



Second Quarter 2006

Homeserve Technologies Inc.

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS


Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the company have been prepared by and are the responsibility of the company's management.

The company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.



Jim Dunbar
President and Chief Executive Officer



Kevin Cash
Chief Financial Officer

October 20, 2005

Management's Discussion and Analysis of Results and Financial Condition

The following Management's Discussion and Analysis of Results and Financial Condition ("MD&A") of Homeserve Technologies Inc. ("Homeserve" or the "Company") covers the period from June 1, 2005 to August 31, 2005 (the "Quarter"). This MD&A has been prepared as at October 20, 2005. This MD&A should be read in conjunction with our audited consolidated financial statements for the twelve months ended February 28, 2005 and the attached interim unaudited financial statements for the quarter ended August 31, 2005. These interim financial statements are prepared in Canadian dollars and are in accordance with Canadian generally accepted accounting principles. These interim financial statements 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 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 of the Company, is Brookfield Asset Management (currently Brascan Corporation) operating through certain subsidiaries as Centract Residential Property Services ("Centract"), its real estate services division.

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

Due to the inability of Homeserve to meet the continued listing requirements of the Toronto Stock Exchange ("TSX"), Homeserve's Common shares were delisted from trading on the TSX on August 29, 2002. Currently Homeserve is not listed for trading on any recognized stock exchange. As Homeserve is not listed on a stock exchange a shareholder's ability to buy or sell shares is limited.

Operations Overview

On April 13, 2004, the Company acquired Centract's ICON software and entered into licensing arrangements, among other matters (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 of the ICON software are divisions of Centract.

In April 2003, Home-Link acquired, for US\$100,000, a permanent, exclusive, royalty-free, transferable, license to use its CARE II CRM software in Canada and to sub-license its use to others in Canada. As a result of this transaction, Home-Link saved over US\$220,000 per year in license payments. The Company considers this both a significant financial saving for the Company and an opportunity to market its CARE II CRM solutions to banking and retail operations. As such, 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.

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 for the Quarter was 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.

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

Results of Operations : Second Quarter 2006 Compared to Second Quarter 2005

| <i>(\$ thousands, except per share amounts)</i> | Three months ended August 31, 2005 | Three months ended August 31, 2004 |
|---|---|---------------------------------------|
| Revenue | 2,232 | 2,540 |
| Operating costs | 561 | 754 |
| Contribution margin | 1,671 | 1,786 |
| Investment income | 241 | 213 |
| Gain on sale of investments | — | 146 |
| Amortization | (530) | (559) |
| Other | — | (9) |
| Net income for the period | 1,382 | 1,577 |
| Basic and diluted earnings per common share | | |
| Basic | \$ 0.24 | \$ 0.30 |
| Diluted | \$ 0.12 | \$ 0.15 |

As summarized in the chart above, the Company reported net income of \$1.4 million for the Quarter as compared to net income of \$1.6 million for the three months ended August 31, 2004. After the payment of preferred share dividends this represents basic and diluted earnings per share available to common shareholders of \$0.24 per share and \$0.12 per share, respectively. The most significant elements contributing to the \$0.2 million quarter-over-quarter decrease in net income were a \$0.2 million decrease in ICON operations' contribution margin and a decrease of \$0.1 million in the gain on sale of investments. Partially offsetting these amounts was a \$0.1 million decrease in Home-Link's contribution margin loss resulting from the downsizing activities undertaken in fiscal 2004. 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.

| <i>(\$ thousands)</i> | Three months ended August 31, 2005 | Three months ended August 31, 2004 |
|---|---|---------------------------------------|
| ICON licensing and consulting | | |
| Revenue | 2,211 | 2,469 |
| Operating costs | (222) | (260) |
| | 1,989 | 2,209 |
| Software development and licensing | | |
| Revenue | — | 9 |
| Operating costs | (52) | (74) |
| | (52) | (65) |
| Home-Link operations | | |
| Revenue | 21 | 62 |
| Operating costs | (128) | (236) |
| | (107) | (174) |
| Other | | |
| General and administration | (159) | (184) |
| | (159) | (184) |
| Contribution margin | | |
| Revenue | 2,232 | 2,540 |
| Operating costs | (561) | (754) |
| | 1,671 | 1,786 |

ICON licensing and consulting ("ICON") activities consist of \$2.2 million in revenue generated from our contracted relocation and asset recovery license agreements (see "ICON Transaction") with Centract as compared to \$2.5 million for the same period of the prior year as summarized in the chart below. The \$0.3 million difference year over year is attributed to reaching the 10,000 file threshold sooner in fiscal 2006 versus fiscal 2005. At 10,000 files revenue decreases to \$400 per file from \$500 per

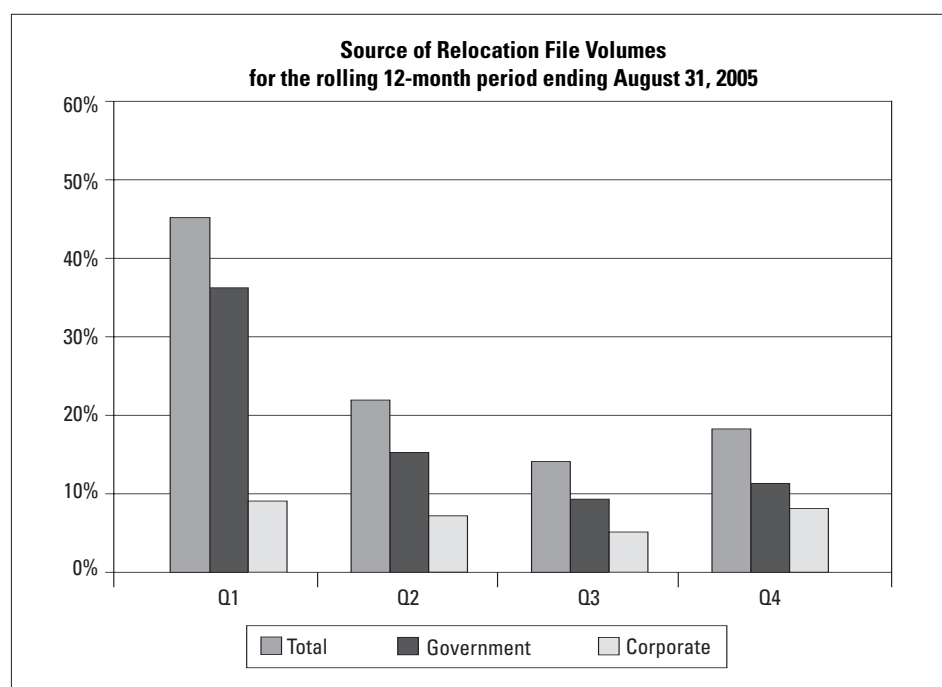
file. Of the \$2.2 million in revenue \$2.1 million in licensing revenue and \$0.1 million in consulting revenue was earned from Centract's relocation business. The balance was earned from Centract's asset recovery business. The underlying relocation and asset recovery file activity for the second Quarter was 14% ahead of the same period from the prior year and was ahead of management's expectations. ICON operating costs relate to staffing, selling, premises and administrative costs associated with eight development and support personnel who entered into employment agreements with the Company as part of the ICON Transaction. These costs were in line with management's expectations.

| | Three months ended August 31, 2005 | | Three months ended August 31, 2004 | |
|-------------------------------|---|-------------------|---------------------------------------|------------|
| | \$ millions | # of files | \$ millions | # of files |
| Relocation files | | | | |
| G of C Contracts ¹ | 1.4 | 3,528 | 1.6 | 3,258 |
| Corporate | 0.6 | 1,586 | 0.7 | 1,360 |
| Consulting | 0.1 | | 0.1 | |
| | 2.1 | | 2.4 | |
| Asset recovery files | 0.1 | 741 | 0.1 | 526 |
| | 2.2 | | 2.5 | |

1. Canadian Department of National Defense, Government of Canada and the Royal Canadian Mounted Police.

Approximately 68% of the Company's ICON licensing revenues for the Quarter were derived from two significant Centract contracts. These contracts are for the provision of relocation services to the Canadian Department of National Defense, Government of Canada and the Royal Canadian Mounted Police (collectively "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. At this time the CITT is still in the process of considering these issues and the outcome is uncertain at this time.

