromove™ and MSAP systems. The cost of 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 \$4.1 million as at May 31, 2010. 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 2010, the Company recognized a \$0.2 million provision for future income tax and as of February 28, 2010 has recognized \$1.8 million of future income tax assets to be utilized to offset Fiscal 2011 and Fiscal 2012 income tax expense 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 an additional net benefit of \$5.8 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.

## **CONTROLS AND PROCEDURES**

The Company maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. Our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and 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 May 31, 2010 and have concluded that such disclosure controls and procedures are operating effectively.

Management is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our Chief Executive and Chief Financial Officer assessed, or caused an assessment under their direct supervision of, the design of the Company's internal controls over financial reporting (as defined in Multilateral

Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at May 31, 2010 and, based on the assessment, determined that the Company's internal controls over financial reporting were appropriately designed. No changes were made to the design of the Company's internal controls over financial reporting for the year ended May 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Note however, that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

## **FUTURE CHANGES TO ACCOUNTING STANDARDS**

### *International Financial Reporting Standards*

The Company will apply the new accounting standards at the beginning of its 2012 fiscal year. As a result of the new standard, the Company has established an IFRS implementation committee with a mandate to oversee the conversion process, including any impact that the conversion may have on business practices, systems and internal controls over financial reporting. In the third quarter of fiscal 2009, the implementation committee initiated an analysis of the differences between IFRS and the Company's current accounting policies, as well as an assessment of the impact of various accounting alternatives offers pursuant to IFRS. The implementation committee also implemented an education program for key employees responsible for financial reporting. The impact of the new standards on the Company's results of operations, financial position and disclosures continue to be assessed as part of the Company's IFRS transition project.

### *EIC-175 Multiple Deliverable Revenue Arrangements*

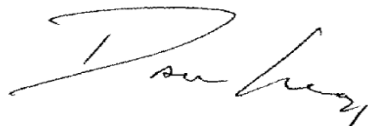
In December 2009, the CICA issued EIC-175, Multiple Deliverable Revenue Arrangements ("EIC-175"). EIC-175, which replaces EIC-142, Revenue Arrangements with Multiple Deliverables, addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. This new standard is effective for the Corporation's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company is assessing the impact of the new standard on its financial statements.

**Homeserve Technologies Inc.**  
**Interim Balance Sheets**

| <i>(\$ thousands)</i>                                    | As at<br>May 31,<br>2010<br>(unaudited) | As at<br>February 28,<br>2010 |
|--|---|-------------------------------|
| <b>ASSETS</b>  |   |                               |
| <b>Current</b>   |   |                               |
| Cash and cash equivalents                                | 13,280                                  | 8,621                         |
| Short-term investments <i>[note 4]</i>                   | 32,663                                  | 31,844                        |
| Accounts receivable <i>[note 9]</i>                      | 1,358                                   | 1,945                         |
| Prepaid expenses and other assets                        | 250                                     | 272                           |
| Current portion of future income tax assets              | 713                                     | 713                           |
|  | <b>48,264</b>                           | 43,395                        |
| Property, plant and equipment, net <i>[note 5]</i>       | 31                                      | 41                            |
| Intangible assets, net <i>[note 6]</i>                   | 4,093                                   | 5,321                         |
| Future tax assets  | 1,082                                   | 1,082                         |
|  | <b>53,470</b>                           | 49,839                        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>              |   |                               |
| <b>Current</b>   |   |                               |
| Accounts payable and accrued liabilities <i>[note 9]</i> | 324                                     | 209                           |
| Income and other taxes payable                           | 76                                      | 76                            |
| Dividends payable <i>[note 9]</i>                        | 659                                     | 638                           |
|  | <b>1,059</b>                            | 923                           |
| Commitments <i>[note 10]</i>                             |   |                               |
| <b>Shareholders' equity</b>                              |   |                               |
| Capital stock <i>[note 7]</i>                            | 48,292                                  | 48,292                        |
| Deficit  | (115)                                   | (2,791)                       |
| Accumulated other comprehensive income <i>[note 15]</i>  | 4,234                                   | 3,415                         |
|  | <b>52,411</b>                           | 48,916                        |
|  | <b>53,470</b>                           | 49,839                        |

See accompanying notes

On behalf of the Board:



