

FIRSTSERVICE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

(in US dollars)

November 4, 2015

The following Management's Discussion and Analysis ("MD&A") should be read together with the unaudited interim consolidated financial statements of FirstService Corporation (formerly New FSV Corporation) (the "Company" or "FirstService") for the three and nine month periods ended September 30, 2015 and the audited carve-out combined financial statements (the "Carve-out Combined Financial Statements") and MD&A of FirstService for the year ended December 31, 2014 and in conjunction with the Management Information Circular of former FirstService Corporation ("Old FSV") dated March 16, 2015 (the "Circular"). The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). All financial information herein is presented in United States dollars.

The Company has prepared this MD&A with reference to National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators (the "CSA"). Under the U.S./Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. This MD&A provides information for the three and nine month periods ended September 30, 2015 and up to and including November 4, 2015.

Additional information about the Company, including the Circular and Old FSV's Annual Information Form, which is included in Old FSV's Annual Report on Form 40-F, can be found on SEDAR at www.sedar.com and on the U.S. Securities and Exchange Commission website at www.sec.gov.

FirstService's business

On June 1, 2015, Old FSV completed a plan of arrangement (the "spin-off") which separated Old FSV into two independent publicly traded companies – "Colliers International Group Inc." ("Colliers"), a global leader in commercial real estate services and new "FirstService Corporation", the North American leader in residential property management and services. The spin-off was designed to enhance long-term value for shareholders by creating two independent and sustainable companies, each with the ability to pursue and achieve greater success by employing independent value creation strategies best suited to its core businesses and customers. Although FirstService is a new company, it has operated many of its businesses for decades. Under the spin-off, Old FSV shareholders received one Colliers share and one FirstService share of the same class as each Old FSV share previously held.

As at September, 30, 2015, FirstService employed approximately 15,000 people in more than 130 locations throughout the United States and Canada. FirstService is North America's largest manager of residential communities and one of North America's largest providers of property services. FirstService has two reportable operating segments: FirstService Residential (also referred to as Residential Real Estate Services) and FirstService Brands (also referred to as Property Services). The segments are grouped with reference to the nature of services provided and the types of clients that use those services.

FirstService Residential is a full-service property manager and in many markets provides a full range of ancillary services primarily in the following areas: (i) on-site staffing, including building engineering and maintenance, full-service amenity management, security, concierge and front desk personnel, and landscaping; (ii) unique banking and insurance products; and (iii) energy conservation and management solutions. FirstService Residential is described in further detail in the Circular.

FirstService Brands provides a variety of residential and commercial services in North America through franchise networks and company-owned locations. The principal brands in this division include Paul Davis Restoration, California Closets, Certa Pro Painters, Pillar to Post Home Inspectors, Floor Coverings International, College Pro Painters and Service America. FirstService Brands is described in further detail in the Circular.

In conjunction with the spin-off, the FirstService Residential and FirstService Brands segments of Old FSV were transferred to FirstService. The Carve-out Combined Financial Statements were prepared in connection with the spin-off, present the historical carve-out combined financial position, results of operations, changes in net investment and cash flows of the FirstService Residential and FirstService Brands businesses of Old FSV as they were proposed to be carved out under the spin-off into FirstService and as if operated as a stand-alone entity for the periods presented. The Carve-out Combined Financial Statements were derived from the accounting records of Old FSV on a carve-out basis. The Carve-out Combined Financial Statements were prepared on a combined basis and the results do not necessarily reflect what FirstService's results of operations, financial position, or cash flows would have been had FirstService been a separate entity or future results in respect of FirstService as it exists following completion of the spin-off. The basis of presentation is more fully described in Note 1 to the Carve-out Combined Financial Statements.

Consolidated review

Each of our two service lines reported strong revenue growth for the third quarter ended September 30, 2015, due to a combination of organic growth and recent acquisitions. Consolidated revenue growth was 12% relative to the same quarter in the prior year, resulting in gains in adjusted EBITDA, operating earnings, and adjusted earnings per share.