Approximately 99% of the anticipated annual ICON licensing fees are derived on a per new file opened basis from Centract's relocation business, where a file represents a new transferee. The underlying estimated annual relocation file activity for our ICON licensing revenue on an annualized basis is derived as 71% from the G of C Contracts and the balance from over 400 corporate clients. The relocation file activity is subject to variability between quarters as to each client's relocation timing, business and budget considerations, all of which are outside the control of the Company and Centract. The most pronounced relocation file timing element is attributed to the G of C Contracts where these clients in the past have initiated the bulk of their relocation activity in the late winter and spring. It would appear that this trend may be continuing although there can be no guarantee that this will be the case. A summary of the variability in file counts for a rolling 12-month period ending August 31, 2005 is summarized in the chart below.



Software development and licensing (“SDL”), which includes consulting activities, development of the Company’s CARE II CRM initiatives and royalties from our co-ownership of CALMS, generated a contribution margin loss of less than \$0.1 million for the Quarter, unchanged from the same period of last year. The Quarter operating costs relate primarily to salary, selling and administrative costs associated with the development of the Company’s CARE II CRM initiatives.

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

General and administrative operations are comprised of public operating costs related to shareholder communications, audit, regulatory filing fees, insurance costs, administrative expenditures and a management fee from Centract for operations, accounting and investment management services (see “Transactions with Related Parties”). The \$0.2 million of administrative costs for the Quarter is in line with management’s expectations and the same fiscal period of last year.

Investment income relates to income earned on the Company’s short-term investments. The investment income of \$0.2 million for the Quarter was unchanged over the same period of the prior year. Currently 86% of our investment portfolio is invested in the bonds of Real Estate Investment Trusts or companies with substantial real estate holdings.

Amortization for the Quarter was unchanged from the same fiscal period of last year.

The Company has not recorded a provision for income tax expense as it is utilizing tax loss carryforwards to bring taxable income to \$nil. The Company has recorded an income tax recovery of \$3.2 million in fiscal 2005 which, represents the benefit of the tax losses which the Company will use in future years based on management’s current estimate of income that will likely be generated by the Company to use these tax losses. Management assesses on a quarterly basis the likelihood of recovering these tax losses and adjusts the valuation allowance recorded against the future tax asset accordingly. No change in the valuation allowance was recorded in the Quarter due to continued uncertainty surrounding the G of C contracts. As at February 28, 2005 the Company had federal and provincial non-capital tax loss carryforwards of \$47.3 million and \$54.8 million, respectively available to offset future years’ taxable income.

Liquidity and Capital Resources

| <i>(\$ thousands)</i> | As at August 31, 2005 | As at February 28, 2005 |
|--|--------------------------|----------------------------|
| Current assets | | |
| Cash and cash equivalents | 7,216 | 2,714 |
| Short-term investments | 17,905 | 16,986 |
| | 25,121 | 19,700 |
| Accounts receivable | 1,097 | 1,400 |
| Prepays and other assets | 50 | 78 |
| Future tax assets | 2,660 | 2,660 |
| | 28,928 | 23,838 |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 422 | 472 |
| Income taxes payable | 515 | 485 |
| Dividend payable | 408 | 842 |
| Deferred income | — | 56 |
| | 1,345 | 1,855 |
| | 27,583 | 21,983 |

As at August 31, 2005 and as summarized in the chart above, the Company had positive working capital of \$27.6 million, up \$5.6 million from February 28, 2005 with \$5.1 million arising from increased current asset balances and \$0.5 million arising from decreased current liability balances. The following three items of note drove the net increase in working capital:

- \$7.0 million in cash flow from operations which after dividend payments of \$1.6 million were invested in cash, and cash equivalents and short-term investments;
- \$0.4 million decrease in dividends payable arising from the payment of the annual participation dividend on the Series A and Series B preferred shares during the Quarter; and
- \$0.3 million decrease in receivables impacted by the ICON transaction as the related licensing fees are due one month in arrears and vary from month to month.

As at August 31, 2005, short-term investments were comprised of a mix of corporate bonds with a yield to market ranging from 4% to 8% and common shares.

The Company has sufficient funds in the near term to meet its operating requirements and current annual cumulative dividend requirements as at October 20, 2005 of \$3.5 million. The Company's liquidity may be reduced by the redemption of its preferred shares and the payment of participation dividends (see "Capital Structure").

Contractual Obligations

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

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

Capital Resources

The financial resources available to the Company include \$7.2 million in cash and \$17.9 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 Contract. As at August 31, 2005 Contract had the following shareholdings:

| Share Class | Number of shares held | Percentage of shares held |
|---------------------------|-----------------------|---------------------------|
| Common | 1,652,905 | 48% |
| Series A preferred shares | 1,280,000 | 100% |
| Series B preferred shares | 22,000,000 | 100% |
| Series C preferred shares | 24,189 | 100% |
| Series D preferred shares | 3,500,000 | 100% |

Contract 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. Contract acquired 20,000,000 of its Series B preferred shares on September 13, 2002 for cash consideration of \$20 million and the remaining 2,000,000 Series B preferred shares on July 12, 2004 upon the conversion of the \$2,000,000 subordinated debenture it received as part of the

consideration from the ICON Transaction. In addition, Centract acquired its 3,500,000 Series D preferred shares as part of the consideration from the ICON Transaction. During fiscal 2005, 24,189 Series C preferred shares were earned as part of the earn-out option as part of the consideration from the ICON Transaction (see "ICON Transaction"). The Series C preferred shares were issued in the second quarter of fiscal 2006. 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 quarter and year-to-date with comparative figures for prior year and for the twelve months ended February 28, 2005 is as follows:

| (\$ millions) | Three months ended August 31 | | Six months ended August 31 | | Twelve months ended February 28 |
|-------------------------------|---------------------------------|------|-------------------------------|------|------------------------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 |
| Revenue | | | | | |
| ICON | 2.1 | 2.3 | 7.0 | 4.7 | 8.3 |
| Home-Link service fees | — | — | 0.1 | 0.1 | 0.2 |
| IRP software and upgrade fees | 0.1 | 0.1 | 0.2 | 0.1 | — |
| Expenses | | | | | |
| Management fees | 0.1 | 0.2 | 0.2 | 0.3 | 0.6 |
| Premises rent | — | — | — | 0.1 | 0.1 |
| Dividends | | | | | |
| Series A preferred shares | — | — | 0.1 | 0.1 | 0.1 |
| Series B preferred shares | 0.5 | 0.5 | 1.0 | 0.9 | 2.3 |
| Series C preferred shares | — | — | — | — | — |
| Series D preferred shares | — | — | 0.1 | — | 0.1 |