David Lacey  
Director



Joseph S. Freedman  
Director

**Homeserve Technologies Inc.**  
**Interim Statements of Income and Retained Earnings (Deficit)**

| <b>Three months ended May 31</b>                          | <b>2010</b>        | 2009        |
|---|--------------------|-------------|
| <i>(\$ thousands, except per common share amounts)</i>    | <b>(unaudited)</b> | (unaudited) |
| <b>REVENUE</b> [notes 3, 9 and 12]                        | <b>5,706</b>       | 5,366       |
| Cost of sales   | <b>92</b>          | 63          |
| <b>Gross margin</b>                                       | <b>5,614</b>       | 5,303       |
| <b>OPERATING EXPENSES</b>                                 |                    |             |
| Selling, general and administrative [note 9]              | <b>706</b>         | 867         |
| Amortization of property, plant and equipment [note 5]    | <b>10</b>          | 44          |
| Amortization of intangible assets [note 6]                | <b>1,228</b>       | 1,228       |
| Income from operations before the undernoted              | <b>3,670</b>       | 3,164       |
| Investment income   | <b>—</b>           | 65          |
| <b>Net income for the period</b>                          | <b>3,670</b>       | 3,229       |
| Preferred share dividends [note 9]                        | <b>(994)</b>       | (994)       |
| Net income to common shareholders                         | <b>2,676</b>       | 2,235       |
| Deficit, beginning of period                              | <b>(2,791)</b>     | (1,951)     |
| <b>Retained Earnings (Deficit), end of period</b>         | <b>(115)</b>       | 284         |
| <br>  |                    |             |
| Net income to common shareholders [note 7]                | <b>2,676</b>       | 2,235       |
| <b>Basic and diluted income per common share</b> [note 7] | <b>\$0.39</b>      | \$0.32      |

See accompanying notes

**Homeserve Technologies Inc.**  
**Interim Statements of Comprehensive Income**

| <b>Three months ended May 31</b>                             | <b>2010</b>        | 2009           |
|--|--------------------|----------------|
| <i>(\$ thousands)</i>  | <b>(unaudited)</b> | (unaudited)    |
| Net income for the period                                    | <b>3,670</b>       | <b>3,229</b>   |
| Unrealized gain (loss) on short-term investments, net of tax | <b>819</b>         | <b>(1,004)</b> |
| Other comprehensive income (loss) for the period             | <b>819</b>         | <b>(1,004)</b> |
| <b>Comprehensive income</b>                                  | <b>4,489</b>       | <b>2,225</b>   |

See accompanying notes

**Homeserve Technologies Inc.**  
**Interim Statements of Cash Flows**

| <b>Three months ended May 31</b>  | <b>2010</b>        | 2009               |
|---|--------------------|--------------------|
| <i>(\$ thousands)</i>   | <i>(unaudited)</i> | <i>(unaudited)</i> |
| <b>OPERATING ACTIVITIES</b>   |                    |                    |
| Net income for the period   | 3,670              | 3,229              |
| Add items not involving cash  |                    |                    |
| Amortization of property, plant and equipment   | 10                 | 44                 |
| Amortization of intangible assets   | 1,228              | 1,228              |
|   | <b>4,908</b>       | 4,501              |
| Net change in non-cash working capital balances<br>related to operations <i>[note 13]</i> | 724                | (765)              |
|   | <b>5,632</b>       | 3,736              |
| <b>FINANCING ACTIVITIES</b>   |                    |                    |
| Payment of preferred share dividends <i>[note 9]</i>                                      | (973)              | (973)              |
|   | <b>(973)</b>       | (973)              |
| <b>INVESTING ACTIVITIES</b>   |                    |                    |
| Acquisition of property, plant and equipment  | —                  | (2)                |
|   | —                  | (2)                |
| <b>Net increase in cash and cash equivalents<br/>during the period</b>                    | <b>4,659</b>       | 2,761              |
| Cash and cash equivalents, beginning of period  | 8,621              | 11,271             |
| <b>Cash and cash equivalents, end of period</b>   | <b>13,280</b>      | 14,032             |
| <b>Supplemental cash flow information</b>   |                    |                    |
| Interest income received  | —                  | 65                 |
| <b>Supplemental disclosure of non-cash investing<br/>and financing activities</b>         |                    |                    |
| Operating cash  | 13,280             | 3,032              |
| Cash equivalents  | —                  | 11,000             |
| <b>Cash and Cash equivalents</b>  | <b>13,280</b>      | 14,032             |

*See accompanying notes*

## **Homeserve Technologies Inc.**

### **Notes to Interim Financial Statements**

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

May 31, 2010

#### **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., operating through certain subsidiaries as Brookfield Residential Property Services ["BRPS"], its residential real estate services division.