During the first three quarters of 2015, we acquired controlling interests in eight businesses, including six in our FirstService Residential segment and two in our FirstService Brands segment. The total initial cash consideration for these acquisitions was \$12.0 million. During the past year, we also completed several other acquisitions in our two divisions, which provided additional revenue growth for the third quarter of 2015. These acquisitions increase the geographic footprint of our existing service lines at FirstService Residential and are part of the execution of our strategy at FirstService Brands to acquire California Closets and Paul Davis Restoration franchises in selected key markets.

Results of operations - three months ended September 30, 2015

Revenues for our third quarter were \$349.5 million, 12% higher than the comparable prior year quarter. On an organic basis, revenues were up 9% (or 10% measured in local currencies) and recent acquisitions contributed 3% to revenue growth.

Adjusted EBITDA (see "Reconciliation of non-GAAP measures" below) for the third quarter was \$39.1 million versus \$28.3 million reported in the prior year quarter. Our Adjusted EBITDA margin was 11.2% of revenues versus 9.1% of revenues in the prior year quarter, which included higher than expected medical expenses in our FirstService Residential operations and non-recurring expenses related to the down-sizing of our homeowner collection business. Operating earnings for the second quarter were \$31.4 million, up from \$20.0 million in the prior year period. The operating earnings margin was 9.0% versus 6.4% in the prior year quarter.

Depreciation and amortization expense totalled \$7.0 million for the quarter relative to \$7.0 million for the prior year quarter.

Net interest expense was \$2.4 million, versus \$1.7 million recorded in the prior year quarter. The average interest rate on debt during the quarter was 4.7%, up from 2.8% in the prior year quarter. In the prior year quarter there was a favorable interest rate swap in place which was unwound prior to the spin-off earlier this year.

The consolidated income tax rate for the quarter was 35%, relative to 22% of earnings before income tax in the prior year quarter. The prior year tax rate was impacted from charges in the FirstService Residential segment occurring in the quarter and the geographic mix of earnings.

Net earnings for the quarter were \$18.9 million, versus \$14.1 million in the prior year quarter. The increase was primarily attributable to growth in operating earnings in the FirstService Residential segment.

The non-controlling interest ("NCI") share of earnings was \$2.4 million for the third quarter, relative to \$2.7 in the prior period, and was attributable to the mix of earnings from non-wholly owned operations. The NCI redemption

increment for the third quarter was \$2.4 million, versus \$2.9 million in the prior period, and was attributable to changes in the trailing two-year average of earnings of non-wholly owned subsidiaries.

The FirstService Residential segment reported revenues of \$277.9 million for the third quarter, up 11% versus the prior year quarter. Excluding the impact of recently completed acquisitions, revenues were up 8% (or 10% on a local currency basis). Adjusted EBITDA was \$25.3 million, versus \$16.5 million in the prior year quarter. Third quarter performance was driven by continued growth from new client contract wins and margin expansion from regional operational improvements. Prior period profitability was adversely affected by (i) incremental employee medical benefits costs totalling approximately \$3 million; and (ii) expenses totalling \$1.4 million related to the down-sizing of our homeowner fee collection operations.

Third quarter revenues at our FirstService Brands segment were \$71.6 million, up 16% relative to the prior year period. Organic revenue growth was 9% (or 11% on a local currency basis) and acquisitions, including our first Paul Davis Restoration corporate store investment, contributed 7% to revenue growth. Adjusted EBITDA for the quarter was \$16.6 million, up from \$15.1 million in the prior year period. The majority of our franchised operations contributed strong performance to the quarter as they benefited from a buoyant home improvement market. Growth was tempered by lower weather-related claims growth at Paul Davis and further investments in our corporate-owned strategies at both California Closets and Paul Davis which contributed to a modest decline in overall margin at FirstService Brands.

Corporate costs were \$2.9 million for the quarter, relative to \$3.3 million in the prior year period.

