



1st Quarter 2007

## Notice of No Auditor Review of Interim Financial Statements

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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

July 14, 2006

## 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 period from March 1, 2006 to May 31, 2006. This MD&A has been prepared as at July 14, 2006. This MD&A should be read in conjunction with our audited financial statements for the 12 months ended February 28, 2006 and the attached interim unaudited financial statements for the three months ended May 31, 2006. 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](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 Centract Residential Property Services ("Centract"), its residential real estate services division.

Homeserve's software solutions are comprised of (i) CARE II Customer Relationship Management software ("CARE II CRM"), from which we currently earn transaction-based fees from our Home-Link operations, (ii) our co-ownership of the Credit Adjudication & Lending Management System ("CALMS"), from which we earn licensing fees and (iii) ICON software and its development and support personnel, which we acquired on April 13, 2004 and from which we earn licensing and consulting fees. As at the date of this MD&A these operations are supported by 15 personnel and Centract's shared management services platform.

Currently, Homeserve is not listed for trading on any recognized stock exchange. As Homeserve is not listed on a stock exchange a shareholder's ability to buy or sell shares is limited.

### OPERATIONS OVERVIEW

In April 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 for the ICON software are divisions of Centract.

In April 2003, the Company 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. CARE II CRM provides solutions to banking and retail companies and we are currently in discussions with a number of Canadian financial institutions and retail companies to commence pilot operations, which will allow us to demonstrate the ability of CARE II CRM software to better manage their respective mortgage portfolios and customer base.

During fiscal 2004, Home-Link's operations were downsized to better align with current transaction volume levels with a view to increasing operations as greater adoption of existing program offerings occur or as volumes are increased through new CARE II CRM initiatives. Substantially all of Home-Link's revenue is generated from Centract or supplier transaction fees derived from the Centract relationship. Centract was contracted to utilize Home-Link's services to June 30, 2005, and has not renewed the contract, but continues to utilize these services on a limited basis.

During 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 December 2004. For the current year we have recorded revenue of \$nil and in the prior fiscal year we recorded revenue of \$nil 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: FIRST QUARTER 2007 COMPARED TO FIRST QUARTER 2006

<i>(\$ thousands, except per share amounts)</i>	<b>Three months ended May 31, 2006</b>	Three months ended May 31, 2005
Revenue	<b>5,434</b>	5,089
Operating costs	<b>810</b>	527
Contribution margin	<b>4,624</b>	4,562
Investment income	<b>366</b>	267
Gain (loss) on sale of investments	<b>23</b>	(41)
Amortization	<b>(885)</b>	(533)
Net income for the period	<b>4,128</b>	4,255
Basic and diluted earnings per common share		
Basic	<b>\$ 0.48</b>	\$ 1.07
Diluted	<b>\$ 0.48</b>	\$ 0.54

As summarized in the chart above, the Company reported net income of \$4.1 million for the quarter ended May 31, 2006 (the "Quarter") as compared to income of \$4.3 million for the three months ended May 31, 2005. After the payment of preferred share dividends for the three months ended May 31, 2006, this represents basic and diluted earnings per share to common shareholders of \$0.48 per share, as compared to basic earnings per share of \$1.07 and diluted earnings of \$0.54 per share for the same period in fiscal 2006. The most significant element contributing to the \$0.2 million quarter-over-quarter decrease in net income was a \$0.3 million increase in amortization from the additional consideration added to the ICON intangible asset in fiscal 2006, as a result of the earn-out option. 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>	<b>Three months ended May 31, 2006</b>	Three months ended May 31, 2005
<b>ICON licensing and consulting</b>		
Revenue	<b>5,422</b>	5,040
Operating costs	<b>(353)</b>	(219)
	<b>5,069</b>	4,821
<b>Software development and licensing</b>		
Revenue	—	—
Operating costs	<b>(214)</b>	(53)
	<b>(214)</b>	(53)
<b>Home-Link operations</b>		
Revenue	<b>12</b>	49
Operating costs	<b>(111)</b>	(142)
	<b>(99)</b>	(93)
<b>Other</b>		
General and administration	<b>(132)</b>	(113)
	<b>(132)</b>	(113)
<b>Contribution margin</b>		
Revenue	<b>5,434</b>	5,089
Operating costs	<b>(810)</b>	(527)
	<b>4,624</b>	4,562

**ICON licensing and consulting ("ICON")** activities consist of \$5.4 million in revenue generated from our contracted relocation and asset recovery license agreements (see "ICON Transaction") with Centract, as compared to \$5.0 million for the same period of the prior year. The \$0.4 million year-over-year increase is attributed to higher relocation file activity. Of the \$5.4 million in revenue

for the Quarter, \$5.2 million in licensing revenue and \$0.2 million in consulting revenue was earned from Centract's relocation business. The underlying relocation and asset recovery file activity for the Quarter as summarized in the table below was 6% higher than the same period from the prior year. ICON operating costs relate to staffing, selling, premises and administrative costs associated with ten development and support personnel. These costs were \$0.1 million higher than the same period last year due to increased staffing levels and are in line with management's expectations.

	<b>Three months ended</b>	
	<b>May 31, 2006</b>	May 31, 2005
<i>(\$ thousands except number of shares and per share amounts)</i>		
Relocation files	<b>10,990</b>	10,341
Asset recovery files	<b>761</b>	741

Approximately 81% 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 and the matter was ultimately forwarded to the Federal Court of Appeal for a ruling. On January 11, 2006, the Federal Court of Appeal ruled on the matter with the net effect to Homeserve being the contracts as awarded to Centract stands. Subsequent to this decision the Office of the Auditor General began an audit of the process for awarding the Relocation Services Government Relocation contract. The audit is being conducted at the request of the Standing Committee on Public Accounts. While the scope of the audit is not clear, discussions with the audit team suggest that the process for awarding the contracts will be the focus. The result of the audit is expected to be tabled in Parliament in November 2006.

**Software Development and Licensing ("SDL")**, which includes consulting activities, development of the Company's CARE II CRM initiatives and royalties from our co-ownership of CALMS, generated a contribution margin loss of \$0.2 million for the Quarter as compared to a contribution margin loss of less than \$0.1 million for the same period of the last fiscal year. The operating costs for the Quarter relate primarily to salary, selling and administrative costs associated with the development of the Company's CARE II CRM initiatives.