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

ICON Transaction

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

- A \$2 million debenture bearing interest at prime, payable quarterly in arrears, maturing in five years. The debenture is repayable by the Company at any time and is convertible at any time at the option of the holder into Series B preferred shares on the basis of one Series B preferred share for each \$1.00 of debenture principal converted. These debentures were converted to 2,000,000 Series B preferred shares on July 12, 2004; plus
- \$3.5 million paid by the issuance of 3,500,000 Series D preferred shares with a non-cumulative annual dividend of 3.5%. The Series D preferred shares are redeemable by the Company at any time subject to meeting certain conditions on the basis of \$1.00 for each share redeemed. The shares at the holder's option, subject to adjustment, or automatically subject to meeting certain criteria, are convertible into Non-Voting Common shares on the basis of one Non-Voting Common share for each Series D preferred share converted. The Company has agreed to use reasonable commercial efforts to list such Non-Voting Common shares on a recognized Canadian stock exchange at the holder's request at any time after five years from the issuance of the shares; plus
- An earn-out option, which provides for the issuance of up to 18,500,000 Series C preferred shares issuable on the basis of one Series C preferred share for each \$1.00 of cumulative licensing fee revenue earned by the Company from its relocation and asset recovery license arrangements described below, in excess of \$8 million for the period from April 13, 2004 to February 29, 2008. The Series C preferred shares are also entitled to a cumulative quarterly dividend of 2.5% and a cumulative aggregate preferential annual participation dividend of 9.25% of pre-defined consolidated pre-tax income of

the Company. During fiscal 2005, 24,189 Series C preferred shares were earned and were issued in the second quarter of fiscal 2006. As at August 31, 2005 the Company has earned cumulative licensing revenue from both Centract contracts of \$15.0 million and accordingly 7,002,711 additional Series C preferred shares earned to date at a value of \$1.00 each are expected to be issued subsequent to the fiscal 2006 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 May 31, 2005 there are 22,000,000 Series B preferred shares outstanding, as a result of the conversion of the Company's \$2.0 million debenture to 2,000,000 Series B preferred shares on July 12, 2004.

As at August 31, 2005 the Company has recorded \$6.0 million with respect to our purchase of ICON, which was comprised of \$5.5 million in intangible and capital assets summarized in the chart below and \$0.5 million in legal, valuation, accounting and shareholder communication costs associated with the transaction which were paid for with cash. The amount recorded for the purchase of ICON will increase in accordance with the earn-out provisions of the purchase and sale agreement as described earlier.

(\$ millions)

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

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

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

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%.

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 and successive two-year renewal terms.

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

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

Critical Accounting Estimates

The preparation of the Company's 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 Capital and Intangible Assets

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

Homeserve purchased Home-Link Services Canada Ltd. ("Home-Link") in September of 2003 and recorded an intangible asset of \$5,130,000 representing the value of the CRM system acquired as a part of the Home-Link transaction. Initially management estimated the useful life of the asset to be five years, however due to the length of time that it has taken to develop the market for the CRM system and the acquisition in 2004 of an exclusive right to use and sub-license the CARE II software in Canada, management during fiscal 2005, revised the estimated useful life of the CRM system to seven years. As this was a change in estimate the prior periods were not adjusted and the remaining net book value is being amortized on a straight line basis over a period of 4.5 years.

Impairment

The impairment of long-lived assets is assessed when events or changes in circumstances indicate that the Company may not be able to recover their carrying value. 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 are reasonable. Assumptions used 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.

Accounting for income taxes

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

Valuation allowances primarily relate to potential future tax assets arising from accounting depreciation claimed in excess of tax depreciation and tax losses carried forward. Management must assess both positive and negative evidence when determining whether it is more likely than not that future tax assets will be recoverable in future periods. Based on this assessment, a valuation allowance must be established where management has determined, based on current facts and reasonable assumptions, that such future tax assets will not likely be realized by the Company. Realization is based on the Company's ability to generate sufficient future taxable income. During the fourth quarter of 2005, the Company recognized a future tax asset related to tax losses carried forward. A change in material assumptions occurred in the fourth quarter of 2005 in relation to the relative significance of positive and negative evidence related to the income from our ICON acquisition. Based on our track record of the relocation and asset recovery volumes underlying the ICON licensing fees, management determined that the valuation allowance should be reduced.

The net impact on earnings from releasing this valuation allowance is a recovery of taxes of \$3.2 million. The Company intends to maintain a valuation allowance for the balance of the future tax asset until sufficient positive evidence exists to support its reversal. Changes in material assumptions can occur from period to period due to the aging of prior year's losses, the cumulative effect of current period taxable income and other sources of positive and negative evidence. If these changes in material assumptions were to provide sufficient positive evidence, the Company could record the net benefit of \$24.2 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.

The Company has recorded intangible assets related to the purchase of Home-Link, the purchase of the license and sub-license for use of Home-Link's CRM software in Canada and the ICON Transaction. The original allocation to the Home-Link assets and CRM software was \$5.7 million. These assets are being amortized over a five-year period and had a net book value of \$2.4 million as at August 31, 2005. The allocation to date (see "ICON Transaction") to the Company's ICON assets was \$6.0 million. These assets are being amortized over a seven-year period and had a net book value of \$4.8 million as at August 31, 2005.

The Company has capital assets with a net book value of \$0.1 million as at August 31, 2005. These assets relate primarily to the Company's Home-Link operations and are being amortized over their estimated useful life. The valuation of these intangible and capital 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.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued liabilities and dividends payable. Management estimates that the fair values of these financial instruments approximate 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.

Adoption of Accounting Policies

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

Revenue recognition – ICON software and development

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

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

Outstanding Shares

As at August 31, 2005 the number of issued and outstanding shares of the Company are as follows:

| Description | |
|---------------------------|------------|
| Common shares | 3,443,687 |
| Series A preferred shares | 1,280,000 |
| Series B preferred shares | 22,000,000 |
| Series C preferred shares | 24,189 |
| Series D preferred shares | 3,500,000 |
| Non-Voting Common shares | — |

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

The Company may issue up to 18,500,000 Series C preferred shares at \$1.00 per share. The issuance of these shares is subject to meeting certain earn-out criteria related to the Company's ICON Transaction (see "ICON Transaction"). To fulfill the earn-out option for fiscal 2005, 24,189 Series C preferred shares were issued in the second quarter of fiscal 2006 (See "ICON Transaction") and based on the revenue from the current year an additional 7,002,711 are expected to be issued subsequent to February 28, 2006 .

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

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

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

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

Capital Structure

The Company's capital structure as at August 31, 2005 is comprised of Common shares, Non-Voting Common shares and preferred shares. The Company's Series A preferred shares, Series B preferred shares, Series C preferred shares issuable in connection with the ICON Transaction and Series D preferred shares can be redeemed by the Company for \$1.00 per share. Redemption of the preferred shares could significantly reduce the Company's cash and cash equivalents and short-term investments.