Results of operations - nine months ended September 30, 2015

Revenues for the nine months ended September 30, 2015 were \$948.0 million, 12% higher than the comparable prior year. Revenues on an organic basis were up 8% (or 9% on a local currency basis) and acquisitions contributed 4% to revenue growth.

Year-to-date Adjusted EBITDA (see “Reconciliation of non-GAAP measures” below) was \$80.7 million versus \$61.6 million reported in the comparable prior year period. Our Adjusted EBITDA margin was 8.5% of revenues versus 7.2% of revenues in the prior year period, primarily due to improved profitability in the FirstService Residential segment. Operating earnings for the period were \$56.8 million, up from \$40.7 million in the prior year period, with the difference attributable to FirstService Residential profitability in 2015. Our operating earnings margin was 6.0% versus 4.8% in the prior year period.

We recorded depreciation and amortization expense of \$21.1 million for the nine month period relative to \$18.4 million for the prior year period, with the increase primarily related to depreciation of fixed assets related to recent investments in IT systems and leasehold improvements.

Net interest expense for the nine month period was \$7.0 million, up from \$5.2 million recorded in the prior year period. The average interest rate on debt during the period was 4.3%, versus 3.0% in the prior year period due to: (i) no longer having an interest swap in place on our notes and (ii) allocated interest related to the pre-spin-off period. Net indebtedness (defined as current and non-current long-term debt less cash and cash equivalents) at the end of the quarter was \$149.0 million versus \$159.0 million a year ago.

Our consolidated income tax rate for the nine month period was 39%, relative to 30% of earnings before income tax in the prior year-to-date period. The current year tax rate was affected by a discrete tax charge related to the spin-off impacting our rate by approximately 3%. The prior year tax rate was impacted from charges in the FirstService Residential segment.

Net earnings for the nine month period were \$30.3 million, versus \$24.9 million in the prior year period. The increase was primarily attributable to current year growth in operating results from FirstService Residential.

Our FirstService Residential segment reported revenues of \$766.5 million for the nine month period, up 11% over the prior year period. Organic revenue growth was 8% and acquisitions contributed 3%. Organic revenue growth resulted from property management contract wins balanced across the regions. Adjusted EBITDA was \$55.1

million relative to \$38.7 million in the prior year period. Margins in both periods reflect continued investments in our operating infrastructure to integrate back-office and IT functions across the business; this integration will continue to impact margins until it is completed in 2016. Year-over-year margin improvement was due to regional operational improvements. Prior period profitability was also adversely affected by (i) incremental employee medical benefits costs totalling approximately \$3 million; and (ii) expenses totalling \$1.4 million related to the down-sizing of our homeowner fee collection operations.

Year-to-date revenues at FirstService Brands were \$181.4 million, an increase of 15% relative to the prior year period. Organic growth was 9% (or 11% measured in local currencies), while acquisitions contributed 6% to revenue growth. Organic revenue growth resulted primarily from higher system-wide sales at several of our franchise brands as well as strong corporate store revenues at our California Closets operations. Adjusted EBITDA for the period was \$31.7 million, versus \$28.7 million for the prior year period. The year-to-date margin was primarily impacted by staffing and transition costs at our western US regional production center which will supply six of our 11 California Closets corporate stores. The incremental costs will continue as we shift away from local manufacturing. Once fully integrated, the regional production center is expected to provide significant economies of scale and improved quality.

Corporate costs for the nine month period were \$6.1 million, relative to \$5.8 million in the prior year period.

Summary of quarterly results (unaudited)

The following table sets forth FirstService's unaudited quarterly consolidated results of operations data for each of the eleven most recent quarters. The information in the table below has been derived from FirstService's unaudited interim carve-out combined financial statements that, in management's opinion, have been prepared on a consistent basis and include all adjustments necessary for a fair presentation of information. The information only includes the results of operations from assets transferred to FirstService as part of the spin-off and reflects expected changes to historical results that would arise from the spin-off. This information is presented to assist in understanding FirstService's historical financial results associated with the businesses transferred to FirstService after the spin-off. The information below is not necessarily indicative of results for any future quarter.