**Home-Link's** operating activities consist of a contribution margin loss of \$0.1 million for the Quarter, unchanged from the same period of last year. 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 30, 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.

**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 \$0.1 million of administrative costs for the Quarter is in line with management's expectations and the same period of the prior fiscal year.

**Investment income** relates to income earned on the Company's short-term investments. The investment income of \$0.4 million for the Quarter increased \$0.1 million over the same period of the prior year. The increase in investment income arises from an increase in the Company's average portfolio balance to \$23.2 million from \$16.9 million in the prior fiscal year. Currently 99% 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 increased \$0.3 million from the same period of last year. The increase is due primarily to the additional consideration added to the ICON intangible asset in fiscal 2006, as a result of the earn-out option.

**Income tax expense** for the Quarter was nil as the Company is utilizing tax loss carryforwards to bring taxable income to nil. In 2005, the Company recorded a \$3.2 million income tax recovery and corresponding future tax asset (\$2.7 million current, \$0.5 million long-term) which represented the benefit of losses expected to be utilized to offset future taxable income. During the 12 months ended February 28, 2006, the full \$3.2 million was utilized to offset taxable income in fiscal 2006 and a further \$3 million income tax recovery was recorded. 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, 2006, the Company had federal and provincial non capital loss carryforwards of \$38.8 million and \$46.2 million, respectively, available to offset future years' taxable income.

## LIQUIDITY AND CAPITAL RESOURCES

<i>(\$ thousands)</i>	<b>As at May 31, 2006</b>	As at February 28, 2006
<b>Current assets</b>		
Cash and cash equivalents	<b>5,138</b>	7,634
Short-term investments	<b>23,019</b>	18,972
	<b>28,157</b>	26,606
Accounts receivable	<b>1,295</b>	1,079
Prepaid and other assets	<b>112</b>	113
Future tax assets	<b>3,000</b>	3,000
	<b>32,564</b>	30,798
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	<b>427</b>	446
Income taxes payable	<b>493</b>	493
Dividend payable	<b>514</b>	2,916
	<b>1,434</b>	3,855
<b>Net current asset position</b>	<b>31,130</b>	26,943

As at May 31, 2006 and as summarized in the chart above, the Company had positive working capital of \$31.1 million, up \$4.2 million from February 28, 2006 with \$1.8 million arising from increased current asset balances and \$2.4 million from decreased current liability balances. The following items of note drive the net increase in working capital:

- \$4.8 million cash flow generated from operations which after dividend payments of \$3.2 million was invested in cash, and cash equivalents and short-term investments;
- \$2.4 million decrease in dividends payable arising from the payment of the aggregate dividend due in respect of the additional Series C Preferred shares issued in the Quarter as a result of the ICON earn-out calculation; and
- Increased receivables as the related ICON licensing revenues which are due one month in arrears increased over the fourth quarter of 2006.

As at May 31, 2006, short-term investments were comprised of corporate bonds with an average yield to market ranging from 4% to 10%.

In fiscal 2006, approximately 99% of the Company's revenue were derived from the Company's ICON licensing and consulting arrangements with the bulk of this amount being attributed to the per file charge for the setup of a relocation file. The underlying relocation file activity is seasonal in nature with the most pronounced timing being the Government of Canada's active posting season which typically occurs in the spring. In addition to this variability, the Company's ICON licensing fees per file (see "ICON Transaction") reduce as certain volume thresholds are achieved with the thresholds being met on a calendar year basis. In fiscal 2006 the resulting relocation file and ICON development and licensing fee revenue was as follows:

	Number of files	Revenue
Q1	46%	49%
Q2	23%	21%
Q3	16%	14%
Q4	15%	16%

The Company has sufficient funds in the near term to meet its operating requirements and current annual cumulative dividend requirements of \$3.1 million and \$1.5 million of retroactive dividends on 5,189,150 Series C preferred shares, earned during the current year as part of the ICON earn-out (see “ICON Transaction”). 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	2-3 years	4-5 years	After 5 years
Premises lease	238,000	51,000	46,000	46,000	4,000

## CAPITAL RESOURCES

The financial resources available to the Company include \$5.1 million in cash and cash equivalents and \$23 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 May 31, 2006 Contract had the following shareholdings:

Share Class	Number of shares held	Percentage of shares held
Common	1,652,905	48%
Non-voting common	3,500,000	100%
Series A preferred shares	1,280,000	100%
Series B preferred shares	22,000,000	100%
Series C preferred shares	9,787,250	100%

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, Contract acquired its 3,500,000 Series D preferred shares as part of the consideration from the ICON Transaction. The Series D preferred shares upon meeting a predefined financial hurdle were automatically redeemed into 3,500,000 non-voting common shares in fiscal 2007. During fiscal 2005, 24,189 Series C preferred shares were earned as part of the consideration from the ICON Transaction (see “ICON Transaction”) and were issued in the second quarter of fiscal 2006. During fiscal 2006, 9,763,061 Series C preferred shares were earned as part of the consideration from the ICON Transaction (see “ICON Transaction”) and were issued in the first quarter of fiscal 2007. 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 with comparative figures for the prior year is as follows:

(\$ millions)	Three months ended		Twelve months ended
	May 31, 2006	May 31, 2005	February 28, 2006
<b>Revenue</b>			
ICON	5.4	5.0	10.4
Home-Link service fees	—	—	0.1
IRP software and upgrade fees	—	—	—
<b>Expenses</b>			
Management fees	0.1	0.1	0.4
Premises rent	—	—	0.1
<b>Dividends</b>			
Series A preferred shares	—	—	0.1
Series B preferred shares	0.5	0.5	2.4
Series C preferred shares	0.2	—	2.1
Series D preferred shares	—	—	0.1

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

### 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 which 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%. In accordance with the automatic conversion terms of these shares, these shares were converted in fiscal 2007 into 3,500,000 non-voting common shares; plus
- An earn-out option, which provides for the issuance of up to 18,500,000 Series C preferred shares issuable on the basis of one Series C preferred share for each \$1.00 of cumulative licensing fee revenue earned by the Company from its two license arrangements described below, in excess of \$8 million for the period from April 13, 2004 to February 29, 2008 plus an amount in cash equal to the aggregate dividends that would have been received by Centract if Centract had received the Series C preferred shares on April 13, 2004. The Series C preferred shares are also entitled to a cumulative quarterly dividend of 2.5% and a cumulative aggregate preferential annual participation dividend of 9.25% of pre-defined consolidated pre-tax income of the Company. In fiscal 2006, 24,189 Series C preferred shares were issued under the earn-out for fiscal 2005 and in fiscal 2007 an additional 9,763,061 shares were issued for the fiscal 2006 earn-out. For the Quarter, the Company has earned an additional 5,189,150 Series C preferred shares at a value of \$1.00 each which are expected to be issued subsequent to the fiscal 2007 year-end; plus
- An increase in the Series B preferred share cumulative aggregate preferential annual participation dividend from 10% to 11% of pre-defined consolidated pre-tax income of the Company based on the weighted average number of Series B preferred shares outstanding dividend by 22,000,000. As at February 28, 2006, there are 22,000,000 Series B preferred shares outstanding.