As at May 31, 2010, the Company had three reportable segments, ICON, 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. Software development and licensing revenues are generated from software licensing and royalty fees.

#### **Cyclical nature of earnings**

The Company's earnings are cyclical in nature due primarily to a significant portion of the Company's relocation files, from which it earns ICON licensing fees, being generated during the first quarter. This file volume arises from the Government of Canada relocation contracts serviced by BRPS and specifically the Canadian Forces, which typically generates the majority of their relocation requirements during their active posting season in the spring which coincides with the Company's first quarter. Further amplifying this effect is the contracted nature of the ICON fees which commence at the beginning of each calendar year at \$500 per file for the first 10,000 files, \$400 per file for the next 10,000 files, and \$250 per file thereafter.

#### **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.

## Homeserve Technologies Inc.

### Notes to Interim Financial Statements

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

May 31, 2010

#### Short-term investments

Short-term investments consist of investments that are designated as available-for-sale financial assets, and are carried at fair value. Changes to the fair value of the financial assets are recorded in other comprehensive income (loss).

#### Financial instruments

All financial instruments are classified into one of the following categories: held-for-trading; held-to-maturity; loans and receivables; available-for-sale or other financial liabilities. All financial instruments, including derivatives, are measured at fair value, except for loans and receivables, held-to-maturity instruments and other financial liabilities, including derivatives, which are measured at amortized cost. Transaction costs for financial liabilities are applied against these liabilities and amortized using the effective interest method, the resulting amortization being recorded as financial expenses. Gains and losses on held-for-trading and held-to-maturity financial instruments are included in net income (loss) in the period in which they arise. Gains and losses on available-for-sale financial instruments are included in other comprehensive income (loss) in the year in which they arise.

The Company made the following classifications:

|  |                             |
|--|-----------------------------|
| Cash and cash equivalents                | Held-for-trading            |
| Short-term investments                   | Available-for-sale          |
| Accounts receivables                     | Loans and receivables       |
| Accounts payable and accrued liabilities | Other financial liabilities |
| Dividends payable                        | Other financial liabilities |

#### Property and equipment

Property 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                |
| Leased equipment                | over term of the lease |

Management reviews the carrying value of property and equipment on a periodic basis to determine if 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 and equipment is charged to the statements of income (loss) and retained earnings (deficit) in the period such impairment is determined.

#### Intangible assets

Intangible assets are recorded at cost less accumulated amortization. Amortization for software systems is provided on a straight-line basis over the 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.

## **Homeserve Technologies Inc.**

### **Notes to Interim Financial Statements**

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

May 31, 2010

#### **Revenue recognition**

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 as services are provided.

Licensing fees and other revenue related to Aeromove<sup>(TM)</sup> are recognized as earned and when collection is reasonably assured, 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.

#### **Foreign exchange**

The Company translates cash and cash equivalents, and investments denominated in the United States ("US") dollars according to the Bank of Canada foreign exchange rates. Gains and losses resulting from foreign exchange translation of cash and cash equivalents are recorded under general and administrative expenses. Gains and losses resulting from foreign exchange translation of investments are recorded under other comprehensive income (loss).

#### **Loss per share**

Loss per share is calculated using the weighted average number of common shares outstanding during the year.

#### **Adoption of new accounting standards**

##### **Future accounting changes**

###### *International Financial Reporting Standards*

The Company will apply the new accounting standards at the beginning of its 2012 fiscal year. As a result of the new standard, the Company has established an IFRS implementation committee with a mandate to oversee the conversion process, including any impact that the conversion may have on business practices, systems and internal controls over financial reporting. In the third quarter of fiscal 2009, the implementation committee initiated an analysis of the differences between IFRS and the Company's current accounting policies, as well as an assessment of the impact of various accounting alternatives offers pursuant to IFRS. The implementation committee also implemented an education program for key employees responsible for financial reporting. The impact of the new standards on the Company's results of operations, financial position and disclosures continue to be assessed as part of the Company's IFRS transition project.

