



**First Quarter 2005**

HOMESERVE TECHNOLOGIES INC.  
39 Wynford Drive  
4th Floor  
Toronto, Ontario  
M3C 3K5  
Phone: (416) 510-5858 Fax: (416) 446-0050

**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.



Simon P. Dean  
President and Chief Executive Officer



Kevin Cash  
Chief Financial Officer

July 12, 2004

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

The following Management's Discussion and Analysis of Results and Financial Condition ("MD&A") of Homeserve Technologies Inc. ("Homeserve" or the "Company") covers the period from March 1, 2004 to May 31, 2004 (the "quarter"). This MD&A has been prepared as at June 28, 2004 with the exception of the reference to the conversion of the Company's \$2,000,000 subordinated debenture into 2,000,000 Series B preferred shares on July 12, 2004. This MD&A should be read in conjunction with our audited consolidated financial statements for the twelve months ended February 29, 2004 and the attached interim unaudited consolidated financial statements for the quarter ended May 31, 2004. 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 Information Form and Management Information Circular, is 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 of the Company, is 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 17 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. We will consider re-listing the Company's Common shares upon stabilization of contracted revenues and underlying business operations. (See "ICON Transaction" and "Outlook").

### 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 an opportunity for the Company to increase shareholder value through the re-licensing and sale of the software to non-North American markets and the provision of additional functionality and consultative services, for a fee. Currently, the only licensees for the ICON software are divisions of Centract.

In April 2003, Home-Link acquired, for US\$100,000, a permanent, exclusive, royalty-free, transferable license to use its CARE II CRM software in Canada and to sub-license its use to others in Canada. As a result of this transaction Home-Link saved over US\$220,000 per year in license payments. The Company considers this both a significant financial saving for the Company and an opportunity to market its CARE II CRM solutions, to banking and retail companies. As such, we are currently in discussions with a number of 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 is contracted to utilize Home-Link's services to June 30, 2005.

We continued to earn royalties from our co-ownership of CALMS and are seeking opportunities to further incorporate the functionality of CALMS into our existing and future product offerings.

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

### Results of Operations : First Quarter 2005 Compared to First Quarter 2004

<i>(\$ thousands)</i>	Three months ended May 31, 2004	Three months ended May 31, 2003
Revenue	2,461	718
Cost of sales	—	323
Margin	2,461	395
Operating costs	503	1,130
Severance and other	—	37
Contribution margin	1,958	(772)
Investment income	181	149
Gain on sale of investments	663	—
Amortization and depreciation	(475)	(395)
Other	(10)	—
Net income (loss) for the period	2,317	(1,018)

As summarized in the chart above, the Company reported net income of \$2.3 million for the quarter as compared to a loss of \$1.0 million for the three months ended May 31, 2003 (“Q1 2004”) representing income of \$0.53 per share and a loss of \$0.44 per share, respectively. The most significant elements contributing to the \$3.3 million quarter-over-quarter increase in net income were a \$2.3 million contribution margin generated from the newly acquired ICON operations, a \$0.6 million decrease in Home-Link’s contribution margin loss resulting from the downsizing activities undertaken in fiscal 2004 and \$0.7 million gain arising from the sale of the Company’s corporate bond portfolio. Partially offsetting these amounts was a \$0.2 million reduction in software development and licensing contribution margin as the underlying development and upgrade contract with Centract was completed in fiscal 2003. 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:

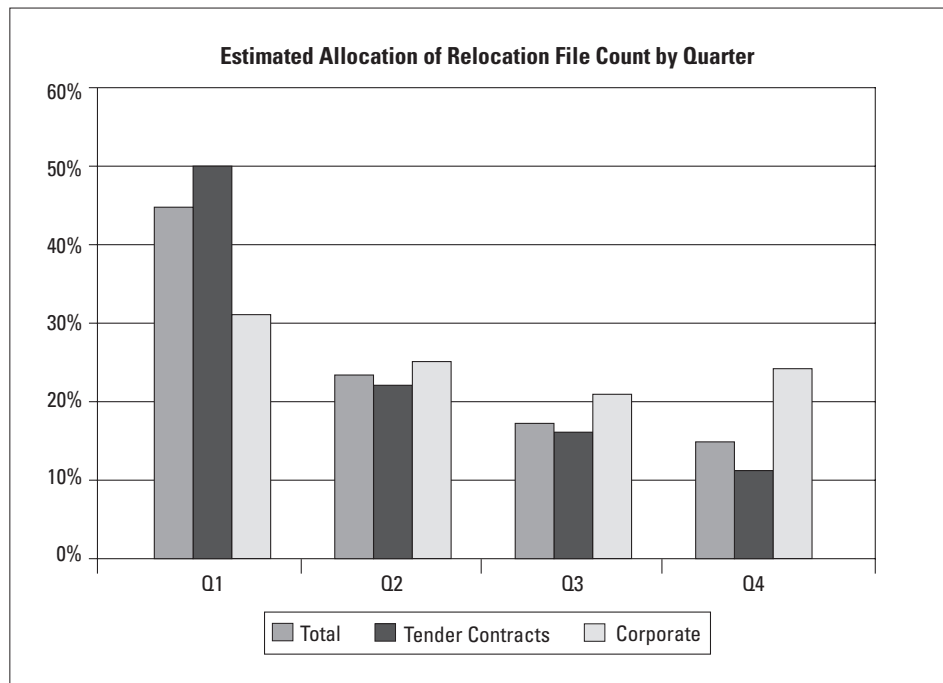
<i>(\$ thousands)</i>	Three months ended May 31, 2004	Three months ended May 31, 2003
<b>Contribution margin by business line</b>		
<b>Software development and licensing</b>		
Revenue	—	576
Cost of sales	—	(316)
Operating costs	(69)	—
	(69)	260
<b>ICON licensing and development</b>		
Revenue	2,402	—
Cost of sales	—	—
Operating costs	(74)	—
	2,328	—
<b>Home-Link operations</b>		
Revenue	59	142
Cost of sales	—	(7)
Operating costs	(232)	(909)
	(173)	(774)
<b>Other</b>		
General and administration	(128)	(85)
Severance and other	—	(173)
	(128)	(258)
<b>Contribution margin</b>		
Revenue	2,461	718
Cost of sales	—	(323)
Operating costs	(503)	(1,167)
	1,958	(772)

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 \$0.1 million for the quarter versus a contribution margin of \$0.3 million in Q1 2004. The Q1 2004 activity related primarily to a development and upgrade contract for Centract. This contract was completed in fiscal 2004 and as at the date of this MD&A there are no consulting contracts of a similar nature during the quarter or expected in the near future. The current quarter loss of \$0.1 million relates primarily to salary, selling and administrative costs associated with the development of the Company’s Care II CRM initiatives.