As at May 31, 2006, the Company has recorded \$15.8 million with respect to our purchase of ICON, which was comprised of \$15.3 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 and the issuance of Series C preferred shares. The amount recorded for the purchase of ICON and subsequent amortization of this asset will increase in accordance with the earn-out provisions of the purchase and sale agreement as described earlier.

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(\$ millions)

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**Assets acquired**

Intangible assets	15.2
Capital assets	0.1

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15.3

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**Consideration provided**

Subordinated debenture	2.0
Series C preferred shares	9.8
Series D preferred shares <sup>1</sup>	3.5

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15.3

1 Converted to non-voting common shares in the first quarter of fiscal 2007

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 Corporation generates annual license fees in excess of \$500,000. During the three months ended May 31, 2006, the Company earned \$5.1 million in related licensing fees on 10,990 files opened. As noted above the licensing fee per file opened is based on the number of files opened in a calendar year, not on the Company's fiscal year.

As part of the licensing agreement Centract is to receive at no additional cost, maintenance and technological support and normal course upgrades. Consulting Services provided for development upgrades or modifications are provided to Centract at cost plus 20%. During the three months ended May 31, 2006, the Company earned \$0.2 million from these services.

2. A five-year, non-transferable license with Asset Recovery, a division of Centract, which currently uses ICON in exchange for a monthly license fee equal to \$50 per administrative file and \$100 per Home Sale file. The license agreement commenced on April 13, 2004 with an initial term to March 31, 2009 with successive two-year renewal terms.

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 Intangible Assets**

The estimated useful life of 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.

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### ***Impairment***

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

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

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

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

The Company has recorded intangible assets related to the purchase of Home-Link, the purchase of the license and sub-license for use of Home-Link's CRM software in Canada and the ICON Transaction. The original allocation to the intangible Home-Link assets and CRM software was \$5.7 million. These intangible assets are being amortized over a seven-year period and had a net book value of \$2.2 million as at May 31, 2006. The allocation to date (see "ICON Transaction") to the Company's intangible ICON assets was \$15.8 million. These assets are being amortized over a seven-year period and had a net book value of \$13.4 million as at May 31, 2006. 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 futures changes in income tax law, changes in the jurisdictions in which the Company operates, the inability to generate sufficient future taxable income or unpredicted results from potential examinations or determinations of each year's liability by taxing authorities.

Valuation allowances primarily relate to potential future tax assets arising from accounting depreciation claimed in excess of tax depreciation and tax losses carried forward. Management must assess both positive and negative evidence when determining whether it is more likely than not that future tax assets will be recoverable in future periods. Based on this assessment, a valuation allowance must be established where management has determined, based on current facts and reasonable assumptions, that such future tax assets will not likely be realized by the Company. Realization is based on the Company's ability to generate sufficient future taxable income. During the fourth quarter of 2005, the Company recognized a future tax asset related to tax losses carried forward. A change in material assumptions occurred in the quarter in relation to the relative significance of positive and negative evidence related to the income from our ICON acquisition. Based on the track record of the relocation and asset recovery volumes underlying the ICON licensing fees, management determined that the valuation allowance should be reduced. This \$3.2 million tax recovery was fully utilized in fiscal 2006. During the fourth quarter of 2006, the Company recorded an income tax recovery of \$3.0 million which represents the benefit of the tax losses which the Company expects to utilize in fiscal 2007 based on management's current estimate of income that will more likely than not be generated by the Company to utilize these tax losses. The Company intends to maintain a valuation allowance for the balance of the future tax asset until sufficient positive evidence exists to support its reversal. Changes in material assumptions can occur from period to period due to the aging of prior year's losses, the cumulative effect of current period taxable income and other sources of positive and negative evidence. If these changes in material assumptions were to provide sufficient positive evidence, the Company could record the net benefit of \$21.3 million,

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or a portion thereof, as a recovery of income taxes in the period when realization becomes more likely than not and a corresponding increase in net future income tax assets.

### **Financial Instruments**

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

### **Recent Changes to Accounting Standards and Accounting Policies**

The Company's interim financial statements have been prepared using the same accounting policies as described in Note 2 of the Company's audited financial statements for the year ended February 28, 2006. In addition, during the Quarter the Company has also adopted section 3831 of the CICA Handbook, *Non-Monetary Transactions*, as described below.

The CICA has reissued section 3830 of the CICA Handbook as section 3831, *Non-Monetary Transactions*, which establishes standards for the measurement and disclosure of non-monetary transactions. It also includes criteria for defining "commercial substance" which replace the criteria for defining "culmination of the earnings process" in the former section. These changes come into effect for fiscal years beginning on or after January 1, 2006. Adopting this section on March 1, 2006 is not expected to have a material effect on our future financial statements.

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

### **Future Changes to Accounting Standards**

#### ***Comprehensive Income***

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

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

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

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

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

#### ***Financial Instruments – Recognition and Measurement***

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

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

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

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### **Hedges**

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

As the Company currently does not engage in hedge activity we do not expect the new standard to effect on our financial results in 2007.

### **OUTSTANDING SHARES**

As at May 31, 2006 the number of issued and outstanding shares of the Company are as follows:

Description	As at May 31, 2006
Common shares	3,443,687
Series A preferred shares	1,280,000
Series B preferred shares	22,000,000
Series C preferred shares	9,787,250
Series D preferred shares	—
Non-voting common shares	3,500,000

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"). During fiscal 2005, 24,189 Series C preferred shares were earned as part of the consideration for the ICON Transaction (see "ICON Transaction") and were issued in the second quarter of fiscal 2006. During fiscal 2006, 9,763,061 Series C preferred shares were earned as part of the consideration for the ICON Transaction (see "ICON Transaction") and were issued in the first quarter of fiscal 2007.