## Homeserve Technologies Inc.

### Notes to Interim Financial Statements

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

May 31, 2010

#### *EIC-175 Multiple Deliverable Revenue Arrangements*

In December 2009, the CICA issued EIC-175, Multiple Deliverable Revenue Arrangements (“EIC-175”). EIC-175, which replaces EIC-142, Revenue Arrangements with Multiple Deliverables, addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. This new standard is effective for the Corporation’s interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company is assessing the impact of the new standard on its financial statements.

### 3. 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 BRPS or its designee for the exclusive use of the ICON software in the North American relocation market for which BRPS 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 three months ended May 31, 2010, the Company earned \$5,520 in ICON licensing fees on 12,056 files opened [2009 - \$5,201 in ICON licensing fees on 11,235 files opened].
2. A five-year, non-transferable license with Asset Recovery, a division of BRPS, 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, which was renewed on October 15, 2009. During the three months ended May 31, 2010, the Company earned \$17 in Asset Recovery licensing fees on 353 files opened [2009 - \$39 in Asset Recovery licensing fees on 561 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 programs called Aeromove™ and Move Services Affinity Program (“MSAP”), which utilizes the Company's ICON platforms. Aeromove™ and MSAP 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™ and MSAP programs. The license agreement commenced on August 2, 2006 with an initial term of five years following the launch date with successive three-year renewal terms. During the three months ended May 31, 2010, the Company earned \$169 from Aeromove™ licensing agreements [2009 - \$126].

## Homeserve Technologies Inc.

### Notes to Interim Financial Statements

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

May 31, 2010

#### 4. SHORT-TERM INVESTMENTS

In 2009, the Company acquired a 48% share of the High-Yield Advantage Fund (“the HYAF”) managed by Brookfield Investment Funds Management Inc. [“BIFMI”], a related party. The HYAF holds a diversified portfolio of high-yield investments with an expected return consistent with the Company’s investment policy of seeking returns in excess of the dividend rate on the Company’s preferred shares. The fair value of the investment in the HYAF as of May 31, 2010 is \$32,633 with a cost of \$27,941. The \$4,234 unrealized gain, which is net of tax of \$488 in the HYAF is recorded in other comprehensive income (loss). The fair value of the investment in the HYAF is determined by published prices of the HYAF’s underlying assets.

#### 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

|                                 | May 31, 2010 |                          |                | February 28, 2010 |                          |                |
|---------------------------------|--------------|--------------------------|----------------|-------------------|--------------------------|----------------|
|                                 | Cost         | Accumulated amortization | Net book value | Cost              | Accumulated amortization | Net book value |
|                                 | \$           | \$                       | \$             | \$                | \$                       | \$             |
| Computer equipment and software | 1,289        | (1,266)                  | 23             | 1,289             | (1,257)                  | 32             |
| Furniture and office equipment  | 275          | (267)                    | 8              | 275               | (266)                    | 9              |
|                                 | <b>1,564</b> | <b>(1,533)</b>           | <b>31</b>      | <b>1,564</b>      | <b>(1,523)</b>           | <b>41</b>      |

Amortization for the three months ended May 31, 2010 was \$10 [2009 - \$44].

#### 6. INTANGIBLE ASSETS

Intangible assets consist of the following:

|                  | May 31, 2010  |                          |                | February 28, 2010 |                          |                |
|------------------|---------------|--------------------------|----------------|-------------------|--------------------------|----------------|
|                  | Cost          | Accumulated amortization | Net book value | Cost              | Accumulated amortization | Net book value |
|                  | \$            | \$                       | \$             | \$                | \$                       | \$             |
| Software systems | 30,001        | (25,908)                 | 4,093          | 30,001            | (24,680)                 | 5,321          |
|                  | <b>30,001</b> | <b>(25,908)</b>          | <b>4,093</b>   | <b>30,001</b>     | <b>(24,680)</b>          | <b>5,321</b>   |

Included under software systems are the acquisition costs of the ICON software. Amortization for the three months ended May 31, 2010 was \$1,228 [2009 - \$1,228].