ICON licensing and development activities consist of \$2.4 million in revenue generated from its contracted relocation and asset recovery license agreements (see “ICON Transaction”) with Centract. The underlying file activity is slightly ahead of Q1 2004 levels and management’s expectations for the quarter. ICON licensing and development operating costs related to staffing, selling, premises and administrative costs associated with eight development and support personnel who entered into employment agreements with the Company as part of the ICON Transaction and are in line with management’s expectations.

As noted under “ICON Transaction” approximately 74% of the Company’s estimated ICON licensing revenues are derived from two significant Centract contracts, which are currently under tender (the “Tender Contracts”). As at the date of this MD&A the related tender submissions process has been completed and Centract has submitted the tender responses to the contracting authority. The formal award of the Tender Contracts by the contracting authority is not expected until late July to mid-August 2004.

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 is derived as 74% from the Tender 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 Tender 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 might be continuing although there can be no guarantee that this is the case. A summary of the anticipated variability in file counts over a full fiscal year for the Company is summarized in the following chart:



Home-Link's operating activities consisted of a contribution margin loss of \$0.2 million for the quarter as compared to a contribution margin loss of \$0.8 million for Q1 2004. The decrease in the overall loss was due primarily to reduced licensing fees, as a result of the acquisition of the perpetual CARE II software license in April 2003 and the reduction of salary and benefit costs through the downsizing of Home-Link's operations to service current transaction volumes, which was precipitated by a decline in the number of third party clients who chose not to utilize Home-Link's services. As described earlier, substantially all of Home-Link's revenue for the quarter was generated from related third parties or related supplier transaction fees. These related parties have contracted to utilize Home-Link's services to June 2005. 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"). These costs are estimated at \$400,000 to \$450,000 per annum and are reduced by income earned on cash balances. The \$0.1 million of administrative costs for the quarter is in line with management's expectations, while the \$0.1 million quarter-over-quarter decrease in administrative costs relates primarily to interest income that was earned on higher cash balances in Q1 2004. Severance and other for Q1 2004 related primarily to severance costs related to the downsizing of Home-Link's operations.

Investment income relates to income earned on the Company's short-term investments. The investment income of \$0.2 million for the quarter was up marginally over Q1 2004 as the Company's corporate bond holdings benefitted from higher yields. A portion of these holdings was sold during the quarter resulting in a gain on sale of \$0.7 million. The proceeds on the sale were subsequently reinvested in higher yielding investments.

Amortization and depreciation for the quarter was up \$0.1 million over Q1 2004 due primarily to the amortization of ICON acquisition and transaction costs of \$5.9 million, which are amortized on a straight-line basis over seven years.

### Liquidity and Capital Resources

<i>(\$ thousands)</i>	As at May 31, 2004	As at February 29, 2004
<b>Current assets</b>		
Cash and cash equivalents	1,183	476
Short-term investments	14,681	14,372
	<b>15,864</b>	14,848
Accounts receivable	1,799	634
Prepays and other assets	40	402
	<b>17,703</b>	15,884
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	433	399
Income taxes payable	485	485
Dividend payable	335	315
Deferred revenue	42	87
	<b>1,295</b>	1,286
	<b>16,408</b>	14,598

As at May 31, 2004 and as summarized in the chart above, the Company had positive working capital of \$16.4 million, up \$1.8 million from February 29, 2004. This increase was primarily attributed to the \$2.3 million contribution margin generated from our newly commenced ICON operations and \$0.7 million in funds raised on sale of certain of our corporate bond holdings. These increases in working capital were partially offset by \$0.5 million of dividend payments, \$0.4 million required for our SDL and administrative operations and the funding of Home-Link's operating losses.

Current liabilities remain unchanged from February 29, 2004, while current assets increased by \$1.8 million. The increase in current assets was attributed to a \$1.2 million increase in accounts receivable comprised primarily of fees related to the ICON licensing fees, which are due one month in arrears, a \$0.4 million decrease in prepaid and other assets, as a result of allocating the costs of the ICON transaction to intangible assets during the quarter and a \$1.0 million increase in cash and cash equivalents and short-term investments for reasons described earlier.

As at May 31, 2004, short-term investments were comprised of a mix of corporate bonds and higher yielding securities with an average yield to market ranging from 5.2% to 8.6%.

The Company has sufficient funds in the near term to meet its operating requirements and annual cumulative dividend requirements as at July 12, 2004 of \$2.4 million. The Company's liquidity may be reduced by the redemption of its preferred shares (see "Capital Structure").

### Off-Balance Sheet Arrangements

Homeserve has no off-balance sheet arrangements other than those obligations under the ICON Transaction. These obligations include the provision of maintenance and technological support, bug remediation and any normal course upgrades to the ICON Software that are generally released to licensees of the ICON software by the Company within 60 business days of such release.