Quarter	Q1	Q2	Q3	Q4
(in thousands of US\$, except per share amounts)				
YEAR ENDING DECEMBER 31, 2015				
Revenues	\$ 272,189	\$ 326,251	\$ 349,525	
Operating earnings (loss)	1,407	23,936	31,417	
Net earnings (loss) per share				
Basic	(0.09)	0.21	0.39	
Diluted	(0.09)	0.20	0.39	
YEAR ENDED DECEMBER 31, 2014				
Revenues	\$ 245,594	\$ 292,205	\$ 312,029	\$ 282,174
Operating earnings (loss)	1,627	19,118	20,004	4,872
Net earnings (loss) per share				
Basic	(0.06)	0.28	0.24	(0.10)
Diluted	(0.06)	0.28	0.24	(0.10)
YEAR ENDED DECEMBER 31, 2013				
Revenues	\$ 229,250	\$ 267,603	\$ 282,761	\$ 258,473
Operating earnings	3,004	524	24,901	8,654
Net earnings per share				
Basic	-	(0.10)	0.17	0.03
Diluted	-	(0.10)	0.16	0.03
OTHER DATA				
Adjusted EBITDA - 2015	\$ 9,321	\$ 32,312	\$ 39,077	
Adjusted EBITDA - 2014	7,934	25,362	28,310	\$ 13,391
Adjusted EBITDA - 2013	9,141	21,867	31,913	15,992
Adjusted EPS - 2015	0.02	0.40	0.50	
Adjusted EPS - 2014	0.02	0.29	0.39	0.13
Adjusted EPS - 2013	0.05	0.33	0.26	0.32

Seasonality and quarterly fluctuations

Certain segments of the operations of FirstService are subject to seasonal variations. The seasonality of the service lines results in variations in quarterly revenues and operating margins. Variations can also be caused by acquisitions or dispositions, which alter the combined service mix.

The FirstService Residential segment generates peak revenues and earnings in the third quarter, as seasonal ancillary swimming pool management revenues are earned.

The FirstService Brands segment includes outdoor painting and franchise operations, which generate the majority of their revenues during the second and third quarters.

Reconciliation of non-GAAP measures

In this MD&A, we make reference to “adjusted EBITDA” and “adjusted earnings per share”, which are financial measures that are not calculated in accordance with GAAP.

Adjusted EBITDA is defined as net earnings, adjusted to exclude: (i) income tax; (ii) other expense (income); (iii) interest expense; (iv) depreciation and amortization; (v) acquisition-related items; (vi) stock-based compensation expense and (vii) spin-off transaction costs. We use adjusted EBITDA to evaluate our own operating performance and our ability to service debt, as well as an integral part of our planning and reporting systems. Additionally, we use this measure in conjunction with discounted cash flow models to determine the Company’s overall enterprise valuation and to evaluate acquisition targets. We present adjusted EBITDA as a supplemental measure because we believe such measure is useful to investors as a reasonable indicator of operating performance because of the low capital intensity of the Company’s service operations. We believe this measure is a financial metric used by many investors to compare companies, especially in the services industry. This measure is not a recognized measure of financial performance under GAAP in the United States, and should not be considered as a substitute for operating earnings, net earnings from continuing operations or cash flow from operating activities, as determined in accordance with GAAP. Our method of calculating adjusted EBITDA may differ from other issuers and accordingly, this measure may not be comparable to measures used by other issuers. A reconciliation of net earnings from continuing operations to adjusted EBITDA appears below.