## Homeserve Technologies Inc.

### Notes to Interim Financial Statements

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

May 31, 2010

#### 7. CAPITAL STOCK

Capital stock consists of the following:

|   | <b>May 31,<br/>2010</b> | February 28,<br>2010 |
|---|-------------------------|----------------------|
|   | \$                      | \$                   |
| <b>Authorized</b>                           |                         |                      |
| Unlimited preferred shares issued in series |                         |                      |
| Unlimited common shares                     |                         |                      |
| Unlimited non-voting common shares          |                         |                      |
| <b>Issued</b>                               |                         |                      |
| 1,280,000 Series A preferred shares         | <b>1,280</b>            | 1,280                |
| 22,000,000 Series B preferred shares        | <b>22,000</b>           | 22,000               |
| 18,500,000 Series C preferred shares        | <b>18,500</b>           | 18,500               |
| 3,443,687 common shares                     | <b>3,012</b>            | 3,012                |
| 3,500,000 non-voting common shares          | <b>3,500</b>            | 3,500                |
|   | <b>48,292</b>           | 48,292               |

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. 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 annual Series A fixed preferential cumulative dividends paid and payable for the three months ended May 31, 2010 was \$48 [2009 - \$48]. The annual Series B fixed preferential cumulative dividends paid and payable for the three months ended May 31, 2010 was \$819 [2009 - \$819].

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 income before income taxes 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 three months ended May 31, 2010 was \$nil [2009 - \$nil].

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 income before income taxes 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 three months ended May 31, 2010 was \$nil [2009 - nil].

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 annual

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Series C fixed preferential cumulative dividends paid and payable for the three months ended May 31, 2010 was \$765 [2009 - \$765].

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 income before income taxes 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 three months ended May 31, 2010 was \$nil [2009 - nil].

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

#### Income per share

Basic income per share have been calculated using the weighted average number of common shares outstanding of 6,943,687 for the three months ended May 31, 2010 and May 31, 2009 are as follows.

| <b>Three months ended May 31</b>                 | <b>2010</b>   | <b>2009</b> |
|--|---------------|-------------|
|  | \$            | \$          |
| Net income for the period                        | <b>3,670</b>  | 3,229       |
| Dividends paid on preferred shares               | <b>(994)</b>  | (994)       |
| <b>Net income to common shareholders</b>         | <b>2,676</b>  | 2,235       |
| Weighted average outstanding common shares       | <b>6,944</b>  | 6,944       |
| <b>Basic and diluted income per common share</b> | <b>\$0.39</b> | \$0.32      |

#### 8. MANAGEMENT OF CAPITAL

The Company defines the capital that it manages as the aggregate of its cash and cash equivalents, short-term investments, common shares, and retained earnings. The Company's objectives when managing capital is to ensure that the Company will continue as a going concern so that it can provide necessary services to its clients, and invest its excess cash in instruments that have a potential to generate a return that would offset, or partially offset, the dividends declared on the Company's preferred shares.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Company may re-list on a public exchange and issue additional shares or debt in the future. The Company's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Company's needs and economic conditions at the time of the transaction. As of May 31, 2010, the Company did not issue any additional shares and does not have any debt outstanding.

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#### 9. RELATED PARTY TRANSACTIONS

The Company had the following transactions with related parties 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.

| <b>Three months ended May 31,</b>     | <b>2010</b>  | <b>2009</b> |
|---------------------------------------|--------------|-------------|
|                                       | <b>\$</b>    | <b>\$</b>   |
| <b>Revenue</b>                        |              |             |
| ICON                                  | <b>5,537</b> | 5,240       |
| Software development and licensing    | <b>44</b>    | –           |
| <b>Expenses</b>                       |              |             |
| Management fee and cost reimbursement | <b>333</b>   | 87          |
| Rent                                  | <b>–</b>     | 49          |
| Preferred share dividends             | <b>994</b>   | 994         |

As at May 31, 2010 the Company has accounts receivable of \$1,564 [Feb 28, 2010 - \$1,763], dividends payable of \$658 [Feb 28, 2010 - \$638] and accounts payable and accrued liabilities of \$184 [Feb 28, 2010 - \$153] with related parties.

The Company invested \$27,941 for a 48% interest in the HYAF managed by BIFMI, a related party. The HYAF holds a diversified portfolio of high-yield investments with an expected return consistent with the Company's investment policy of seeking returns in excess of the dividend rate on the Company's preferred shares.

#### 10. COMMITMENTS

##### AEROPLAN

On October 1, 2009, the Company amended its agreement with Aeroplan® with reduced cost per mile on certain MSAP products and lower mile commitments over the next two calendar years. Mile commitments are expressed in a range as different cost per miles are applied against different MSAP products. A summary of the Company's Aeroplan® commitments on a calendar year basis is as follows:

|      | <b>Miles</b> | <b>Marketing</b> |
|------|--------------|------------------|
|      | <b>\$</b>    | <b>\$</b>        |
| 2010 | 330 – 380    | 250              |
| 2011 | 413 – 475    | 250              |
|      | 743 – 855    | 500              |

The mile commitment is based on the minimum number of miles that the Company is required to purchase and have been assumed by a related party of a significant shareholder of the Company. The related party is a wholly-owned subsidiary of Brookfield Asset Management Inc. operating through certain subsidiaries as BRPS.