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

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

| | Three months ended | | Six months ended | |
|---|--------------------|-----------|------------------|-----------|
| | August 31 | | August 31 | |
| | 2005 | 2004 | 2005 | 2004 |
| <i>(\$ thousands except number of shares and per share amounts)</i> | | | | |
| Net income | \$ 1,382 | \$ 1,577 | \$ 5,637 | \$ 3,894 |
| Preferred share dividends | (563) | (536) | (1,122) | (1,033) |
| Net income available to common shareholders | \$ 819 | \$ 1,041 | \$ 4,515 | \$ 2,861 |
| Weighted average outstanding common shares | 3,444,000 | 3,444,000 | 3,444,000 | 3,444,000 |
| Dilutive effect of the conversion of preferred shares | 3,500,000 | 3,500,000 | 3,500,000 | 2,644,000 |
| Common shares and common share equivalents | 6,944,000 | 6,944,000 | 6,944,000 | 6,088,000 |
| Adjustment to net income available to common shareholders | 31 | 31 | 62 | 47 |
| Diluted income per common share | \$ 0.12 | \$ 0.15 | \$ 0.66 | \$ 0.48 |

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 11.64% of pre-defined consolidated pre-tax income of the Company as summarized in the chart below and discussed under ICON Transaction.

A summary of the Company's capital structure as at August 31, 2005 is summarized in the chart below.

| Share Class | Number of Shares Issued and Outstanding | Carrying Value of Share Class | Annualized Dividends % | Annualized Dividends \$ | Annual Participation Dividend | Percentage of Shares Held by Centract |
|--|---|-------------------------------------|------------------------------|-------------------------------|-------------------------------------|---|
| Common ¹ | 3,443,687 | 3,012 | — | — | — | 48% |
| Non-Voting Common ^{2,7} | — | — | — | — | — | — |
| Series A preferred shares ^{3,4} | 1,280,000 | 1,280 | 9.00 | 115 | 0.64% | 100% |
| Series C preferred shares ^{4,5,7} | 24,189 | 24 | 10.00 | 2 | 9.25% | 100% |
| Series B preferred shares ^{3,4} | 22,000,000 | 22,000 | 9.00 | 1,980 | 11.00% | 100% |
| Series D preferred shares ^{2,6,7} | 3,500,000 | 3,500 | 3.50 | 123 | — | 100% |
| | | 29,792 | | 2,220 | | |

1. On September 5, 2003 at the Company's annual general meeting the shareholders approved the consolidation of the Company's Common shares on the basis of 25 for one.
2. Series D preferred shares are convertible into 3,500,000 Non-Voting Common shares on the basis of one Non-Voting Common share, for each Series D preferred share. Series D preferred shares are also redeemable by the Company upon meeting certain conditions, on the basis of \$1.00 for each share redeemed.
3. Non-convertible, non-voting and redeemable by the Company for \$1.00 per share after December 31, 2004.
4. Quarterly cumulative dividend.
5. Up to 18,500,000 Series C preferred shares may be issued under an earn-out calculation (see "ICON Transaction") at \$1.00 per share. 24,189 Series C preferred shares were issued in the second quarter to fulfill the earn-out option, for fiscal 2005, as part of the consideration from the ICON Transaction, and an additional 7,002,711 earned to date are expected to be issued subsequent to February 28, 2006.
6. Annual non-cumulative dividend.
7. At holder's request the Company will use reasonable efforts to list such shares on a recognized exchange at any time after five years from their date of issuance.

Outlook

Our primary objective is to improve and stabilize the operations of the Company to a level that will make the seeking of a listing of the Company's Common shares on a recognized stock exchange feasible. A summary of the outlook for our individual business operations is as follows:

ICON

The acquisition of ICON and subsequent awarding of the G of C contracts to Centract, is a significant development for our operations. The acquisition is expected to provide significant licensing fee cash flows to the Company and licensing opportunities for markets outside of North America. In addition, the eight development and support personnel who were hired as part of the ICON Transaction, will also provide the basis for consulting fees earned on software development and upgrade activities. The Company is in the early stages of developing the licensing and consulting opportunities for ICON. Subsequent to the award of the contract, complaints were filed with the Canadian International Trade Tribunal ("CITT") with respect to the award of this contract. At this time the CITT is still in the process of considering these issues and the outcome is uncertain at this time.

Software Development and Licensing

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

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

Home-Link

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

Investment Operations

The Company intends to invest its excess available cash in instruments that have the potential to generate a current yield that would offset, or partially offset, the dividend rate on the Company's preferred shares. The Company's existing investment portfolio of \$17.9 million as at August 31, 2005 has investments with yields to maturity ranging from 4% to 8%. Management will continue to evaluate higher yield investment opportunities, which meet its risk and liquidity tolerances. To mitigate risk, no more than 20% of our portfolio is invested in any one single company.

Re-listing of the Company's Common Shares

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

Forward-looking Statements

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

Supplementary Information
Homeserve Technologies Inc.
Condensed Balance Sheet

| | As at Nov. 30, 2003 | As at Feb. 29, 2004 | As at May 31, 2004 | As at Aug. 31, 2004 | As at Nov. 30, 2004 | As at Feb. 28, 2005 | As at May 31, 2005 | As at Aug. 31, 2005 |
|---|---------------------------|---------------------------|--------------------------|---------------------------|---------------------------|---------------------------|--------------------------|---------------------------|
| <i>(\$ thousands, unaudited)</i> | | | | | | | | |
| ASSETS | | | | | | | | |
| Current | | | | | | | | |
| Cash and cash equivalents | 514 | 476 | 1,183 | 4,237 | 2,154 | 2,714 | 5,932 | 7,216 |
| Short-term investments | 14,976 | 14,372 | 14,681 | 14,002 | 16,993 | 16,986 | 17,907 | 17,905 |
| | 15,490 | 14,848 | 15,864 | 18,239 | 19,147 | 19,700 | 23,839 | 25,121 |
| Accounts receivable, prepaids and other assets | 1,133 | 1,036 | 1,839 | 1,207 | 1,002 | 1,478 | 1,623 | 1,147 |
| Future tax asset | — | — | — | — | — | 2,660 | 2,660 | 2,660 |
| Total current assets | 16,623 | 15,884 | 17,703 | 19,446 | 20,149 | 23,838 | 28,122 | 28,928 |
| Future tax asset | — | — | — | — | — | 540 | 540 | 540 |
| Capital assets, net | 565 | 307 | 300 | 252 | 199 | 124 | 89 | 59 |
| Intangible assets, net | 4,456 | 4,156 | 9,673 | 9,198 | 8,707 | 8,233 | 7,736 | 7,236 |
| | 21,644 | 20,347 | 27,676 | 28,896 | 29,055 | 32,735 | 36,487 | 36,763 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | | | | | | | |
|---|---------|---------|---------|---------|---------|--------|--------|--------|
| Current | | | | | | | | |
| Accounts payable, accrued liabilities and other payables | 485 | 399 | 433 | 438 | 467 | 472 | 644 | 422 |
| Income and other taxes payable | 831 | 485 | 485 | 485 | 485 | 485 | 485 | 515 |
| Dividends payable | 320 | 315 | 335 | 396 | 426 | 842 | 767 | 408 |
| Deferred revenue | 631 | 87 | 42 | 155 | 120 | 56 | 15 | — |
| Total current liabilities | 2,267 | 1,286 | 1,295 | 1,474 | 1,498 | 1,855 | 1,911 | 1,345 |
| Subordinated debentures | — | — | 2,000 | — | — | — | — | — |
| | 2,267 | 1,286 | 3,295 | 1,474 | 1,498 | 1,855 | 1,911 | 1,345 |
| Shareholders' equity | | | | | | | | |
| Capital stock and contributed surplus | 24,292 | 24,292 | 27,792 | 29,792 | 29,792 | 29,792 | 29,792 | 29,815 |
| Retained earnings (deficit) | (4,915) | (5,231) | (3,411) | (2,370) | (2,235) | 1,088 | 4,784 | 5,603 |
| Total shareholders' equity | 19,377 | 19,061 | 24,381 | 27,422 | 27,557 | 30,880 | 34,576 | 35,418 |
| | 21,644 | 20,347 | 27,676 | 28,896 | 29,055 | 32,735 | 36,487 | 36,763 |