(in thousands of US\$)	Three months ended		Nine months ended	
	September 30		September 30	
	2015	2014	2015	2014
Net earnings	\$ 18,917	\$ 14,144	\$ 30,291	\$ 24,928
Income tax	10,057	4,096	19,316	10,719
Other income, net	(10)	31	109	(97)
Interest expense, net	2,453	1,733	7,044	5,199
Operating earnings	31,417	20,004	56,760	40,749
Depreciation and amortization	6,979	7,049	21,112	18,365
Acquisition-related items	186	795	469	1,118
Stock-based compensation expense	495	462	1,629	1,374
Spin-off transaction costs	-	-	740	-
Adjusted EBITDA	\$ 39,077	\$ 28,310	\$ 80,710	\$ 61,606

Adjusted earnings per share is defined as diluted net earnings (loss) per share, adjusted for the effect, after income tax, of: (i) the non-controlling interest redemption increment; (ii) acquisition-related items; (iii) amortization expense related to intangible assets recognized in connection with acquisitions; (iv) stock-based compensation expense; (v) spin-off transaction costs and (vi) a spin-off tax charge. We believe this measure is useful to investors because it provides a supplemental way to understand the underlying operating performance of the Company and enhances the comparability of operating results from period to period. Adjusted earnings per share is not a recognized measure of financial performance under GAAP, and should not be considered as a substitute for diluted net earnings per share from continuing operations, as determined in accordance with GAAP. Our method of calculating this non-GAAP measure may differ from other issuers and, accordingly, this measure may not be comparable to measures used by other issuers. A reconciliation of net earnings from continuing operations to adjusted net earnings and of diluted net earnings (loss) per share from continuing operations to adjusted earnings per share appears below.

(in thousands of US\$)	Three months ended		Nine months ended	
	September 30		September 30	
	2015	2014	2015	2014
Net earnings	\$ 18,917	\$ 14,144	\$ 30,291	\$ 24,928
Non-controlling interest share of earnings	(2,421)	(2,676)	(4,834)	(5,108)
Acquisition-related items	186	795	469	1,118
Amortization of intangible assets	2,334	3,091	7,275	6,513
Stock-based compensation expense	495	462	1,629	1,374
Spin-off transaction costs	-	-	740	-
Spin-off tax charge	-	-	1,646	-
Income tax on adjustments	(1,107)	(1,398)	(3,628)	(3,086)
Non-controlling interest on adjustments	(44)	(74)	(133)	(141)
Adjusted net earnings	\$ 18,360	\$ 14,344	\$ 33,455	\$ 25,598

(in US\$)	Three months ended		Nine months ended	
	September 30		September 30	
	2015	2014	2015	2014
Diluted net earnings per share	\$ 0.39	\$ 0.24	\$ 0.50	\$ 0.46
Non-controlling interest redemption increment	0.07	0.08	0.20	0.09
Acquisition-related items	-	0.02	0.01	0.03
Amortization of intangible assets, net of tax	0.03	0.05	0.11	0.10
Stock-based compensation expense, net of tax	0.01	-	0.03	0.02
Spin-off transaction costs, net of tax	-	-	0.02	-
Spin-off tax charge	-	-	0.05	-
Adjusted earnings per share	\$ 0.50	\$ 0.39	\$ 0.92	\$ 0.70

We believe that the presentation of adjusted EBITDA and adjusted earnings per share, which are non-GAAP financial measures, provides important supplemental information to management and investors regarding financial and business trends relating to the Company's financial condition and results of operations. We use these non-GAAP financial measures when evaluating operating performance because we believe that the inclusion or exclusion of the items described above, for which the amounts are non-cash or non-recurring in nature, provides a supplemental measure of our operating results that facilitates comparability of our operating performance from period to period, against our business model objectives, and against other companies in our industry. We have chosen to provide this information to investors so they can analyze our operating results in the same way that management does and use this information in their assessment of our core business and the valuation of the Company. Adjusted EBITDA and adjusted earnings per share are not calculated in accordance with GAAP, and should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. Non-GAAP financial measures have limitations in that they do not reflect all of the costs or benefits associated with the operations of our business as determined in accordance with GAAP. As a result, investors should not consider these measures in isolation or as a substitute for analysis of our results as reported under GAAP.