### Related Party Transactions

#### Share Ownership

The Company's most significant shareholder is Centract. As at July 12, 2004, Centract had the following shareholdings:

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

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

### Transactions with Related Parties

Transactions with related parties are recorded at contracted rates or at exchange amounts approximating fair market value. A summary of these amounts for the quarter with comparative figures for Q1 2004 and for the twelve months ended February 29, 2004 is as follows:

<i>(\$ millions)</i>	<b>Three months ended May 31, 2004</b>	Three months ended May 31, 2003	Twelve months ended February 29, 2004
<b>Revenue</b>			
ICON revenue	<b>2.4</b>	—	—
Home-Link service fees	—	0.1	0.4
IRP software and upgrade fees	—	0.5	1.3
<b>Expenses</b>			
Management fees	<b>0.1</b>	0.1	0.4
Premises rent	—	—	0.1
<b>Dividends</b>			
Series A Preferred shares	—	—	0.1
Series B Preferred shares	<b>0.5</b>	0.5	1.8
<b>Other</b>			
Sale of capital assets	—	—	0.1

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

## ICON Transaction

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

- \$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 18.5 million Series C preferred shares issuable on the basis of one Series C preferred share for each \$1.00 of cumulative licensing fee revenue earned by the Company from its two license arrangements described below, in excess of \$8 million for the period from April 13, 2004 to February 29, 2008. The Series C preferred shares are also entitled to a cumulative quarterly dividend of 2.5% and a cumulative aggregate preferential annual participation dividend of 9.25% of predefined consolidated pre-tax income of the Company. As May 31, 2004, the Company has earned \$2.4 million in cumulative licensing revenue; and
- an increase in the Series B preferred share cumulative aggregate preferential annual participation dividend from 10% to 11% of predefined consolidated pre-tax income of the Company based on the weighted average number of Series B preferred shares outstanding divided by 22 million. The weighted average number of Series B preferred shares outstanding in the quarter was 20 million. As at July 12, 2004, there are 22 million Series B preferred shares outstanding, as a result of the conversion of the Company's \$2.0 million debenture to two million Series B preferred shares.

As at May 31, 2004 and for the quarter, the Company has recorded \$6.0 million with respect to our purchase of ICON, which is 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.

*(\$ millions)*

<b>Assets Acquired</b>	
Intangible assets	5.4
Capital assets	0.1
	<hr/>
	5.5
<b>Consideration provided</b>	
Subordinated debenture	2.0
Series D preferred shares	3.5
	<hr/>
	5.5

The 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 quarter the Company earned \$2.4 million in licensing fees on 4,782 files opened.

As part of the licensing agreement Centract is to receive at no additional cost, maintenance and technological support and normal course upgrades. Any development upgrades or modifications are provided to Centract at cost plus 20%.

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, 2011 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 on the same as the terms of employment provided by Centract.

On a pro forma basis, the resultant contribution margin generated by the ICON transaction based on transaction volumes for Centract's relocation and asset recovery operations for the calendar year ended December 31, 2003 would have been approximately \$7.7 million, derived as licensing revenue of \$8.7 million less premises, employee and operating costs of \$1.0 million. Centract's relocation business represents 99% of the \$8.7 million licensing fee estimate, approximately 74% of which is derived from two significant contracts, which are currently under tender. As at the date of this MD&A the related tender submission process has been completed and Centract has submitted the responses to the contracting authority. Centract anticipates a late July to mid-August 2004 award date for the new contracts, which are to commence on December 1, 2004 for a five-year term with a two-year renewal date. There is no certainty as to the award of these contracts to Centract.

### Critical Accounting Estimates

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 CARE II CRM software in Canada and the ICON Transaction. The original allocation to the Home-Link assets and CARE II CRM software was \$5.9 million. These assets are being amortized over a five-year period and had a net book value of \$3.9 million as at May 31, 2004. The allocation to date (see "ICON Transaction") to the Company's ICON assets was also \$5.9 million. These assets are being amortized over a seven-year period and had a net book value of \$5.8 million as at May 31, 2004.

The Company also has capital assets with a net book value of \$0.3 million as at May 31, 2004. 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, dividends payable, and subordinated debenture. 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.

### Outstanding Shares

As at May 31, 2004 and July 12, 2004 the number of issued and outstanding shares of the Company are as follows:

Description	As at May 31, 2004	As at July 12, 2004
Common shares	3,443,687	3,443,687
Series A preferred shares	1,280,000	1,280,000
Series B preferred shares	20,000,000	22,000,000
Series C preferred shares	—	—
Series D preferred shares	3,500,000	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 18.5 million Series C preferred shares at \$1.00 per share. The issuance of these shares is subject to meeting certain earn out criteria related to the Company's ICON transaction (see "ICON Transaction").

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

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

The Company has entered into an agreement with the holders of the Series C preferred shares and Non-Voting Common 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 had not issued any stock options in fiscal 2004 or fiscal 2005 and as such there are no stock options outstanding with respect to the Company's as at the date of this MD&A.

### Capital Structure

The Company's capital structure as at July 12, 2004 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:

<i>(\$ thousands except number of shares)</i>	<b>Three months ended May 31, 2004</b>	Three months ended May 31, 2003
Net Income	\$ 2,317	\$ (1,018)
Preferred share dividends	(497)	(483)
Net income available to common shareholders	<b>\$ 1,820</b>	\$ (1,501)
Weighted average outstanding common shares	<b>3,444,000</b>	3,444,000
Dilutive effect of the conversion of preferred shares	<b>1,788,000</b>	—
Common shares and common share equivalents	<b>5,232,000</b>	3,444,000
Diluted earnings (loss) per common share	<b>\$ 0.35</b>	\$ (0.44)

A summary of the Company's capital structure as at July 12, 2004 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 <sup>1</sup>	3,443,687	3,012	—	—	—	48%
Non-Voting Common <sup>2,7</sup>	—	—	—	—	—	—
Series A preferred shares <sup>3,4</sup>	1,280,000	1,280	9.00	115	0.64%	100%
Series B preferred shares <sup>3,4</sup>	22,000,000	22,000	9.00	1,980	11.00%	100%
Series C preferred shares <sup>4,5,7</sup>	—	—	10.00	—	—	100%
Series D preferred shares <sup>2,6</sup>	3,500,000	3,500	3.50	315	—	100%
		29,792		2,410		

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

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

3. Non-convertible, non-voting and redeemable by the Company for \$1 per share after December 31, 2004.

4. Quarterly cumulative dividend.

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

6. Annual non-cumulative dividend.

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

## Outlook

Our primary objective is to improve and stabilize the operations of the Company to a level that will make the re-listing of the Company's Common shares feasible. With the completion of the ICON Transaction we expect to return to profitability in the coming year. As indicated earlier, approximately 74% of the Company's estimated ICON licensing revenues will be derived from pre-existing Centract contracts, which were subject to re-tender (See "ICON Transaction"). If Centract is successful in securing these Tender Contracts, the Company will determine, based upon review of all of its operations, if conditions are appropriate to seek a re-listing of the Company's Common shares.