The Series D preferred shares were issued on April 13, 2004 and were automatically converted to 3,500,000 non-voting common shares during the first quarter of fiscal 2007 upon meeting a pre-defined financial hurdle.

In addition to the above noted classes of shares, the Company issued a \$2 million Debenture in connection with the ICON Transaction (see "ICON Transaction") which on July 12, 2004 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, 2005, 2006 or 2007 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 May 31, 2006 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, issuable in connection with the ICON Transaction, 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	
	May 31, 2006	May 31, 2005
<i>(\$ thousands except number of shares and per share amounts)</i>		
Net income	\$ 4,128	\$ 4,255
Preferred share dividends	(775)	(559)
Net income available to common shareholders	\$ 3,353	\$ 3,696
Weighted average outstanding common shares	6,944	3,444
Dilutive effect of the conversion of preferred shares	—	3,500
Common shares and common share equivalents	6,944	6,944
Adjustment to net income available to common shareholders	—	31
Diluted income per common share	\$ 0.48	\$ 0.54

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 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 May 31, 2006 is summarized in the chart below.

Share Class	Number of Shares Issued and Outstanding	Carrying Value of Share Class (\$ thousands)		Annualized Dividends % (\$ thousands)	Annual Participation Dividend	Percentage of Shares Held by Contract
Common	3,443,687	3,012	—	—	—	48%
Non-voting common <sup>1,6</sup>	3,500,000	3,500	—	—	—	100%
Series A preferred shares <sup>2,3</sup>	1,280,000	1,280	9.00	115	0.64%	100%
Series B preferred shares <sup>2,3</sup>	22,000,000	22,000	9.00	1,980	11.00%	100%
Series C preferred shares <sup>3,4,6</sup>	9,787,250	9,787	10.00	979	9.25%	100%
Series D preferred shares <sup>1,5,6</sup>	—	—	—	—	—	—
		39,579		3,074		

1. In accordance with the automatic conversion terms of these shares, these shares were converted into 3,500,000 non-voting common shares in the first quarter of fiscal 2007.

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

3. Quarterly cumulative dividend.

4. Up to 18,500,000 Series C preferred shares may be issued under an earn-out calculation (see "ICON Transaction") at \$1.00 per share. 24,189 Series C preferred shares were issued in the second quarter of fiscal 2006 to fulfill the ICON earn-out option, for fiscal 2005, an additional 9,763,061 Series C preferred shares were issued in the first quarter of fiscal 2007 to fulfill the ICON earn-out option, for fiscal 2006, and an additional 5,189,150 Series C preferred shares earned to date are expected to be issued subsequent to February 28, 2007 in respect of the ICON earn-out option for fiscal 2007.

5. Annual non-cumulative dividend.

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

## OUTLOOK

The Company will consider seeking a re-listing of the Company's common shares when there is a reasonable probability of returning value to common shareholders after having considered the overall capitalization of the Company and in particular the servicing of the obligations related to the Company's preferred shares, including their potential redemption. A summary of the outlook for our individual business operations is as follows:

## ICON

The acquisition of ICON and subsequent awarding of the Government of Canada Relocation contract to Centract, was a significant development for our operations. The acquisition has and is expected to continue to provide significant licensing fee cash flows to the Company and licensing opportunities for markets outside of North America. In addition, the eight development and support

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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 contracts, complaints were filed with the Canadian International Trade Tribunal (“CITT”) with respect to the award of this contract and the matter was ultimately forwarded to the Federal Court of Appeal for a ruling. On January 11, 2006, the Federal Court of Appeal ruled on the matter with the effect to Homeserve being the contracts as awarded to Centract stands. Subsequent to the Federal Court decision the Office of the Auditor General began an audit of the process for awarding the Relocation Services Government Relocation contract. The audit is being conducted at the request of the Standing Committee on Public Accounts. The results of the audit are expected to be tabled in Parliament in November 2006.

### **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. While management believes that Home-Link will ultimately develop into a successful business, it is expected that Home-Link will continue to incur losses for the foreseeable future.

### **Investment Operations**

The Company intends to invest its excess available cash in instruments that have the potential to generate a current yield that would offset, or partially offset, the dividend rate on the Company's preferred shares. The Company's existing investment portfolio of \$23 million as at May 31, 2006 has a yield to maturity ranging from 4% to 10%. Management will continue to evaluate higher yield investment opportunities, which meets its risk and liquidity tolerances. To mitigate risk, no more than 20% of our portfolio is invested in any one single company.

### **Forward-looking Statements**

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

**Supplementary Information**  
**Homeserve Technologies Inc.**  
**Condensed Balance Sheet**

	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	As at Nov. 30, 2005	As at Feb. 28, 2006	As at May 31, 2006
<i>(\$ thousands, unaudited)</i>								
<b>ASSETS</b>								
<b>Current</b>								
Cash and cash equivalents	4,237	2,154	2,714	5,932	7,216	6,675	7,634	5,138
Short-term investments	14,002	16,993	16,986	17,907	17,905	19,494	18,972	23,019
	18,239	19,147	19,700	23,839	25,121	26,169	26,606	28,157
Accounts receivable, prepaids and other assets	1,207	1,002	1,478	1,623	1,147	1,029	1,192	1,407
Future tax asset	—	—	2,660	2,660	2,660	2,660	3,000	3,000
<b>Total current assets</b>	19,446	20,149	23,838	28,122	28,928	29,858	30,798	32,564
Future tax asset	—	—	540	540	540	540	—	—
Capital assets, net	252	199	124	89	59	43	49	44
Intangible assets, net	9,198	8,707	8,233	7,736	7,236	6,737	16,426	15,597
	28,896	29,055	32,735	36,487	36,763	37,178	47,273	48,205
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
<b>Current</b>								
Accounts payable, accrued liabilities and other payables	438	467	448	620	421	472	446	427
Income and other taxes payable	485	485	485	485	515	538	493	493
Dividends payable	396	426	842	767	408	432	2,916	514
Deferred revenue	155	120	56	15	—	—	—	—
<b>Total current liabilities</b>	1,474	1,498	1,831	1,887	1,344	1,442	3,855	1,434
<b>Shareholders' equity</b>								
Capital stock and contributed surplus	29,792	29,792	29,792	29,792	29,816	29,816	29,816	39,579
Shares to be issued	—	—	24	24	—	—	9,763	—
Retained earnings (deficit)	(2,370)	(2,235)	1,088	4,784	5,603	5,920	3,839	7,192
<b>Total shareholders' equity</b>	27,422	27,557	30,904	34,600	35,419	35,736	43,418	46,771
	28,896	29,055	32,735	36,487	36,763	37,178	47,273	48,205