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

| | As at Nov. 30, 2003 | As at Feb. 29, 2004 | As at May 31, 2004 | As at Aug. 31, 2004 | As at Nov. 30, 2004 | As at Feb. 28, 2005 | As at May 31, 2005 | As at Aug. 31, 2005 |
|---|---------------------------|---------------------------|--------------------------|---------------------------|---------------------------|---------------------------|--------------------------|---------------------------|
| <i>(\$ thousands, unaudited)</i> | | | | | | | | |
| Net income (loss) for the three-month period | (785) | 163 | 2,317 | 1,577 | 687 | 4,265 | 4,255 | 1,382 |
| Preferred share dividends | (477) | (479) | (497) | (536) | (552) | (942) | (559) | (563) |
| Reduction of stated capital | 3,360 | — | — | — | — | — | — | — |
| Change in period | 2,098 | (316) | 1,820 | 1,041 | 135 | 3,323 | 3,696 | 819 |
| Retained earnings (deficit), beginning of the period | (7,013) | (4,915) | (5,231) | (3,411) | (2,370) | (2,235) | 1,088 | 4,784 |
| Retained earnings (deficit), end of period | (4,915) | (5,231) | (3,411) | (2,370) | (2,235) | 1,088 | 4,784 | 5,603 |

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

| | Nine months ended Nov. 30, 2003 | Twelve months ended Feb. 29, 2004 | Three months ended May 31, 2004 | Six months ended Aug. 31, 2004 | Nine months ended Nov. 30, 2004 | Twelve months ended Feb. 28, 2005 | Three months ended May 31, 2005 | Six months ended Aug. 31, 2005 |
|---|--|--|--|---|--|--|--|---|
| <i>(\$ thousands, except per share amounts, unaudited)</i> | (reported) | (reported) | (reported) | (reported) | (reported) | (reported) | (reported) | (reported) |
| Sales | 1,415 | 2,002 | 2,461 | 5,001 | 6,562 | 8,608 | 5,089 | 7,321 |
| Cost of sales | 588 | 586 | — | — | — | — | — | — |
| Gross profit | 827 | 1,416 | 2,461 | 5,001 | 6,562 | 8,608 | 5,089 | 7,321 |
| Operating costs | | | | | | | | |
| Selling, general and administration | 2,580 | 2,651 | 503 | 1,257 | 1,859 | 2,534 | 527 | 1,088 |
| Severance and other costs | 122 | 258 | — | — | — | — | — | — |
| | 2,702 | 2,909 | 503 | 1,257 | 1,859 | 2,534 | 527 | 1,088 |
| Income (loss) from continuing operations before undernoted | (1,875) | (1,493) | 1,958 | 3,744 | 4,703 | 6,074 | 4,562 | 6,233 |
| Investment income | 558 | 752 | 181 | 394 | 671 | 936 | 267 | 508 |
| Gain (loss) on sale of investments | — | — | 663 | 809 | 809 | 809 | (41) | (41) |
| Interest expense | — | — | (10) | (19) | (19) | (19) | — | — |
| Amortization of capital and intangible assets | (1,240) | (1,653) | (475) | (1,034) | (1,583) | (2,154) | (533) | (1,063) |
| Net income (loss) for the period before income taxes | (2,557) | (2,394) | 2,317 | 3,894 | 4,581 | 5,646 | 4,255 | 5,637 |
| Income tax recovery | — | — | — | — | — | 3,200 | — | — |
| Net income (loss) for the period | (2,557) | (2,394) | 2,317 | 3,894 | 4,581 | 8,846 | 4,255 | 5,637 |
| Basic income (loss) per common share | (1.16) | (1.25) | 0.53 | 0.83 | 0.87 | 1.83 | 1.07 | 1.31 |
| Diluted income (loss) per common share | (1.16) | (1.25) | 0.35 | 0.48 | 0.48 | 0.99 | 0.54 | 0.66 |

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

| | Three months ended Nov. 30, 2003 | Three months ended Feb. 29, 2004 | Three months ended May 31, 2004 | Three months ended Aug. 31, 2004 | Three months ended Nov. 30, 2004 | Three months ended Feb. 28, 2005 | Three months ended May 31, 2005 | Three months ended Aug. 31, 2005 |
|---|---|---|--|---|---|---|--|---|
| <i>(\$ thousands, except per share amounts, unaudited)</i> | (reported) | (reported) | (reported) | (reported) | (reported) | (reported) | (reported) | (reported) |
| Sales | 151 | 589 | 2,461 | 2,540 | 1,561 | 2,046 | 5,089 | 2,232 |
| Cost of sales | 41 | — | — | — | — | — | — | — |
| Gross profit | 110 | 589 | 2,461 | 2,540 | 1,561 | 2,046 | 5,089 | 2,232 |
| Operating costs | | | | | | | | |
| Selling, general and administration | 672 | 71 | 503 | 754 | 602 | 676 | 527 | 561 |
| Severance and other costs | — | 136 | — | — | — | — | — | — |
| | 672 | 207 | 503 | 754 | 602 | 676 | 527 | 561 |
| Income (loss) from operations before undernoted | (562) | 382 | 1,958 | 1,786 | 959 | 1,370 | 4,562 | 1,671 |
| Investment income | 202 | 194 | 181 | 213 | 277 | 266 | 267 | 241 |
| Gain (loss) on sale of investments | — | — | 663 | 146 | — | — | (41) | — |
| Interest expense | — | — | (10) | (9) | — | — | — | — |
| Amortization of capital and intangible assets | (425) | (413) | (475) | (559) | (549) | (571) | (533) | (530) |
| Net income (loss) for the period before income taxes | (785) | 163 | 2,317 | 1,577 | 687 | 1,065 | 4,255 | 1,382 |
| Income tax recovery | — | — | — | — | — | 3,200 | — | — |
| Net income (loss) for the period | (785) | 163 | 2,317 | 1,577 | 687 | 4,265 | 4,255 | 1,382 |
| Basic income (loss) per common share | (0.37) | (0.09) | 0.53 | 0.30 | 0.04 | 0.96 | 1.07 | 0.24 |
| Diluted income (loss) per common share | (0.37) | (0.09) | 0.35 | 0.15 | 0.02 | 0.48 | 0.54 | 0.12 |