Liquidity and capital resources

On June 1, 2015, the Company entered into a credit agreement with a syndicate of banks to provide a committed multi-currency revolving credit facility (the "Facility") of \$200 million. The Facility has a 5-year term ending June 1, 2020 and bears interest at 0.25% to 2.50% over floating reference rates, depending on certain leverage ratios. The Facility requires a commitment fee of 0.25% to 0.50% of the unused portion, depending on certain leverage ratios. At any time during the term, we have the right to increase the Facility by up to \$50 million, on the same terms and conditions as the original Facility. The Facility is available to fund working capital requirements and other general corporate purposes.

In conjunction with the spin-off, on June 1, 2015, the Company assumed from Old FSV \$150 million of senior secured notes bearing interest at a rate of 3.84% to 4.84%, depending on leverage ratios. The senior secured notes are due on January 16, 2025, with five annual equal repayments beginning on January 16, 2021.

Net cash provided by operating activities for the nine month period ended September 30, 2015 was \$75.9 million, versus \$44.6 million in the prior year period. The significant improvement in operating cash flow was largely attributable to increased earnings in our FirstService Residential segment, and changes in non-cash working capital relating primarily to the timing of payroll accruals. We believe that cash from operations and other existing resources will continue to be adequate to satisfy the ongoing working capital needs of the Company.

For the nine months ended September 30, 2015, capital expenditures were \$14.3 million. Significant purchases include service vehicles in both operating segments as well as production equipment for the California Closets regional production center in the FirstService Brands segment.

On June 18, 2015, the Company's Board of Directors approved a dividend policy for the Company, which is a dividend of \$0.40 per common share (being the Subordinate Voting Shares and Multiple Voting Shares) per annum, payable quarterly. These dividends will be paid in cash after the end of each quarter to shareholders of record on the last business day of the quarter. All dividend payments are subject to the discretion of our Board of Directors. We declared a quarterly dividend of \$0.10 per share on the Subordinate Voting Shares and Multiple Voting Shares in respect of the quarter ended September 30, 2015.

Net indebtedness as at September 30, 2015 was \$149.0 million, versus \$172.6 million at December 31, 2014. Net indebtedness is calculated as the current and non-current portion of long-term debt less cash and cash equivalents. We are in compliance with the covenants contained in our financing agreements as at September 30, 2015 and, based on our outlook for the balance of the year, we expect to remain in compliance with these covenants. We had \$147.6 million of available un-drawn credit as of September 30, 2015.

In relation to acquisitions completed during the past three years, we have outstanding contingent consideration totalling \$8.0 million as at September 30, 2015 (\$6.1 million as at December 31, 2014) assuming all contingencies are satisfied and payment is due in full. Such payments, if any, are due during the period extending to September 2017. The contingent consideration liability is recognized at fair value upon acquisition and is updated to fair value each quarter, unless it contains an element of compensation, in which case such element is treated as compensation expense over the contingency period. The contingent consideration is based on achieving specified earnings levels, and is paid or payable at the end of the contingency period. We estimate that, based on current operating results, approximately 85% of the contingent consideration outstanding as of September 30, 2015 will ultimately be paid.

The following table summarizes our contractual obligations as at September 30, 2015:

Contractual obligations (in thousands of US\$)	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$ 197,086	\$ 364	\$ 264	\$ 46,458	\$ 150,000
Interest on long-term debt	41,658	8,453	13,847	13,351	6,007
Capital lease obligations	1,511	769	603	139	-
Contingent acquisition consideration	8,028	6,781	1,247	-	-
Operating leases	<u>82,489</u>	<u>19,451</u>	<u>29,053</u>	<u>22,365</u>	<u>11,620</u>
Total contractual obligations	\$ 330,772	\$ 35,818	\$ 45,014	\$ 82,313	\$ 167,627

At September 30, 2015, we had commercial commitments totaling \$5.9 million comprised of letters of credit outstanding due to expire within one year. We are required to make semi-annual payments of interest on our senior secured notes at a weighted average interest rate of 4.8%.