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

	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	As at Nov. 30, 2005	As at Feb. 28, 2006	As at May 31, 2006
<i>(\$ thousands, unaudited)</i>								
Net income for the three-month period	1,577	687	4,265	4,255	1,382	869	933	4,128
Preferred share dividends	(536)	(552)	(942)	(559)	(563)	(552)	(3,014)	(775)
Change in period	1,041	135	3,323	3,696	819	317	(2,081)	3,353
Retained earnings (deficit), beginning of the period	(3,411)	(2,370)	(2,235)	1,088	4,784	5,603	5,920	3,839
<b>Retained earnings (deficit), end of period</b>	<b>(2,370)</b>	<b>(2,235)</b>	<b>1,088</b>	<b>4,784</b>	<b>5,603</b>	<b>5,920</b>	<b>3,839</b>	<b>7,192</b>

**Supplementary Information**  
**Homeserve Technologies Inc.**  
**Condensed Statements of Net Income**

	Six months ended Aug. 31, 2004 (reported)	Nine months ended Nov. 30, 2004 (reported)	Twelve months ended Feb. 28, 2005 (reported)	Three months ended May 31, 2005 (reported)	Six months ended Aug. 31, 2005 (reported)	Nine months ended Nov. 30, 2005 (reported)	Twelve months ended Feb. 28, 2006 (reported)	Three months ended May 31, 2006 (reported)
<i>(\$ thousands, except per share amounts, unaudited)</i>								
<b>Sales</b>	5,001	6,562	8,608	5,089	7,321	8,742	10,467	5,434
<b>Gross profit</b>	5,001	6,562	8,608	5,089	7,321	8,742	10,467	5,434
<b>Operating costs</b>								
Selling, general and administration	1,257	1,859	2,534	527	1,088	1,651	2,530	810
	1,257	1,859	2,534	527	1,088	1,651	2,530	810
Income from operations before undernoted	3,744	4,703	6,074	4,562	6,233	7,091	7,937	4,624
Investment income	394	671	936	267	508	782	1,119	366
Gain (loss) on sale of investments	809	809	809	(41)	(41)	211	244	23
Interest expense	(19)	(19)	(19)	—	—	—	—	—
Amortization of property, plant and equipment and intangible assets	(1,034)	(1,583)	(2,154)	(533)	(1,063)	(1,580)	(1,661)	(885)
<b>Net income for the period before income taxes</b>	<b>3,894</b>	<b>4,581</b>	<b>5,646</b>	<b>4,255</b>	<b>5,637</b>	<b>6,504</b>	<b>7,639</b>	<b>4,128</b>
Income tax recovery (expense)	—	—	3,200	—	—	—	(200)	—
<b>Net income for the period</b>	<b>3,894</b>	<b>4,581</b>	<b>8,846</b>	<b>4,255</b>	<b>5,637</b>	<b>6,504</b>	<b>7,439</b>	<b>4,128</b>
<b>Basic income per common share</b>	<b>0.83</b>	<b>0.87</b>	<b>1.83</b>	<b>1.07</b>	<b>1.31</b>	<b>1.40</b>	<b>0.80</b>	<b>0.48</b>
<b>Diluted income per common share</b>	<b>0.48</b>	<b>0.48</b>	<b>0.99</b>	<b>0.54</b>	<b>0.66</b>	<b>0.71</b>	<b>0.41</b>	<b>0.48</b>
<b>File Activity:</b>								
Relocations	9,400	12,719	16,559	10,341	15,455	19,106	22,585	10,990
Asset Recovery	948	1,663	2,241	741	1,482	2,132	2,885	761

**Supplementary Information**  
**Homeserve Technologies Inc.**  
**Condensed Statements of Net Income**

	<b>Three months ended Aug. 31, 2004</b>	<b>Three months ended Nov. 30, 2004</b>	<b>Three months ended Feb. 28, 2005</b>	<b>Three months ended May 31, 2005</b>	<b>Three months ended Aug. 31, 2005</b>	<b>Three months ended Nov. 30, 2005</b>	<b>Three months ended Feb. 28, 2006</b>	<b>Three months ended May 31, 2006</b>
<i>(\$ thousands, except per share amounts, unaudited)</i>	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)
<b>Sales</b>	2,540	1,561	2,046	5,089	2,232	1,420	1,726	5,434
<b>Gross profit</b>	2,540	1,561	2,046	5,089	2,232	1,420	1,726	5,434
<b>Operating costs</b>								
Selling, general and administration	754	602	676	527	561	562	880	810
	754	602	676	527	561	562	880	810
Income from operations before undernoted	1,786	959	1,370	4,562	1,671	858	846	4,624
Investment income	213	277	266	267	241	274	337	366
Gain (loss) on sale of investments	146	—	—	(41)	—	253	32	23
Interest expense	(9)	—	—	—	—	—	—	—
Amortization of property, plant and equipment and intangible assets	(559)	(549)	(571)	(533)	(530)	(516)	(82)	(885)
<b>Net income for the period before income taxes</b>	1,577	687	1,065	4,255	1,382	869	1,133	4,128
Income tax recovery (expense)	—	—	3,200	—	—	—	(200)	—
<b>Net income for the period</b>	1,577	687	4,265	4,255	1,382	869	933	4,128
<b>Basic income (loss) per common share</b>	0.30	0.04	0.96	1.07	0.24	0.09	(0.60)	0.48
<b>Diluted income (loss) per common share</b>	0.15	0.02	0.48	0.54	0.12	0.05	(0.30)	0.48
<b>File Activity:</b>								
Relocations	4,618	3,319	3,840	10,341	5,114	3,651	3,479	10,990
Asset Recovery	644	715	578	741	741	650	753	761