Supplementary Information
Homeserve Technologies Inc.
Condensed Statement of Cash Flows

| | Three months ended Nov. 30, 2003 | Three months ended Feb. 29, 2004 | Three months ended May 31, 2004 | Three months ended Aug. 31, 2004 | Three months ended Nov. 30, 2004 | Three months ended Feb. 28, 2005 | Three months ended May 31, 2005 | Three months ended Aug. 31, 2005 |
|---|--|--|---|--|--|--|---|--|
| <i>(\$ thousands, unaudited)</i> | (reported) | (reported) | (reported) | (reported) | (reported) | (reported) | (reported) | (reported) |
| OPERATING ACTIVITIES | | | | | | | | |
| Net income (loss) for the period | (785) | 163 | 2,317 | 1,577 | 687 | 4,265 | 4,255 | 1,382 |
| Add (deduct) items not affecting cash | 425 | 556 | (164) | 426 | 560 | (2,625) | 579 | 532 |
| Net change in non-cash working capital balances | (252) | (990) | (1,310) | 1,247 | 199 | (904) | (15) | 254 |
| Cash provided by (used in) operating activities | (612) | (271) | 843 | 3,250 | 1,446 | 736 | 4,819 | 2,168 |
| FINANCING ACTIVITIES | | | | | | | | |
| Payment of preferred dividends | (482) | (484) | (477) | (476) | (522) | (525) | (634) | (922) |
| Cash used in financing activities | (482) | (484) | (477) | (476) | (522) | (525) | (634) | (922) |
| INVESTING ACTIVITIES | | | | | | | | |
| Sale (purchase) of short-term investments | 572 | 572 | 330 | 812 | (3,000) | 1 | (1,000) | — |
| Other | — | 145 | 11 | (532) | (7) | 348 | 33 | 38 |
| Cash provided by (used in) investing activities | 572 | 717 | 341 | 280 | (3,007) | 349 | (967) | 38 |
| Increase (decrease) in cash from operations, during the period | (522) | (38) | 707 | 3,054 | (2,083) | 560 | 3,218 | 1,284 |
| Cash and cash equivalents, beginning of period | 1,036 | 514 | 476 | 1,183 | 4,237 | 2,154 | 2,714 | 5,932 |
| Cash and cash equivalents, end of period | 514 | 476 | 1,183 | 4,237 | 2,154 | 2,714 | 5,932 | 7,216 |

Supplementary Information
Homeserve Technologies Inc.
Condensed Segmented Information
Contribution Margin

| | Three months ended Nov. 30, 2003 (reported) | Three months ended Feb. 29, 2004 (reported) | Three months ended May 31, 2004 (reported) | Three months ended Aug. 31, 2004 (reported) | Three months ended Nov. 30, 2004 (reported) | Three months ended Feb. 28, 2005 (reported) | Three months ended May 31, 2005 (reported) | Three months ended Aug. 31, 2005 (reported) |
|---|--|--|---|--|--|--|---|--|
| <i>(\$ thousands, unaudited)</i> | | | | | | | | |
| ICON development and licensing | | | | | | | | |
| Revenue | — | — | 2,402 | 2,469 | 1,509 | 1,973 | 5,040 | 2,211 |
| Operating costs | — | — | (74) | (260) | (205) | (257) | (219) | (222) |
| | — | — | 2,328 | 2,209 | 1,304 | 1,716 | 4,821 | 1,989 |
| Software development and licensing | | | | | | | | |
| Revenue | 76 | 524 | — | 9 | — | 21 | — | — |
| Cost of sales | (41) | — | — | — | — | — | — | — |
| Operating costs | (62) | (69) | (69) | (74) | (39) | (51) | (53) | (52) |
| | (27) | 455 | (69) | (65) | (39) | (30) | (53) | (52) |
| Home-Link operations | | | | | | | | |
| Revenue | 75 | 63 | 59 | 62 | 53 | 51 | 49 | 21 |
| Cost of sales | — | 2 | — | — | — | — | — | — |
| Operating costs | (493) | (356) | (232) | (236) | (210) | (177) | (142) | (128) |
| | (418) | (291) | (173) | (174) | (157) | (126) | (93) | (107) |
| Other | | | | | | | | |
| General and administration | (117) | 218 | (128) | (184) | (148) | (190) | (113) | (159) |
| Severance and other | — | — | — | — | — | — | — | — |
| | (117) | 218 | (128) | (184) | (148) | (190) | (113) | (159) |
| Contribution margin | | | | | | | | |
| Revenue | 151 | 587 | 2,461 | 2,540 | 1,562 | 2,045 | 5,089 | 2,232 |
| Cost of sales | (41) | 2 | — | — | — | — | — | — |
| Operating costs | (672) | (207) | (503) | (754) | (602) | (675) | (527) | (561) |
| | (562) | 382 | 1,958 | 1,786 | 960 | 1,370 | 4,562 | 1,671 |

Interim Financial Statements

Homeserve Technologies Inc.

August 31, 2005


HOMESERVE TECHNOLOGIES INC.

INTERIM BALANCE SHEETS

| <i>(\$ thousands)</i> | As at August 31, 2005 (unaudited) | As at February 28, 2005 (unaudited) |
|---|---|---|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | 7,216 | 2,714 |
| Short-term investments | 17,905 | 16,986 |
| Accounts receivable | 1,097 | 1,400 |
| Prepaid expenses and other assets | 50 | 78 |
| Future tax assets | 2,660 | 2,660 |
| Total current assets | 28,928 | 23,838 |
| Future tax assets | 540 | 540 |
| Capital assets, net | 59 | 124 |
| Intangible assets, net | 7,236 | 8,233 |
| | 36,763 | 32,735 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | 422 | 472 |
| Income and other taxes payable | 515 | 485 |
| Dividends payable | 408 | 842 |
| Deferred revenue | — | 56 |
| Total current liabilities | 1,345 | 1,855 |
| Shareholders' equity | | |
| Capital stock [note 5] | 29,815 | 29,792 |
| Retained earnings | 5,603 | 1,088 |
| Total shareholders' equity | 35,418 | 30,880 |
| | 36,763 | 32,735 |

See accompanying notes

On behalf of the Board:



Director



Director

HOMESERVE TECHNOLOGIES INC.

INTERIM STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)

| (unaudited) (\$ thousands) | Three months ended August 31 | | Six months ended August 31 | |
|---|---------------------------------|---------|-------------------------------|---------|
| | 2005 | 2004 | 2005 | 2004 |
| Sales | 2,232 | 2,540 | 7,321 | 5,001 |
| Operating expenses | | | | |
| Selling, general and administrative | 561 | 754 | 1,088 | 1,257 |
| Income before undernoted | 1,671 | 1,786 | 6,233 | 3,744 |
| Investment income | 241 | 213 | 508 | 394 |
| Gain (loss) on sale of short-term investments | — | 146 | (41) | 809 |
| Amortization of capital assets | (30) | (60) | (66) | (110) |
| Amortization of intangible assets | (500) | (499) | (997) | (924) |
| Other | — | (9) | — | (19) |
| Net income for the period | 1,382 | 1,577 | 5,637 | 3,894 |
| Retained earnings (deficit), beginning of period | 4,784 | (3,411) | 1,088 | (5,231) |
| Preferred share dividends | (563) | (536) | (1,122) | (1,033) |
| Retained earnings (deficit), end of period | 5,603 | (2,370) | 5,603 | (2,370) |
| Basic and diluted earnings per common share [note 5] | | | | |
| Basic | \$0.24 | \$0.30 | \$1.31 | \$0.83 |
| Diluted | 0.12 | 0.15 | 0.66 | 0.48 |

See accompanying notes

HOMESERVE TECHNOLOGIES INC.