Redeemable non-controlling interests

In most operations where managers or employees are also minority owners, the Company is party to shareholders' agreements. These agreements allow us to "call" the minority position at a value determined with the use of a formula price, which is in most cases equal to a multiple of trailing two-year average earnings, less debt. Minority owners may also "put" their interest to the Company at the same price, with certain limitations including (i) the inability to "put" more than one-third to one-half of their holdings in any twelve-month period and (ii) the inability to "put" any holdings for at least one year after the date of our initial acquisition of the business or the date the minority shareholder acquired the stock, as the case may be. The total value of the minority shareholders' interests (the "redemption amount"), as calculated in accordance with shareholders' agreements, was as follows.

(in thousands of US\$)	September 30 2015	December 31 2014
FirstService Residential	\$ 51,232	\$ 59,466
FirstService Brands	21,544	20,605
	<u>\$ 72,776</u>	<u>\$ 80,071</u>

The amount recorded on our balance sheet under the caption "Redeemable non-controlling interests" ("RNCI") is the greater of: (i) the redemption amount (as above); and (ii) the amount initially recorded as RNCI at the date of inception of the minority equity position. As at September 30, 2015, the RNCI recorded on the balance sheet was \$74.2 million. The purchase prices of the RNCI may be satisfied in cash or in Subordinate Voting Shares of FirstService. If all RNCI were redeemed with cash on hand and borrowings under our Facility, the *pro forma* estimated accretion to diluted net earnings per share from continuing operations for the six months ended September 30, 2015 would be \$0.28 and the accretion to adjusted EPS would be \$0.08.

Off-balance sheet arrangements

We do not have any material off-balance sheet arrangements other than those disclosed in notes 10 and 15 to the Carve-out Combined Financial Statements.

Critical accounting policies and estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions with respect to the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are based upon management's historical experience and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates. Our critical accounting policies and estimates have been reviewed and discussed with our Audit Committee. There have been no material changes to our critical accounting policies and estimates from those disclosed in the Company's MD&A for the year ended December 31, 2014.

Impact of recently issued accounting standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. This ASU clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP and International Financial Reporting Standards ("IFRS") and is effective for the Company on January 1, 2018. The Company is currently assessing the impact of this ASU on its financial position and results of operations.

In April 2015, FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. This ASU is effective for the Company on January 1, 2016, at which time guidance will be applied retrospectively.

Impact of IFRS

On January 1, 2011, many Canadian companies were required to adopt IFRS. In 2004, in accordance the rules of the CSA, Old FSV elected to report exclusively using U.S. GAAP and further elected not to adopt IFRS on January 1, 2011. Under the rules of the CSA, the Company is permitted to prepare its financial statements in accordance with U.S. GAAP going forward.

Transactions with related parties

The Company has entered into office space rental arrangements and property management contracts with senior managers of certain subsidiaries. These senior managers are usually also minority shareholders of the subsidiaries. The business purpose of the transactions is to rent office space for the Company and to generate property management revenues for the Company. The recorded amount of the rent expense for the nine months ended September 30, 2015 was \$0.3 million (2014 - \$0.4 million).

As at June 30, 2015, the Company had \$2.5 million of loans receivable from minority shareholders (December 31, 2014 - \$2.5 million). The business purpose of the loans receivable was to finance the sale of non-controlling interests in subsidiaries to senior managers. The loan amounts are measured based on the formula price of the underlying non-controlling interests, and interest rates are determined based on the Company's cost of borrowing plus a spread. The loans generally have terms of 5 to 10 years, but are open for repayment without penalty at any time.

In conjunction with the spin-off transaction on June 1, 2015, the Company entered into transition services agreement with Colliers which sets out the terms under which certain administrative services, rent and other expenses will be allocated. During the period from the spin-off date to September 30, 2015, the Company paid \$0.1 million in rent to Colliers.