A summary of the outlook for our individual business operations is as follows:

### ICON

The acquisition of ICON is a significant development for our operations. The acquisition will 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 on the early stages of developing the licensing and consulting opportunities.

### Software Development and Licensing

We are in discussions with a number of Canadian 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 expect to continue to earn licensing fees from the co-ownership of our CALMS software and we are assessing other opportunities to 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's existing investment portfolio of \$14.7 million as at May 31, 2004 has a yield to maturity ranging from 5.2% to 8.6%. Management will continue to evaluate higher yield investment opportunities, which meets its risk and liquidity tolerances.

**Forward-looking Statements**

Certain statements in this Management's Discussion and Analysis of Results and Financial Condition may include statements that are "forward-looking statements". These forward-looking statements may reflect the current internal projections, expectations or beliefs, future growth, performance and business prospects and opportunities of the Company and are based on information currently available to the Company. Actual results and developments may differ materially from results and developments discussed in the forward-looking statement as they are subject to a number of risks and uncertainties. Management cannot provide assurance that the actual results or developments will be realized or, even if substantially realized, that they would have the expected consequences to, or effects on, the Company. These forward-looking statements are made as of the date of this report and the Company assumes no obligation to update or revise them.

**Supplementary Information**  
**Homeserve Technologies Inc. [formerly Microforum Inc.]**  
**Condensed Consolidated Balance Sheet**

	As at Aug. 31, 2002	As at Nov. 30, 2002	As at Feb. 28, 2003	As at May 31, 2003	As at Aug. 31, 2003	As at Nov. 30, 2003	As at Feb. 29, 2004	As at May 31, 2004
<i>(\$ thousands, unaudited)</i>								
<b>ASSETS</b>								
<b>Current</b>								
Cash and cash equivalents	2,043	21,076	4,062	2,635	1,036	514	476	1,183
Short-term investments	—	—	15,659	15,621	15,585	14,976	14,372	14,681
Marketable securities	599	—	—	—	—	—	—	—
	2,642	21,076	19,721	18,256	16,621	15,490	14,848	15,864
Accounts receivable, prepaids and other assets	1,199	823	1,031	1,112	1,440	1,133	1,036	1,839
<b>Total current assets</b>	3,841	21,899	20,752	19,368	18,061	16,623	15,884	17,703
Property, plant and equipment, net	—	1,523	894	800	688	565	307	300
Intangible assets, net	—	4,419	5,144	5,057	4,758	4,456	4,156	9,673
	3,841	27,841	26,790	25,225	23,507	21,644	20,347	27,676

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>								
Accounts payable, accrued liabilities and other payables	246	1,012	521	1,088	838	485	399	433
Income and other taxes payable	895	895	910	932	955	831	485	485
Dividends payable	—	403	310	321	325	320	315	335
Deferred revenue	—	266	1,674	1,010	750	631	87	42
<b>Total current liabilities</b>	1,141	2,576	3,415	3,351	2,868	2,267	1,286	1,295
<b>Subordinated debentures</b>	—	—	—	—	—	—	—	2,000
	1,141	2,576	3,415	3,351	2,868	2,267	1,286	3,295
<b>Shareholders' equity</b>								
Capital stock and contributed surplus	1,951	27,652	27,652	27,652	27,652	24,292	24,292	27,792
Retained earnings (deficit)	749	(2,387)	(4,277)	(5,778)	(7,013)	(4,915)	(5,231)	(3,411)
<b>Total shareholders' equity</b>	2,700	25,265	23,375	21,874	20,639	19,377	19,061	24,381
	3,841	27,841	26,790	25,225	23,507	21,644	20,347	27,676

**Supplementary Information**  
**Homeserve Technologies Inc. [formerly Microforum Inc.]**  
**Consolidated Statement of Retained Earnings (Deficit)**

	As at Aug. 31, 2002	As at Nov. 30, 2002	As at Feb. 28, 2003	As at May 31, 2003	As at Aug. 31, 2003	As at Nov. 30, 2003	As at Feb. 29, 2004	As at May 31, 2004
<i>(\$ thousands, unaudited)</i>								
Net income (loss) for the three-month period	750	(2,733)	(1,416)	(1,018)	(754)	(785)	163	2,317
Preferred share dividends	—	(403)	(474)	(483)	(481)	(477)	(479)	(497)
Reduction of stated capital	25,639	—	—	—	—	3,360	—	—
Change in period	26,389	(3,136)	(1,890)	(1,501)	(1,235)	2,098	(316)	1,820
Retained earnings (deficit), beginning of the period	(25,640)	749	(2,387)	(4,277)	(5,778)	(7,013)	(4,915)	(5,231)
<b>Retained earnings (deficit), end of period</b>	749	(2,387)	(4,277)	(5,778)	(7,013)	(4,915)	(5,231)	(3,411)

**Supplementary Information**  
**Homeserve Technologies Inc. [formerly Microforum Inc.]**  
**Condensed Consolidated Statements of Income (Loss)**