**Supplementary Information**  
**Homeserve Technologies Inc.**  
**Condensed Statement of Cash Flows**

	<b>Three months ended Aug. 31, 2004</b>	<b>Three months ended Nov. 30, 2004</b>	<b>Three months ended Feb. 28, 2005</b>	<b>Three months ended May 31, 2005</b>	<b>Three months ended Aug. 31, 2005</b>	<b>Three months ended Nov. 30, 2005</b>	<b>Three months ended Feb. 28, 2006</b>	<b>Three months ended May 31, 2006</b>
<i>(\$ thousands, unaudited)</i>	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)
<b>OPERATING ACTIVITIES</b>								
Net income for the period	1,577	687	4,265	4,255	1,382	869	933	4,128
Add (deduct) items not affecting cash	426	560	(2,625)	579	532	265	253	861
Net change in non-cash working capital balances	1,247	199	(904)	(15)	254	192	(195)	(140)
<b>Cash provided by operating activities</b>	<b>3,250</b>	<b>1,446</b>	<b>736</b>	<b>4,819</b>	<b>2,168</b>	<b>1,326</b>	<b>991</b>	<b>4,849</b>
<b>FINANCING ACTIVITIES</b>								
Payment of preferred dividends	(476)	(522)	(525)	(634)	(922)	(529)	(529)	(3,178)
<b>Cash used in financing activities</b>	<b>(476)</b>	<b>(522)</b>	<b>(525)</b>	<b>(634)</b>	<b>(922)</b>	<b>(529)</b>	<b>(529)</b>	<b>(3,178)</b>
<b>INVESTING ACTIVITIES</b>								
Sale (purchase) of short-term investments	812	(3,000)	1	(1,000)	—	(1,339)	585	(4,080)
Other	(532)	(7)	348	33	38	1	(88)	(87)
<b>Cash provided by (used in) investing activities</b>	<b>280</b>	<b>(3,007)</b>	<b>349</b>	<b>(967)</b>	<b>38</b>	<b>(1,338)</b>	<b>497</b>	<b>(4,167)</b>
Net (increase) decrease in cash and cash equivalents during the period	3,054	(2,083)	560	3,218	1,284	(541)	959	(2,496)
Cash and cash equivalents, beginning of period	1,183	4,237	2,154	2,714	5,932	7,216	6,675	7,634
<b>Cash and cash equivalents, end of period</b>	<b>4,237</b>	<b>2,154</b>	<b>2,714</b>	<b>5,932</b>	<b>7,216</b>	<b>6,675</b>	<b>7,634</b>	<b>5,138</b>

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

	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	Three months ended Nov. 30, 2005	Three months ended Feb. 28, 2006	Three months ended May 31, 2006
	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)	(reported)
<i>(\$ thousands, unaudited)</i>								
<b>Segmented information</b>								
<b>ICON development and licensing</b>								
Revenue	2,469	1,509	1,973	5,040	2,211	1,415	1,722	5,422
Operating costs	(260)	(205)	(257)	(219)	(222)	(277)	(273)	(353)
	2,209	1,304	1,716	4,821	1,989	1,138	1,449	5,069
<b>Software development and licensing</b>								
Revenue	9	—	21	—	—	—	—	—
Operating costs	(74)	(39)	(51)	(53)	(52)	(72)	(106)	(214)
	(65)	(39)	(30)	(53)	(52)	(72)	(106)	(214)
<b>Home-Link operations</b>								
Revenue	62	52	51	49	21	5	4	12
Operating costs	(236)	(210)	(177)	(142)	(128)	(99)	(103)	(111)
	(174)	(158)	(126)	(93)	(107)	(94)	(99)	(99)
<b>Other</b>								
General and administration	(184)	(148)	(190)	(113)	(159)	(114)	(398)	(132)
	(184)	(148)	(190)	(113)	(159)	(114)	(398)	(132)
<b>Contribution margin</b>								
Revenue	2,540	1,561	2,045	5,089	2,232	1,420	1,726	5,434
Operating costs	(754)	(602)	(675)	(527)	(561)	(562)	(880)	(810)
	1,786	959	1,370	4,562	1,671	858	846	4,624

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Interim Financial Statements

**Homeserve Technologies Inc.**

May 31, 2006

# HOMESERVE TECHNOLOGIES INC.

## Interim Balance Sheets

(\$ thousands)	As at May 31, 2006 <i>(unaudited)</i>	As at February 28, 2006 <i>(unaudited)</i>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	5,138	7,634
Short-term investments	23,019	18,972
Accounts receivable	1,295	1,079
Prepaid expenses and other assets	112	113
Future tax assets	3,000	3,000
<b>Total current assets</b>	<b>32,564</b>	<b>30,798</b>
Property, plant and equipment, net	44	49
Intangible assets, net	15,597	16,426
	<b>48,205</b>	<b>47,273</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	427	446
Income and other taxes payable	493	493
Dividends payable	514	2,916
<b>Total current liabilities</b>	<b>1,434</b>	<b>3,855</b>
<i>Commitments and contingencies</i>		
<b>Shareholders' equity</b>		
Capital stock [note 4]	39,579	29,816
Shares to be issued	—	9,763
Retained earnings	7,192	3,839
<b>Total shareholders' equity</b>	<b>46,771</b>	<b>43,418</b>
	<b>48,205</b>	<b>47,273</b>

See accompanying notes

On behalf of the Board:



Director



Director

# HOMESERVE TECHNOLOGIES INC.

## Interim Statements of Income and Retained Earnings

Three months ended May 31

<i>(\$ thousands, except per common share amounts)</i>	<b>2006</b> <i>(unaudited)</i>	2005 <i>(unaudited)</i>
<b>Sales</b> <i>[note 5]</i>	<b>5,434</b>	5,089
<b>Operating expenses</b>		
Selling, general and administrative <i>[note 5]</i>	<b>810</b>	527
Amortization of property, plant and equipment	<b>12</b>	35
Amortization of intangible assets	<b>873</b>	498
Income from operations before the undernoted	<b>3,739</b>	4,029
Investment income	<b>366</b>	267
Gain (loss) on sale of short-term investments	<b>23</b>	(41)
<b>Net income for the period</b>	<b>4,128</b>	4,255
Preferred share dividends <i>[notes 4 and 5]</i>	<b>(775)</b>	(559)
Basic earnings available to common shareholders	<b>3,353</b>	3,696
Retained earnings, beginning of period	<b>3,839</b>	1,088
<b>Retained earnings, end of period</b>	<b>7,192</b>	4,784
Basic earnings available to common shareholders <i>[note 4]</i>	<b>3,353</b>	3,696
<b>Basic earnings per common share</b> <i>[note 4]</i>	<b>\$0.48</b>	\$1.07
Diluted earnings available to common shareholders <i>[note 4]</i>	<b>3,353</b>	3,727
<b>Diluted earnings per common share</b> <i>[note 4]</i>	<b>\$0.48</b>	\$0.54