INTERIM STATEMENTS OF CASH FLOWS

| (unaudited) (\$ thousands) | Three months ended August 31 | | Six months ended August 31 | |
|--|---------------------------------|--------------|-------------------------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| OPERATING ACTIVITIES | | | | |
| Net income from operations | 1,382 | 1,577 | 5,637 | 3,894 |
| Add items not affecting cash | | | | |
| Amortization of bond premium | 2 | 14 | 7 | 36 |
| (Gain) loss on sale of short-term investments | — | (147) | 41 | (810) |
| Amortization of capital assets | 30 | 60 | 65 | 111 |
| Amortization of intangible assets | 500 | 499 | 998 | 924 |
| | 1,914 | 2,003 | 6,748 | 4,155 |
| Net change in non-cash working capital balances related to operations | 254 | 1,247 | 239 | (62) |
| Cash provided by operating activities | 2,168 | 3,250 | 6,987 | 4,093 |
| FINANCING ACTIVITIES | | | | |
| Payment of preferred share dividends | (922) | (476) | (1,556) | (953) |
| Cash used in financing activities | (922) | (476) | (1,556) | (953) |
| INVESTING ACTIVITIES | | | | |
| Sale of short-term investments | — | 5,711 | 2,000 | 17,033 |
| Purchase of short-term investments | — | (4,899) | (3,000) | (15,890) |
| Purchase of capital assets | — | (12) | — | (2) |
| Acquisition of intangible assets | — | (520) | — | (520) |
| Other | 38 | — | 71 | — |
| Cash provided by (used in) investing activities | 38 | 280 | (929) | 621 |
| Net increase in cash and cash equivalents during the period | 1,284 | 3,054 | 4,502 | 3,761 |
| Cash and cash equivalents, beginning of period | 5,932 | 1,183 | 2,714 | 476 |
| Cash and cash equivalents, end of period | 7,216 | 4,237 | 7,216 | 4,237 |

See accompanying notes

NOTES TO INTERIM FINANCIAL STATEMENTS

[Unaudited, \$ thousands, except number of shares, per share and per file amounts and where otherwise noted]

August 31, 2005

1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

These unaudited interim financial statements have not been subject to an interim review by the Company's auditors.

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

As at August 31, 2005, the Company operates in four reportable segments, ICON, Software Development and Licensing, Home-Link 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. Home-Link revenues are generated from service fees, transaction fees, and marketing fees.

Homeserve's largest shareholder and customer, which owns 48% of the Common Shares and all of the preferred shares of the Company, is BAM operating through certain subsidiaries as Centract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The accounting principles used in these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements. However, these financial statements do not include all information and disclosure required by Canadian GAAP for annual financial statements, and should be read in conjunction with the audited annual consolidated financial statements. 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates made by management include reserves for uncollectible accounts, write-down of property, plant and equipment, impairment of intangible assets, and recorded values of accrued liabilities. Actual results could differ from these estimates.

Intangible assets subject to amortization

Intangible assets subject to amortization are recorded at cost less accumulated amortization. Amortization of ICON is provided on a straight-line basis over seven years, which is the initial term of the licensing agreement plus one renewal period.

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.

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

NOTES TO INTERIM FINANCIAL STATEMENTS

[Unaudited, \$ thousands, except number of shares, per share and per file amounts and where otherwise noted]

August 31, 2005

3. ACQUISITIONS

2005 activities

Acquisition of ICON

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

- A \$2.0 million debenture bearing interest at prime, payable quarterly in arrears, maturing in five years. The debenture is repayable by the Company at any time and is convertible at any time at the option of the holder into one Series B preferred share for each \$1.00 of debenture principal outstanding. The debenture was converted to 2,000,000 Series B preferred shares on July 12, 2004; plus
- \$3.5 million paid by the issuance of 3,500,000 Series D preferred shares with a non-cumulative annual dividend of 3.5% and conversion option to Non-Voting Common shares of the Company (see Note 5 Capital stock); plus
- an earn-out option which provides for issuances of up to 18,500,000 Series C preferred shares at \$1.00 per share with a cumulative quarterly dividend of 2.5% and a cumulative aggregate preferential annual participation dividend of 9.25% of pre-defined consolidated pre-tax income of the Company. To date 24,189 Series C preferred shares have been earned and issued in fiscal 2006 and an additional 7,002,711 are expected to be issued after February 28, 2006 (see note 5 Capital stock); and
- an increase in the Series B preferred share cumulative aggregate preferential annual participation dividend from 10% to 11% of pre-defined consolidated pre-tax income of the Company based on the weighted average number of Series B preferred shares outstanding dividend by 22,000,000. As at August 31, 2005 there are 22,000,000 Series B preferred shares outstanding as a result of the conversion of the Company's \$2.0 million debenture to 2,000,000 Series B preferred shares on July 12, 2004.

The ICON purchase price as at August 31, 2005 was \$6.0 million and is comprised of \$5.5 million of intangible assets and property, plant and equipment as summarized below and \$0.5 million in legal, valuation, accounting and shareholder communication costs associated with the transaction.

| | <i>(\$ millions)</i> |
|-------------------------------|----------------------|
| Assets acquired | |
| Intangible assets | 5.4 |
| Capital assets | 0.1 |
| | 5.5 |
| Consideration provided | |
| Subordinated debenture | 2.0 |
| Series D preferred shares | 3.5 |
| | 5.5 |

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

1. A seven-year transferable and renewable license with Contract or its designee for the exclusive use of the ICON software in the North American relocation market for which Contract 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

[Unaudited, \$ thousands, except number of shares, per share and per file amounts and where otherwise noted]

August 31, 2005

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%.

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.

As outlined above under the terms of the agreement to purchase ICON, the Company will issue one Series C preferred share at a par value of \$1.00 per share with a cumulative quarterly dividend of 2.5% and cumulative aggregate preferential annual participation dividend of 9.25% of pre-defined consolidated pre-tax income of the Company for each \$1.00 of cumulative licensing revenue in excess of \$8,000 to a maximum of \$18,500. From the commencement of the ICON contract to August 31, 2005 the Company earned \$15,027 in licensing revenue from Centract and accordingly 24,189 Series C preferred shares were issued during the second quarter of fiscal 2006 and 7,002,711 are expected to be issued subsequent to February 28, 2006.

4. SEGMENTED REPORTING

General description

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

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

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

NOTES TO INTERIM FINANCIAL STATEMENTS

[Unaudited, \$ thousands, except number of shares, per share and per file amounts and where otherwise noted]

August 31, 2005

| | Three months ended | | Six months ended | |
|---|--------------------|----------|------------------|----------|
| | August 31 | | August 31 | |
| | 2005 | 2004 | 2005 | 2004 |
| Sales | | | | |
| ICON licensing and development | \$ 2,211 | \$ 2,469 | \$ 7,251 | \$ 4,871 |
| Software development and licensing | — | 9 | — | 9 |
| Home-Link | 21 | 62 | 70 | 121 |
| Total | \$ 2,232 | \$ 2,540 | \$ 7,321 | \$ 5,001 |
| Contribution margin | | | | |
| ICON licensing and development | \$ 1,989 | \$ 2,209 | \$ 6,810 | \$ 4,537 |
| Software development and licensing | (52) | (65) | (105) | (134) |
| Home-Link | (107) | (174) | (200) | (347) |
| General and administration | (159) | (184) | (272) | (312) |
| Contribution margin | 1,671 | 1,786 | 6,233 | 3,744 |
| Investment income | 241 | 213 | 508 | 394 |
| Gain (loss) on sale of short-term investments | — | 146 | (41) | 809 |
| Amortization of capital assets | (30) | (60) | (66) | (110) |
| Amortization of intangible assets | (500) | (499) | (997) | (924) |
| Other | — | (9) | — | (19) |
| Income before income taxes | \$ 1,382 | \$ 1,577 | \$ 5,637 | \$ 3,894 |