	Six months ended Aug. 31, 2002	Nine months ended Nov. 30, 2002	Twelve months ended Feb. 28, 2003	Three months ended May 31, 2003	Six months ended Aug. 31, 2003	Nine months ended Nov. 30, 2003	Twelve months ended Feb. 29, 2004	Three months ended May 31, 2004
	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>
<i>(\$ thousands, except per share amounts, unaudited)</i>								
<b>Sales</b>	3,552	3,636	4,458	718	1,264	1,415	2,002	2,461
Cost of sales	3,334	3,334	3,713	323	547	588	586	—
<b>Gross profit</b>	218	302	745	395	717	827	1,416	2,461
<b>Operating costs</b>								
Selling, general and administration	1,153	2,094	3,705	1,130	1,908	2,580	2,651	503
Severance and other costs	542	2,238	2,238	37	122	122	258	—
	1,695	4,332	5,943	1,167	2,030	2,702	2,909	503
Loss from continuing operations before undernoted	(1,477)	(4,030)	(5,198)	(772)	(1,313)	(1,875)	(1,493)	1,958
Investment income	34	134	259	149	356	558	752	181
Gain on sale of investments	—	—	—	—	—	—	—	663
Interest expense	—	—	—	—	—	—	—	(10)
Gain on disposal of business units and from acceptance of CCAA plan	1,035	1,035	1,035	—	—	—	—	—
Amortization and write-down of property, plant and equipment and amortization of intangible assets	(300)	(358)	(833)	(395)	(815)	(1,240)	(1,653)	(475)
Investment loss on marketable securities	(1,400)	(1,448)	(1,448)	—	—	—	—	—
Equity-accounted investment	—	(174)	(174)	—	—	—	—	—
Income (loss) from continuing operations before income taxes	(2,108)	(4,841)	(6,359)	(1,018)	(1,772)	(2,557)	(2,394)	2,317
Provision for income taxes	50	50	73	—	—	—	—	—
Net income (loss) from continuing operations	(2,158)	(4,891)	(6,432)	(1,018)	(1,772)	(2,557)	(2,394)	2,317
Net income from discontinued operations	—	—	125	—	—	—	—	—
<b>Net income (loss) for the period</b>	<b>(2,158)</b>	<b>(4,891)</b>	<b>(6,307)</b>	<b>(1,018)</b>	<b>(1,772)</b>	<b>(2,557)</b>	<b>(2,394)</b>	<b>2,317</b>
<b>Basic income (loss) per common share</b>	<b>(1.21)</b>	<b>(2.48)</b>	<b>(3.05)</b>	<b>(0.44)</b>	<b>(0.79)</b>	<b>(1.16)</b>	<b>(1.25)</b>	<b>0.53</b>
<b>Diluted income (loss) per common share</b>	<b>(1.21)</b>	<b>(2.48)</b>	<b>(2.97)</b>	<b>(0.44)</b>	<b>(0.79)</b>	<b>(1.16)</b>	<b>(1.25)</b>	<b>0.35</b>

1. Certain of the prior period figures have been reclassified to conform with the fiscal 2005 presentation.

**Supplementary Information**  
**Homeserve Technologies Inc. [formerly Microforum Inc.]**  
**Condensed Consolidated Statements of Net Income (Loss)**

	Three months ended Aug. 31, 2002	Three months ended Nov. 30, 2002	Three months ended Feb. 28, 2003	Three months ended May 31, 2003	Three months ended Aug. 31, 2003	Three months ended Nov. 30, 2003	Three months ended Feb. 29, 2004	Three months ended May 31, 2004
	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>
<i>(\$ thousands, except per share amounts, unaudited)</i>								
<b>Sales</b>	2,724	84	822	718	546	151	587	2,461
Cost of sales	1,709	—	379	323	224	41	(2)	—
<b>Gross profit</b>	1,015	84	443	395	322	110	589	2,461
<b>Operating costs</b>								
Selling, general and administration	305	941	1,611	1,130	778	672	71	503
Severance and other costs	218	1,696	—	37	85	—	136	—
	523	2,637	1,611	1,167	863	672	207	503
Loss from continuing operations before undernoted	492	(2,553)	(1,168)	(772)	(541)	(562)	382	1,958
Investment income	17	100	125	149	207	202	194	181
Gain on sale of investments	—	—	—	—	—	—	—	663
Interest expense	—	—	—	—	—	—	—	(10)
Gain on disposal of business units and from acceptance of CCAA plan	1,035	—	—	—	—	—	—	—
Amortization and write-down of property, plant and equipment and amortization of intangible assets	—	(58)	(475)	(395)	(420)	(425)	(413)	(475)
Investment loss on marketable securities	(794)	(48)	—	—	—	—	—	—
Equity-accounted investment	—	(174)	—	—	—	—	—	—
Income (loss) from continuing operations before income taxes	750	(2,733)	(1,518)	(1,018)	(754)	(785)	163	2,317
Provision for income taxes	—	—	23	—	—	—	—	—
Net income (loss) from continuing operations	750	(2,733)	(1,541)	(1,018)	(754)	(785)	163	2,317
Net income from discontinued operations	—	—	125	—	—	—	—	—
<b>Net income (loss) for the period</b>	750	(2,733)	(1,416)	(1,018)	(754)	(785)	163	2,317
<b>Basic income (loss) per common share</b>	0.42	(1.10)	(0.55)	(0.44)	(0.36)	(0.37)	(0.09)	0.53
<b>Diluted income (loss) per common share</b>	0.42	(1.10)	(0.55)	(0.44)	(0.36)	(0.37)	(0.09)	0.35

1. Certain of the prior period figures have been reclassified to conform with the fiscal 2005 presentation.

**Supplementary Information**  
**Homeserve Technologies Inc. [formerly Microforum Inc.]**  
**Condensed Statement of Cash Flows**

	Three months ended Aug. 31, 2002	Three months ended Nov. 30, 2002	Three months ended Feb. 28, 2003	Three months ended May 31, 2003	Three months ended Aug. 31, 2003	Three months ended Nov. 30, 2003	Three months ended Feb. 29, 2004	Three months ended May 31, 2004
<i>(\$ thousands, unaudited)</i>								
	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>	(reported) <sup>1</sup>
<b>OPERATING ACTIVITIES</b>								
Net income (loss) for the period	749	(2,733)	(1,542)	(1,018)	(754)	(785)	163	2,317
Add (deduct) items not affecting cash	(735)	280	2,614	395	420	425	556	(164)
Net change in non-cash working capital balances	(2,042)	934	(1,929)	(118)	(779)	(252)	(990)	(1,310)
<b>Cash used in operating activities</b>	<b>(2,028)</b>	<b>(1,519)</b>	<b>(857)</b>	<b>(741)</b>	<b>(1,113)</b>	<b>(612)</b>	<b>(271)</b>	<b>843</b>
<b>FINANCING ACTIVITIES</b>								
Payment of preferred dividends	—	—	(567)	(472)	(477)	(482)	(484)	(477)
Proceeds on issue of preferred shares	—	20,000	—	—	—	—	—	—
<b>Cash provided by (used in) financing activities</b>	<b>—</b>	<b>20,000</b>	<b>(567)</b>	<b>(472)</b>	<b>(477)</b>	<b>(482)</b>	<b>(484)</b>	<b>(477)</b>
<b>INVESTING ACTIVITIES</b>								
Sale (purchase) of short-term investments	—	—	(15,659)	—	—	572	572	330
Proceeds from sale of marketable securities	—	552	—	—	—	—	—	—
Other	—	—	(56)	(214)	(9)	—	145	11
<b>Cash provided by (used in) investing activities</b>	<b>—</b>	<b>552</b>	<b>(15,715)</b>	<b>(214)</b>	<b>(9)</b>	<b>572</b>	<b>717</b>	<b>341</b>
Increase (decrease) in cash from continuing operations	(2,028)	19,033	(17,139)	(1,427)	(1,599)	(522)	(38)	707
Increase in cash from discontinued operations	—	—	125	—	—	—	—	—
<b>Net (increase) decrease in cash and cash equivalents during the period</b>	<b>(2,028)</b>	<b>19,033</b>	<b>(17,014)</b>	<b>(1,427)</b>	<b>(1,599)</b>	<b>(522)</b>	<b>(38)</b>	<b>707</b>
Cash and cash equivalents, beginning of period	4,071	2,043	21,076	4,062	2,635	1,036	514	476
<b>Cash and cash equivalents, end of period</b>	<b>2,043</b>	<b>21,076</b>	<b>4,062</b>	<b>2,635</b>	<b>1,036</b>	<b>514</b>	<b>476</b>	<b>1,183</b>