#### 11. FINANCIAL INSTRUMENTS

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Financial instruments primarily consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, and dividends payable.

#### Held-For-Trading

Cash and cash equivalents are designated as held-for-trading financial asset. The Company deposits its excess cash with a highly rated Canadian financial institution and from time-to-time invests in short term guaranteed investment certificates ("GIC") or bankers' acceptances ("BA"). As at May 31, 2010, the Company did not have any investments in daily GIC's or BA's [2009 - \$11,000].

#### Available-For-Sale

As at May 31, 2010, short-term investment is comprised of a 48% share in the HYAF with a fair value of \$32,663 [2009 - \$nil].

As at May 31, 2009, short-term investments were comprised of 3,500 units in a US corporate bond with a yield to maturity of 5.75% valued at \$3,905, and a 15.6% share in a high-yield credit opportunity fund valued at \$18,048. The total fair value of the short-term investments was \$21,953.

#### Loans and Receivable

Accounts receivable are designated as loans and receivable. The Company's accounts receivable consist of trade accounts receivable recorded at fair value. A substantial portion of the Company's accounts receivable is from a related party, and the associated credit risks are minimal.

#### Other Financial Liabilities

The Company's accounts payable and accrued liabilities and dividend payable are short-term liabilities with carrying values that approximate their fair values.

#### Fair values

The carrying values reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and dividends payable 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 \$32,663 [2009 - \$21,953].

The following table summarizes the financial instruments measured at fair value in the balance sheet as at May 31, 2010, classified using the fair value hierarchy:

|                                     | Level 1   | Level 2  | Level 3 | Total     |
|-------------------------------------|-----------|----------|---------|-----------|
| <b>Financial asset or liability</b> |           |          |         |           |
| Cash                                | \$ 13,280 | \$ -     | \$ -    | \$13,280  |
| Short-term investments              | -         | 32,663   |         | 32,663    |
| Total                               | \$13,280  | \$32,663 | \$ -    | \$ 45,943 |

The Company's valuation techniques used include credit risk spreads upon adoption of EIC 173, credit risk and the fair value of financial assets and liabilities.

## **Homeserve Technologies Inc.**

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#### **Interest rate risks**

As at May 31, 2010, short-term investments were comprised of a 48% share in the HYAF.

The Company mitigates its exposure to interest rate risks by restricting investments to high-grade securities.

#### **Credit risks**

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, short-term investments, and accounts receivable. The Company deposits its cash with a reputable financial institution and therefore management believes the risk of loss of these amounts to be remote. As at May 31, 2010, the Company had cash and cash equivalents of \$13,280 [2009 - \$8,621].

Concentration of credit risk arises when a group of customers have a similar characteristic, such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. The Company's largest customer is BRPS, a related party, which accounts for substantially all of accounts receivable at May 31, 2010 with regular payment terms of 60 days. As at May 31, 2010, \$34 in accounts receivable due from a related party were 60 days past due [Feb 28, 2010 - \$56]. Management does not believe that the Company runs a significant credit risk with respect to this customer. The maximum exposure in respect of accounts receivable is equal to their carrying value.

As at May 31, 2010, the Company did not provide an allowance for doubtful account against accounts receivable [2009 - \$2].

#### **Liquidity risk**

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and short-term investments. As at May 31, 2010, the Company had cash and cash equivalents of \$13,280 [2009 - \$14,032] and short-term investments of \$32,663 [2009 - \$21,953].