5. CAPITAL STOCK

Capital stock consists of the following:

| | As at | As at |
|--|-----------------|-------------------|
| | August 31, 2005 | February 28, 2005 |
| 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 |
| 24,189 Series C preferred shares | 24 | — |
| 3,500,000 Series D preferred shares | 3,500 | 3,500 |
| 3,443,687 Common shares | 3,012 | 3,012 |
| | \$ 29,816 | \$ 29,792 |

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

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

NOTES TO INTERIM FINANCIAL STATEMENTS

[Unaudited, \$ thousands, except number of shares, per share and per file amounts and where otherwise noted]

August 31, 2005

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

The holder of the Series B preferred shares is also entitled to receive a cumulative aggregate preferential annual participation dividend of up to 11% of the Company's pre-defined consolidated pre-tax income calculated in accordance with Canadian GAAP, less a fixed preferential cumulative quarterly dividend of 2.25% noted above, with the first such annual dividend accruing for the year ended February 28, 2003. The annual Series B preferred share participation dividend declared for the year ended February 28, 2005 was \$374 (2004 – \$nil)

As part of the acquisition of ICON, an earn-out option provides for 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 ICON licensing arrangements, in excess of \$8 million for the period from April 13, 2004 to February 29, 2008. As at August 31, 2005 the Company has earned \$15.0 million in cumulative ICON licensing revenue. To fulfill the earn-out option for fiscal 2005, 24,189 Series C preferred shares were issued in the second quarter of fiscal 2006 and an additional 7,002,711 earned to date are expected to be issued subsequent to February 28, 2006. The Series C preferred shares also entitle the holders 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, with the first such annual participation dividend accruing retroactive to the year ended February 28, 2005. The Company has agreed to use reasonable commercial efforts to list such Series C preferred shares on a recognized Canadian stock exchange at the holder's request at any time after five years from the issuance of the shares.

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

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

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

A summary of the Company's Common shares is as follows:

| | Number of shares | | Amount |
|---|---------------------|-----------|--------------|
| Common shares | | | |
| Balance, February 28, 2003 | 86,092,184 | \$ | 5,455 |
| Reduction of stated capital | — | | (2,443) |
| Share consolidation | (82,648,497) | | — |
| Balance, February 28, 2005 and August 31, 2005 | 3,443,687 | \$ | 3,012 |

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

NOTES TO INTERIM FINANCIAL STATEMENTS

[Unaudited, \$ thousands, except number of shares, per share and per file amounts and where otherwise noted]

August 31, 2005

Earnings per share

The components of basic and diluted earnings per share are summarized in the following table:

| <i>(thousands)</i> | For the three months ended August 31 | | For the six months ended August 31 | |
|---|---|----------|---------------------------------------|----------|
| | 2005 | 2004 | 2005 | 2004 |
| Net income | \$ 1,382 | \$ 1,577 | \$ 5,637 | \$ 3,894 |
| Dividends declared on preferred shares | (563) | (536) | (1,122) | (1,033) |
| Basic earnings available to common shareholders | 819 | 1,041 | 4,515 | 2,861 |
| Adjustment to net income on conversion of Series D preferred shares | 31 | 31 | 62 | 47 |
| Diluted earnings available to common shareholders | \$ 850 | \$ 1,072 | \$ 4,577 | \$ 2,908 |
| Weighted average outstanding common shares | 3,444 | 3,444 | 3,444 | 3,444 |
| Dilutive effect of the conversion of preferred shares | 3,500 | 3,500 | 3,500 | 2,644 |
| Common shares and common share equivalents | 6,944 | 6,944 | 6,944 | 6,088 |

Basic and diluted earnings per share has been calculated using the weighted average number of Common shares outstanding of 3,443,687 for both the three and six months ended August 31, 2005 and August 31, 2004. Diluted earnings per share for the three and six months ended August 31, 2005 and three months ended August 31, 2004 was calculated using the weighted average number of common shares outstanding of 6,943,687. Diluted earnings per share for the six months ended August 31, 2004 was calculated using the weighted average number of common shares outstanding of 6,087,709 to take into effect the conversion of Series D preferred shares into Non-Voting Common shares on April 14, 2004.

6. RELATED PARTY TRANSACTIONS

The Company had the following transactions with Centract. Centract became a significant shareholder in fiscal 2003 as a result of exchanging 100% ownership of Home-Link for 1,652,906 Common shares and 1,280,000 Series A preferred shares of the Company. In addition, during fiscal 2003 Centract also subscribed for 20,000,000 Series B preferred shares for cash proceeds of \$20 million. On April 13, 2004 the Company acquired Centract's interest in its ICON software and entered into licensing, premises lease and employment arrangements with the Company for potential consideration of \$24 million comprised of 3,500,000 Series D preferred shares, a \$2 million debenture, which was converted into 2,000,000 Series B preferred shares on July 12, 2004, and a potential earn-out of \$18,500,000 to be satisfied by the issuance of 18,500,000 Series C preferred shares on the basis of one Series C preferred share for each \$1.00 of earn-out. A summary of the issued and outstanding shares held by Centract is summarized as follows:

| Share class | Number of shares held as at August 31, 2005 | Percentage of shares held as at August 31, 2005 |
|---------------------------|--|--|
| Common shares | 1,652,905 | 48% |
| Series A preferred shares | 1,280,000 | 100% |
| Series B preferred shares | 22,000,000 | 100% |
| Series C preferred shares | 24,189 | 100% |
| Series D preferred shares | 3,500,000 | 100% |

NOTES TO INTERIM FINANCIAL STATEMENTS

[Unaudited, \$ thousands, except number of shares, per share and per file amounts and where otherwise noted]

August 31, 2005

These transactions have been recorded at the exchange amount, which is the amount agreed to between the parties except where otherwise noted.

| | Three months ended | | Six months ended | |
|------------------------------------|---------------------------|-------|-------------------------|-------|
| | August 31 | | August 31 | |
| | 2005 | 2004 | 2005 | 2004 |
| Sales | | | | |
| ICON licensing and development | 2,211 | 2,469 | 7,252 | 4,871 |
| Software development and licensing | — | — | — | — |
| Home-Link | 13 | 42 | 53 | 87 |
| Expenses | | | | |
| Management fee | 103 | 151 | 203 | 302 |
| Rent | 18 | 32 | 40 | 57 |
| Subordinated debenture interest | — | 8 | — | 18 |
| Dividends declared | 563 | 536 | 1,122 | 1,033 |

As at August 31, 2005, the Company had accounts receivable of \$755 [February 28, 2005 – \$1,035], dividend payable of \$408 [February 28, 2005 – \$842], accounts payable of \$99 [February 28, 2005 – \$166], and deferred revenue of \$nil [February 28, 2005 – \$56].

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

Lawrence Davis

Jason D. Meretsky

Donald W. Paterson

SENIOR MANAGEMENT

James B. Dunbar
President &
Chief Executive Officer

Kevin Cash
Chief Financial Officer

Max M. Cohen
General Counsel & Secretary

CORPORATE HEADQUARTERS

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REGISTRAR & TRANSFER AGENT

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151 Front Street
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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: Eliza Walsh

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