1. Certain of the prior period figures have been reclassified to conform with the fiscal 2005 presentation.

**Supplementary Information**  
**Homeserve Technologies Inc. [formerly Microforum Inc.]**  
**Condensed Consolidated Segmented Information**  
**Contribution Margin**

	Three months ended Aug. 31, 2002	Three months ended Nov. 30, 2002	Three months ended Feb. 28, 2003	Three months ended May 31, 2003	Three months ended Aug. 31, 2003	Three months ended Nov. 30, 2003	Three months ended Feb. 29, 2004	Three months ended May 31, 2004
<i>(\$ thousands, unaudited)</i>								
<b>Software development and licensing</b>								
Revenue	—	—	666	576	409	76	524	—
Cost of sales	—	—	(376)	(316)	(222)	(41)	—	—
Operating costs	—	—	—	—	(49)	(62)	(69)	(69)
	—	—	290	260	138	(27)	455	(69)
<b>ICON development and licensing</b>								
Revenue	—	—	—	—	—	—	—	2,402
Cost of sales	—	—	—	—	—	—	—	—
Operating costs	—	—	—	—	—	—	—	(74)
	—	—	—	—	—	—	—	2,328
<b>Home-Link operations</b>								
Revenue	—	84	156	142	137	75	63	59
Cost of sales	—	—	(3)	(7)	(2)	—	2	—
Operating costs	—	(470)	(1,198)	(909)	(674)	(493)	(356)	(232)
	—	(386)	(1,045)	(774)	(539)	(418)	(291)	(173)
<b>Other</b>								
General and administration	(305)	(471)	(413)	(85)	(55)	(117)	218	(128)
Severance and other	(218)	(1,696)	—	(173)	(85)	—	—	—
	(523)	(2,167)	(413)	(258)	(140)	(117)	218	(128)
<b>Discontinued operations</b>								
Revenue	2,724	—	—	—	—	—	—	—
Cost of sales	(1,709)	—	—	—	—	—	—	—
Operating costs	—	—	—	—	—	—	—	—
	1,015	—	—	—	—	—	—	—
<b>Contribution margin</b>								
Revenue	2,724	84	822	718	546	151	587	2,461
Cost of sales	(1,709)	—	(379)	(323)	(224)	(41)	2	—
Operating costs	(523)	(2,637)	(1,611)	(1,167)	(863)	(672)	(207)	(503)
	492	(2,553)	(1,168)	(772)	(541)	(562)	382	1,958

Consolidated Interim Financial Statements

**Homeserve Technologies Inc.**

[formerly Microforum Inc.]

May 31, 2004

**HOMESERVE TECHNOLOGIES INC.**  
**[formerly Microforum Inc.]**

**CONSOLIDATED INTERIM BALANCE SHEETS**

<i>(\$ thousands)</i>	As at <b>May 31, 2004</b> (unaudited)	As at February 29, 2004 (unaudited)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	1,183	476
Short-term investments	14,681	14,372
Accounts receivable	1,799	634
Prepaid expenses and other assets	40	402
<b>Total current assets</b>	<b>17,703</b>	<b>15,884</b>
Capital assets, net	300	307
Intangible assets, net	9,673	4,156
	<b>27,676</b>	<b>20,347</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	433	399
Income and other taxes payable	485	485
Dividends payable	335	315
Deferred revenue	42	87
<b>Total current liabilities</b>	<b>1,295</b>	<b>1,286</b>
Subordinated debenture <i>[notes 3, 5 and 8]</i>	2,000	—
	<b>3,295</b>	<b>1,286</b>
<b>Shareholders' equity</b>		
Capital stock <i>[note 5]</i>	27,792	24,292
Deficit	(3,411)	(5,231)
<b>Total shareholders' equity</b>	<b>24,381</b>	<b>19,061</b>
	<b>27,676</b>	<b>20,347</b>

*See accompanying notes*

On behalf of the Board:



Director



Director

**HOMESERVE TECHNOLOGIES INC.**  
**[formerly Microforum Inc.]**

**CONSOLIDATED INTERIM  
STATEMENTS OF INCOME (LOSS) AND DEFICIT**

<i>(\$ thousands)</i>	<b>Three months ended May 31, 2004 (unaudited)</b>	Three months ended May 31, 2003 (unaudited)
<b>Sales</b>	<b>2,461</b>	718
Cost of sales	—	323
<b>Gross profit</b>	<b>2,461</b>	395
<b>Operating expenses</b>		
Selling, general and administrative	<b>503</b>	1,167
	<b>503</b>	1,167
Income (loss) before undernoted	<b>1,958</b>	(772)
Investment income	<b>181</b>	149
Gain on sale of short-term investments	<b>663</b>	—
Amortization of property, plant and equipment	<b>(49)</b>	(120)
Amortization of intangible assets	<b>(426)</b>	(275)
Other	<b>(10)</b>	—
Provision for income taxes	—	—
<b>Net income (loss) for the period</b>	<b>2,317</b>	(1,018)
Deficit, beginning of period	<b>(5,231)</b>	(4,277)
Preferred share dividends	<b>(497)</b>	(483)
<b>Deficit, end of year</b>	<b>(3,411)</b>	(5,778)
<b>Basic and diluted (loss) earnings per common share</b> <i>[note 5]</i>		
Basic	<b>\$0.53</b>	\$(0.44)
Diluted	<b>0.35</b>	—