#### **Sensitivity Analysis**

CICA Handbook Section 3862 requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of changes in market variables [foreign exchange rates and interest rates] to the Company's financial position and performance as a result of changes in the fair value of cash flows associated with the Company's financial instruments. The sensitivity analysis provided below discloses the effect on profit or loss for the three months ended May 31, 2010, assuming that a reasonably possible change in the relevant risk variable has occurred during the year and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities where available or historical data. The sensitivity analysis has been prepared based on May 31, 2010 balances and on the basis that the balances, and the financial instruments in foreign currencies in place at May 31, 2010 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments under CICA Handbook Section 3855. The sensitivity analysis provided is hypothetical and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Company's actual exposure to market rates is constantly changing as the Company's portfolio of financial instruments change. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates, and strategies

## Homeserve Technologies Inc.

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employed by the Company or other mitigating actions that would be taken by the Company.

|                           | Carrying Amount | Interest Rate Risk |            | Foreign Exchange Risk |             |
|---------------------------|-----------------|--------------------|------------|-----------------------|-------------|
|                           |                 | -1% Income         | +1% Income | -10% Income           | +10% Income |
| <b>As at May 31, 2010</b> |                 |                    |            |                       |             |
| <b>Financial Assets:</b>  |                 |                    |            |                       |             |
| Cash and cash equivalents | 13,280          | (133)              | 133        | (511)                 | 511         |
| Short term investments    | 32,663          | (327)              | 327        | (3,122)               | 3,122       |

|                                | Carrying Amount | Interest Rate Risk |            | Foreign Exchange Risk |             |
|--------------------------------|-----------------|--------------------|------------|-----------------------|-------------|
|                                |                 | -1% Income         | +1% Income | -10% Income           | +10% Income |
| <b>As at February 28, 2010</b> |                 |                    |            |                       |             |
| <b>Financial Assets:</b>       |                 |                    |            |                       |             |
| Cash and cash equivalents      | 8,621           | (86)               | 86         | -                     | -           |
| Short term investments         | 31,844          | (318)              | 318        | (3,025)               | 3,025       |

## 12. ECONOMIC DEPENDENCE

For the three months ended May 31, 2010, the Company derived \$5,537 or 97.0% [2009 - \$5,240 or 97.7%] of its revenue from BRPS.

## 13. STATEMENTS OF CASH FLOWS

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

| <b>Three months ended May 31</b>         | <b>2010</b> | <b>2009</b>  |
|--|-------------|--------------|
|  | \$          | \$           |
| Accounts receivable                      | 587         | (713)        |
| Prepaid expenses and other assets        | 22          | 62           |
| Accounts payable and accrued liabilities | 115         | 8            |
| Income and other taxes payable           | -           | (122)        |
|  | <b>724</b>  | <b>(765)</b> |

## Homeserve Technologies Inc.

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#### 14. SEGMENTED REPORTING

##### General description

The Company has three reportable operating segments: ICON, Software Development and Licensing, and General and Administration.

ICON is a customizable software application that manages all aspects of a residential home relocation service. Software development and licensing includes the Company's Aeromove™ and MSAP operations. General and Administration provides support to the two 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:

| <b>Three months ended May 31</b>              | <b>2010</b>    | <b>2009</b> |
|---|----------------|-------------|
|   | <b>\$</b>      | <b>\$</b>   |
| <b>Revenue</b>                                |                |             |
| ICON  | <b>5,537</b>   | 5,240       |
| Software development and licensing            | <b>169</b>     | 126         |
|   | <b>5,706</b>   | 5,366       |
| <b>Contribution margin</b>                    |                |             |
| ICON  | <b>5,310</b>   | 5,101       |
| Software development and licensing            | <b>(167)</b>   | (547)       |
| General and administration                    | <b>(235)</b>   | (118)       |
|   | <b>4,908</b>   | 4,436       |
| Investment income                             | <b>—</b>       | 65          |
| Amortization of property, plant and equipment | <b>(10)</b>    | (44)        |
| Amortization of intangible assets             | <b>(1,228)</b> | (1,228)     |
| <b>Net income for the period</b>              | <b>3,670</b>   | 3,229       |
| <b>Total Assets</b>                           |                |             |
| ICON  | <b>4,093</b>   | 9,005       |
| Software development and licensing            | <b>—</b>       | —           |
| General and administration                    | <b>31</b>      | 168         |
|   | <b>4,124</b>   | 9,173       |

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**15. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table summarizes the changes within accumulated other comprehensive income (loss):

| <b>Three months ended May 31</b>                           | <b>2010</b>  | <b>2009</b> |
|--|--------------|-------------|
|  | \$           | \$          |
| Balance, beginning of period                               | <b>3,415</b> | (107)       |
| Add: unrealized gain on short-term investments, net of tax | <b>819</b>   | (1,004)     |
| <b>Balance, end of period</b>                              | <b>4,234</b> | (1,111)     |