*See accompanying notes*

# HOMESERVE TECHNOLOGIES INC.

## Interim Statements of Cash Flows

Three months ended May 31

<i>(\$ thousands)</i>	<b>2006</b> <i>(unaudited)</i>	2005 <i>(unaudited)</i>
<b>OPERATING ACTIVITIES</b>		
Net income for the period	<b>4,128</b>	4,255
Add (deduct) items not affecting cash		
Amortization of bond premium (discount)	<b>(1)</b>	5
Amortization of property, plant and equipment	<b>12</b>	35
Amortization of intangible assets	<b>873</b>	498
Gain (loss) on sale of short-term investments	<b>(23)</b>	41
	<b>4,989</b>	4,834
Net change in non-cash working capital balances related to operations	<b>(140)</b>	(15)
<b>Cash provided by operating activities</b>	<b>4,849</b>	4,819
<b>FINANCING ACTIVITIES</b>		
Payment of preferred share dividends	<b>(3,178)</b>	(634)
<b>Cash used in financing activities</b>	<b>(3,178)</b>	(634)
<b>INVESTING ACTIVITIES</b>		
Sale of short-term investments	<b>1,766</b>	2,000
Purchase of short-term investments	<b>(5,846)</b>	(3,000)
Other	<b>(87)</b>	33
<b>Cash used in investing activities</b>	<b>(4,167)</b>	(967)
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>(2,496)</b>	3,218
Cash and cash equivalents, beginning of period	<b>7,634</b>	2,714
<b>Cash and cash equivalents, end of period</b>	<b>5,138</b>	5,932

*See accompanying notes*

# Notes to Financial Statements

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

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May 31, 2006

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

As at May 31, 2006, the Company had four reportable segments, ICON, Home-Link, Software Development and Licensing and General and Administration. ICON is a customizable software application that manages all aspects of a residential home relocation service. The Company earns licensing fees by providing a license to use this software to companies in the business of managing residential relocations. Home-Link revenues are generated from service fees, transaction fees, and marketing fees. Software Development and Licensing revenues are generated from software licensing and royalty fees.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The accounting principles used in these interim financial statements are consistent with those used in the annual 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 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates made by management include reserves for uncollectible accounts, write-down of property, plant and equipment, impairment of intangible assets, recorded values of accrued liabilities and future tax assets. Actual results could differ from these estimates.

### Cash and cash equivalents

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

### Short-term investments

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

### Property, plant and equipment

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

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

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

#### **Intangible assets subject to amortization**

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

ICON system	over the initial term of the ICON license, expiring in 2011
Licensing fees and other costs	5 years
CRM system	7 years

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

#### **Revenue recognition – ICON software and development**

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

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

### **3. ICON ACQUISITION AND LICENSING AGREEMENT**

On April 13, 2004, the Company acquired Contract's interest in its ICON software and entered into licensing, premises lease and employment arrangements with Contract for potential consideration of \$24 million, \$20.5 million of which has been earned to May 31, 2006, comprised of:

- A \$2.0 million debenture that was converted to 2,000,000 Series B preferred shares on July 12, 2004; plus
- \$3.5 million paid by the issuance of 3,500,000 Series D preferred shares with a non-cumulative annual dividend of 3.5% and conversion option to non-voting common shares of the Company [see *note 4 – Capital stock*]. In accordance with the automatic conversion terms of these shares, these shares were converted in the first quarter of fiscal 2007 into 3,500,000 non-voting common shares; plus
- An earn-out option which provides for issuances of up to 18,500,000 Series C preferred shares issuable on the basis of one Series C preferred share for each \$1.00 of cumulative licensing fee revenue earned by the Company from its two license arrangements, in excess of \$8 million for the period from April 13, 2004 to February 29, 2008 plus an amount in cash equal to the aggregate dividends that would have been received by Contract if Contract had received the Series C preferred shares on April 13, 2004. The Series C preferred shares are also entitled to a cumulative quarterly dividend of 2.5% and a cumulative aggregate preferential annual participation dividend of 9.25% of pre-defined consolidated pre-tax income of the Company [see *note 4 – Capital stock*]. In fiscal 2006, 24,189 Series C preferred shares were issued under the earn-out for fiscal 2005, an additional 9,763,061 Series C preferred shares were issued in fiscal 2007 under the earn-out for fiscal 2006, and an additional 5,189,150 Series C preferred shares have been earned since February 28, 2006 and are expected to be issued after February 28, 2007 (see *note 4 – Capital Stock*); plus
- An increase in the Series B preferred share cumulative aggregate preferential annual participation dividend from 10% to 11% of pre-defined consolidated pre-tax income of the Company based on the weighted average number of Series B preferred shares outstanding divided by 22,000,000. As at May 31, 2006, there are 22,000,000 Series B preferred shares outstanding.

The initial ICON purchase price consideration was \$6.0 million and was comprised of \$5.5 million of intangible assets and property, plant and equipment and \$0.5 million in legal, valuation, accounting and shareholder communication costs associated with the transaction. An additional \$9.8 million of intangible assets was added during fiscal 2006 as a result of the earn-out option, bringing the total ICON intangible assets and property, plant and equipment related consideration to \$15.3 million as summarized in the table below.

	(\$)
<b>Assets acquired</b>	
Intangible assets	15,233
Property, plant and equipment	54
	<u>15,287</u>
<b>Consideration provided</b>	
Convertible debenture	2,000
Series C preferred shares	9,787
Series D preferred shares	3,500
	<u>15,287</u>

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

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

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.