*See accompanying notes*

**HOMESERVE TECHNOLOGIES INC.**  
**[formerly Microforum Inc.]**

**CONSOLIDATED INTERIM  
STATEMENTS OF CASH FLOWS**

<i>(\$ thousands)</i>	<b>Three months ended May 31, 2004 (unaudited)</b>	Three months ended May 31, 2003 (unaudited)
<b>OPERATING ACTIVITIES</b>		
Net income (loss) from operations	2,317	(1,018)
Add items not affecting cash		
Amortization of bond premium	24	38
Gain on sale of short-term investments	(663)	—
Amortization of property, plant and equipment	49	120
Amortization of intangible assets	426	275
	<b>2,153</b>	<b>(585)</b>
Net change in non-cash working capital balances related to operations	<b>(1,310)</b>	<b>(156)</b>
<b>Cash provided by (used in) operating activities</b>	<b>843</b>	<b>(741)</b>
<b>FINANCING ACTIVITIES</b>		
Payment of preferred share dividends	(477)	(472)
<b>Cash used in financing activities</b>	<b>(477)</b>	<b>(472)</b>
<b>INVESTING ACTIVITIES</b>		
Sale of short-term investments	11,322	—
Purchase of short-term investments	(10,992)	—
Purchase of capital assets	—	(26)
Acquisition of intangible assets	—	(188)
Other	11	—
<b>Cash provided by (used in) investing activities</b>	<b>341</b>	<b>(214)</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>707</b>	<b>(1,427)</b>
Cash and cash equivalents, beginning of period	476	4,062
<b>Cash and cash equivalents, end of period</b>	<b>1,183</b>	<b>2,635</b>

*See accompanying notes*

**Homeserve Technologies Inc.**  
[formerly Microforum Inc.]

## **NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

May 31, 2004

### **1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS**

These unaudited interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Home-Link. On consolidation, all inter-company transactions and balances have been eliminated. These unaudited interim consolidated financial statements have not been subject to an interim review by the Company's auditors.

On September 5, 2003, the shareholders of Microforum Inc. approved a resolution changing the company name from Microforum Inc. to Homeserve Technologies Inc. [the "Company"]. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Home-Link Services Canada Ltd. ["Home-Link"].

As at May 31, 2004 the Company operates in three reportable segments: ICON licensing and development, Software development and licensing and Home-Link. ICON licensing and development revenues are generated from a per file licensing fee and from consulting fees. 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 Brascan Corporation operating through certain subsidiaries as Centract Residential Property Services ("Centract"), its real estate services division.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited interim consolidated 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. The April 13, 2004 acquisition of the ICON system and the entering into related agreements gives rise to the following accounting policies of note:

#### **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 were made by management as they relate to the impairment of the \$5.9 million attributed to the gross book value of intangible assets related to the acquisition of ICON. Actual results could differ from those 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 when a new file is opened on the ICON system. A new file represents a new relocation transferee or new asset recovery file.

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 CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

May 31, 2004

### 3. ACQUISITIONS

#### 2005 activities

##### Acquisition of ICON

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

- \$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 Series B preferred shares one Series B preferred share for each \$1 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 18.5 million Series C preferred shares at \$1.00 per share with a cumulative quarterly dividend of 2.5% and a cumulative aggregate preferential annual participation dividend of 9.25% of pre-defined consolidated pre-tax income of the Company (see note 5); and
- an increase in the Series B preferred share cumulative aggregate preferential annual participation dividend from 10% to 11% of predefined consolidated pre-tax income of the Company based on the weighted average number of Series B preferred shares outstanding divided by 22 million. The weighted average number of Series B preference shares outstanding during the three months ended May 31, 2004 was 20 million. As at July 12, 2004 there are 22 million Series B preferred shares outstanding as a result of the conversion of the Company's \$2.0 million debenture to two million Series B preferred shares.

The ICON purchase price at May 31, 2004 was \$6.0 million and was comprised of \$5.5 million of intangible and capital assets as summarized below and \$0.5 million in legal, valuation, accounting and shareholder communication costs associated with the transaction.

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

The 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, 2004 the Company earned \$2.4 million in licensing fees on 4,782 files opened.

## **NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

May 31, 2004

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, 2011 with successive two-year renewal terms.

### **2004 activities**

#### **Acquisition of Home-Link license**

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

HomeCard has granted to Home-Link an exclusive, royalty-free, irrevocable, perpetual, sub-licensable, transferable license for use in Canada of the CARE II software [the “New License”] and assigned to Home-Link all Canadian Home-Link trademarks acquired by HomeCard [the “Trademark Assignment”]. In consideration of the grant of the New License, the Trademark Assignment and a release of all previous obligations, including the original CARE II software license, Home-Link paid to HomeCard the sum of US\$100. Under the original license agreement, Home-Link was obligated to pay the greater of [i] 5% of its annual revenue and [ii] US\$200 in annual license fees plus US\$20 in annual maintenance fees, until September 2010. The purchase price was recorded as a licensing fee and is being amortized over a five-year period. Also included as part of the purchase price is \$47 of professional fees associated with the acquisition.

Home-Link provides a one-stop shopping service for home buyers and sellers, offering real estate related products and services throughout the customer’s purchasing and selling cycle.

## **4. SEGMENTED REPORTING**

### **General description**

The Company operates in three reportable operating segments, ICON licensing and development, Software development and licensing and Home-Link.

ICON licensing and development 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.

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.

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

May 31, 2004

(\$)	Three months ended May 31, 2004	Three months ended May 31, 2003
<b>Sales</b>		
ICON licensing and development	2,402	—
Software development and licensing	—	576
Home-Link	59	142
<b>Total</b>	<b>2,461</b>	<b>718</b>
<b>Contribution margin</b>		
ICON licensing and development	2,328	—
Software development and licensing	(69)	260
Home-Link	(173)	(774)
General and administration	(128)	(221)
Severance and other	—	(37)
	<b>(1,958)</b>	<b>(772)</b>
Investment income	181	149
Gain on sale of investments	663	—
Amortization of capital assets	(49)	(120)
Amortization of intangible assets	(426)	(275)
Other	(10)	—
<b>Income (loss) before income taxes</b>	<b>2,317</b>	<b>(1,018)</b>

**5. CAPITAL STOCK**

Capital stock consists of the following:

	May 31, 2004 \$	February 29, 2004 \$
<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
20,000,000 Series B preferred shares	20,000	20,000
3,500,000 Series D preferred shares	3,500	—
3,443,687 Common shares	3,012	3,012
	<b>27,792</b>	<b>24,292</b>

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 winding-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 CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

May 31, 2004

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 pre-tax consolidated net income with the first such annual participation dividend accruing for the year ended February 28, 2003. No annual Series A participation dividend was declared for the fiscal years ended February 29, 2004 or February 28, 2003.

The holder of the Series B preferred shares is also entitled to receive a cumulative aggregate preferential annual participation dividend equal to 10% of the Company's pre-defined pre-tax consolidated net income with the first such annual participation dividend accruing for the year ended February 28, 2003. As part of the ICON acquisition (see note 3) the participation dividend increases from 10% to 11% based on the weighted average number of Series B preferred shares outstanding divided by 22 million. The weighted average number of Series B preference shares outstanding during the three months ended May 31, 2004 was 20 million. As at July 12, 2004 there are 22 million Series B preferred shares outstanding as a result of the conversion of the Company's \$2.0 million debenture to two million Series B preferred shares. No annual Series B participation dividend was declared for the fiscal years ended February 29, 2004 or February 28, 2003.

As part of the acquisition of ICON, an earn out option provides for up to 18.5 million 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 May 31, 2004 the Company has earned \$2.4 million in cumulative ICON licensing revenue. 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 for 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.

The holder of Series D preferred shares is entitled to 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 under 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 pre-defined pre-tax consolidated net income, which forms the base for the Series A, B and C preferred share annual participation dividend, is calculated as the Company's annual pre-tax consolidated net income, if positive, or zero if negative less the annual Series A, B, C and D fixed preferential cumulative and non cumulative dividends, whether declared or paid, subject to adjustment for the actual number of preferred shares standing.

	<b>Number of shares</b>	<b>Amount \$</b>
<b>Common shares</b>		
<b>Balance, February 28, 2003</b>	86,092,184	5,455
Reduction of stated capital	—	(2,443)
Share consolidation	(82,648,497)	—
<b>Balance, February 29, 2004 and May 31, 2004</b>	<b>3,443,687</b>	<b>3,012</b>

The holder of Non-Voting Common shares will be entitled, subject to the rights of holders of preferred shares and any other shares ranking senior to holders of Non-Voting Common shares, to the same rights as holders of common shares and shall rank on parity with the Common Shares with respect to dividends and the distribution of assets in the event of the liquidation, dissolution or wind-up of the Company. The Non-Voting Common shares also have certain rights in respect of any offer made to purchase Common shares of the Company. 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.

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

May 31, 2004

**Share consolidation and reduction of stated capital**

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

On September 5, 2003, a special resolution was passed by the shareholders of the Company to reduce the deficit of the Company by \$3,360 at February 28, 2003 by reducing the stated capital by \$2,443 and contributed surplus by \$917. This deficit was accumulated in connection with the Company's historical operations and did not relate to the Company's then current business mandate.

**Earnings per share**

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

<i>(\$ thousands except number of shares)</i>	<b>Three months ended May 31, 2004</b>	Three months ended May 31, 2003
Net income	\$ 2,317	\$ (1,018)
Preferred share dividends	(497)	(483)
Net income available to common shareholders	\$ 1,820	\$ (1,501)
Weighted average outstanding common shares	3,444,000	3,444,000
Dilutive effect of the conversion of preferred shares	1,788,000	—
Common shares and common share equivalents	5,232,000	3,444,000

Basic and diluted loss per share has been calculated using the weighted average number of common shares outstanding of 3,444,000 and 5,232,000, respectively. The comparative 2003 weighted average number of common shares was 3,444,000 as the effect of potentially dilutive stock options was anti-dilutive.

**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 (see note 8), which was converted into two million 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:

<b>Share class</b>	<b>Number of shares held as at May 31, 2004</b>	<b>Percentage of shares held as at May 31, 2004</b>
Common shares	1,652,905	48%
Series A preferred shares	1,280,000	100%
Series B preferred shares	22,000,000	100%
Series D preferred shares	3,500,000	100%

**Homeserve Technologies Inc.**  
[formerly Microforum Inc.]

## **NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

May 31, 2004

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

(\$)	<b>Three months ended May 31, 2004</b>	Three months ended May 31, 2003
<b>Sales</b>		
ICON licensing and development	<b>2,402</b>	—
Software development and licensing	—	576
Home-Link	<b>41</b>	40
<b>Expenses</b>		
Management fees	<b>78</b>	100
Rent	<b>14</b>	41
Subordinated debenture interest	<b>10</b>	—
<b>Dividends declared</b>	<b>497</b>	472

As at May 31, 2004, the Company had accounts receivable of \$1,204 due from a related party [May 31, 2003 – nil] and dividends payable of \$335 [May 31, 2003 – \$315].

### **7. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS**

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

### **8. SUBSEQUENT EVENTS**

On July 12, 2004 Centract converted its \$2 million debenture into two million Series B preferred shares (see notes 3, 5 and 6).

## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

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

**Simon P. Dean**  
President &  
Chief Executive Officer  
Homeserve Technologies Inc.

**Jason D. Meretsky**

**Donald W. Paterson**

**Craig Wallace**

## **SENIOR MANAGEMENT**

**Simon P. Dean**  
President &  
Chief Executive Officer

**Kevin Cash**  
Chief Financial Officer

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

### **CORPORATE HEADQUARTERS**

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

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

[www.homeserve.ca](http://www.homeserve.ca)

### **AUDITORS**

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

## **REGISTRAR & TRANSFER AGENT**

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

### **STOCK LISTING**

The Company's shares are not listed.

### **INVESTORS RELATIONS**

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

Mansfield Communications Inc.  
Attention: Eliza Walsh

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