#### 4. CAPITAL STOCK

Capital stock consists of the following:

(\$)		As at May 31, 2006	As at Feb. 28, 2006
<b>Authorized</b>			
	Unlimited preference shares issued in series		
	Unlimited common shares		
	Unlimited non-voting common shares		
<b>Issued</b>			
1,280,000	Series A preferred shares	1,280	1,280
22,000,000	Series B preferred shares	22,000	22,000
9,787,250	Series C preferred shares (February 28, 2006 – 24,189)	9,787	24
Nil	Series D preferred shares (February 28, 2006 – 3,500,000)	—	3,500
3,443,687	common shares (February 28, 2006 – Nil)	3,012	3,012
3,500,000	non-voting common shares	3,500	—
		<b>39,579</b>	<b>29,816</b>

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 after December 1, 2004. 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, B and C preferred share and no more. The par value of the Series A, Series B and Series C preferred shares is \$1.00 per share.

The holders of the Series A 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 and Series B preferred shares.

The holders of the Series A preferred shares are also entitled to receive a cumulative aggregate preferential annual participation dividend of 0.64% of the Company's annual consolidated net income before tax calculated in accordance with Canadian GAAP, less a fixed preferential cumulative quarterly dividend of 2.25% noted above, with the first such annual dividend accruing for the year ended February 28, 2003. The annual Series A participation dividend declared for the year ended February 28, 2006 was \$23 [2005 – \$23].

The holders of the Series B preferred shares are also entitled to receive a cumulative aggregate preferential annual participation dividend of up to 11% of the Company's annual consolidated net income before tax calculated in accordance with Canadian GAAP, less a fixed preferential cumulative quarterly dividend of 2.25% noted above, with the first such annual dividend accruing for the year ended February 28, 2003. The annual Series B participation dividend declared for the year ended February 28, 2006 was \$394 [2005 – \$374].

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

The holders of the Series C preferred shares are also entitled to receive a cumulative aggregate preferential annual participation dividend of up to 9.25% of the Company's annual consolidated net income before tax calculated in accordance with Canadian GAAP, less a fixed preferential cumulative quarterly dividend of 2.5% noted above, with the first such annual dividend accruing for the year ended February 28, 2005. The annual Series C participation dividend declared for the year ended February 28, 2006 was \$1 [2005 – nil].

As outlined in note 3 under the terms of the agreement to purchase ICON, the Company will issue one Series C preferred share at a par value of \$1.00 per share with a cumulative quarterly dividend of 2.5% and cumulative aggregate preferential annual

participation dividend of 9.25% of pre-defined consolidated pre-tax income of the Company. As at May 31, 2006, the Company has earned \$23.0 million in cumulative ICON licensing revenue. To fulfill the earn-out option, 9,787,250 Series C preferred shares have been issued for fiscal 2005 and fiscal 2006, and as at May 31, 2006, an additional 5,189,150 are expected to be issued subsequent to February 28, 2007 in respect of the earn-out for fiscal 2007.

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

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

### Earnings per share

Basic earnings per share has been calculated using the weighted average number of common shares outstanding of 6,943,687 for the three months ended May 31, 2006 and 3,443,687 for the three months ended May 31, 2005. Diluted earnings per share for the three months ended May 31, 2005 as summarized in the table below was calculated using the weighted average number of common shares outstanding of 6,943,687 to take into effect the conversion of Series D preferred shares into non-voting common shares.

(\$)	Three months ended May 31, 2006	Three months ended February 28, 2006
<b>Net income</b>	<b>4,128</b>	4,255
Dividends paid on preferred shares	<b>(775)</b>	(559)
Basic earnings available to common shareholders	<b>3,353</b>	3,696
Adjustment to net income on conversion of Series D preferred shares	—	31
<b>Diluted net income available to common shareholders</b>	<b>3,353</b>	3,727
Weighted average outstanding common shares	<b>6,944</b>	3,444
Dilutive effect of conversion of preferred shares	—	3,500
Common shares and common share equivalents	<b>6,944</b>	6,944

### 5. RELATED PARTY TRANSACTIONS

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

(\$)	Three months ended May 31, 2006	Three months ended February 28, 2006
<b>Sales</b>	<b>5,432</b>	5,081
<b>Expenses</b>		
Management fee and cost reimbursement	<b>96</b>	111
Rent	<b>20</b>	22
Preferred share dividends	<b>775</b>	559

As at May 31, 2006, the Company had accounts receivable of \$1,141 [February 28, 2006 – \$763], dividends payable of \$514 [February 28, 2006 – \$2,916], and accounts payable of \$122 [February 28, 2006 – \$126].

## 6. SEGMENTED REPORTING

### General description

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

ICON is a customizable software application that manages all aspects of a residential home relocation service. 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. The CEO does not review asset information on a segmented basis in order to assess performance and allocate resources.

(\$)	Three months ended May 31, 2006	Three months ended May 31, 2005
<b>Sales</b>		
ICON	5,422	5,040
Home-Link	12	49
Software Development and Licensing	—	—
<b>Total</b>	<b>5,434</b>	<b>5,089</b>
<b>Contribution margin</b>		
ICON	5,069	4,821
Home-Link	(99)	(93)
Software Development and Licensing	(214)	(53)
General and Administration	(132)	(113)
	<b>4,624</b>	<b>4,562</b>
Investment income	366	267
Gain (loss) on sale of short-term investments	23	(41)
Amortization of property, plant and equipment	(12)	(35)
Amortization of intangible assets	(873)	(498)
<b>Income from operations before income taxes</b>	<b>4,128</b>	<b>4,255</b>

## Corporate Information

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### BOARD OF DIRECTORS

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

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

**William J. Danis**

**Jason D. Meretsky**

**Donald W. Paterson**

### SENIOR MANAGEMENT

**James B. Dunbar**  
President &  
Chief Executive Officer

**Kevin Cash**  
Chief Financial Officer

**Max M. Cohen**  
General Counsel & Secretary

### CORPORATE HEADQUARTERS

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### AUDITORS

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

### REGISTRAR & TRANSFER AGENT

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

### STOCK LISTING

The Company's shares are currently  
unlisted.

### INVESTORS RELATIONS

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

Mansfield Communications Inc.  
Attention: Kate Langan

Tel: (416) 599-0024  
[kate@mcipr.com](mailto:kate@mcipr.com)