Outstanding share data

The authorized capital of the Company consists of an unlimited number of preference shares, issuable in series, an unlimited number of Subordinate Voting Shares and an unlimited number of Multiple Voting Shares. The holders of Subordinate Voting Shares are entitled to one vote in respect of each Subordinate Voting Share held at all meetings of the shareholders of the Company. The holders of Multiple Voting Shares are entitled to twenty votes in respect of each Multiple Voting Share held at all meetings of the shareholders of the Company. Each Multiple Voting Share is convertible into one Subordinate Voting Share at any time at the election of the holders thereof.

As of the date hereof, the Company has outstanding 34,657,911 Subordinate Voting Shares and 1,325,694 Multiple Voting Shares. In addition, as at the date hereof 1,643,250 Subordinate Voting Shares are issuable upon exercise of options granted under the Company's stock option plan.

Canadian tax treatment of dividends

For the purposes of the enhanced dividend tax credit rules contained in the Income Tax Act (Canada) and any corresponding provincial and territorial tax legislation, all dividends (and deemed dividends) paid by us to Canadian residents on our Subordinate Voting Shares and Multiple Voting Shares are designated as "eligible dividends". Unless stated otherwise, all dividends (and deemed dividends) paid by us hereafter are designated as "eligible dividends" for the purposes of such rules.

Changes in internal controls over financial reporting

There have been no changes in our internal controls over financial reporting during the three and nine month periods ended September 30, 2015 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

Legal proceedings

FirstService is involved in various legal claims associated with the normal course of operations and believes it has made adequate provision for such legal claims.

Spin-off risk

Although the spin-off is complete, the transaction exposes FirstService to certain ongoing risks. The spin-off was structured to comply with all the requirements of the public company “butterfly rules” in the *Income Tax Act* (Canada). However, there are certain requirements of these rules that depend on events occurring after the spin-off is completed or that may not be within the control of FirstService and/or Colliers. If these requirements are not met, FirstService could be exposed to significant tax liabilities which could have a material effect on the financial position of FirstService. In addition, FirstService has agreed to indemnify Colliers for certain liabilities and obligations related to its business at the time of the spin-off. These indemnification obligations could be significant. These risks are more fully described in the Circular which is available at www.sedar.com.

Forward-looking statements and risks

This MD&A contains forward-looking statements with respect to expected financial performance, strategy and business conditions. The words “believe,” “anticipate,” “estimate,” “plan,” “expect,” “intend,” “may,” “project,” “will,” “would,” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements reflect management’s current beliefs with respect to future events and are based on information currently available to management. Forward-looking statements involve significant known and unknown risk and uncertainties. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Factors which may cause such differences include, but are not limited to those set out below, those set out above under “Spin-off risk” and those set out in detail in the “Risk Factors” section of the Circular and Old FSV’s Annual Information Form, which is included in Old FSV’s Annual Report on Form 40-F:

- Economic conditions, especially as they relate to commercial and consumer credit conditions and consumer spending, particularly in regions where our business may be concentrated.
- Commercial real estate property values, vacancy rates and general conditions of financial liquidity for real estate transactions.
- Residential real estate property values, resale rates and general conditions of financial liquidity for real estate transactions.
- Extreme weather conditions impacting demand for our services or our ability to perform those services.
- Competition in the markets served by the Company.
- The ability to attract new customers and to retain major customers and renew related contracts.
- The ability to retain and incentivize employees.
- Labour shortages or increases in wage and benefit costs.
- The effects of changes in interest rates on our cost of borrowing.
- Unexpected increases in operating costs, such as insurance, workers’ compensation, health care and fuel prices.
- Changes in the frequency or severity of insurance incidents relative to our historical experience.
- The effects of changes in foreign exchange rates in relation to the US dollar on the Company’s Canadian dollar denominated revenues and expenses.
- Our ability to identify and make acquisitions at reasonable prices and successfully integrate acquired operations.
- The ability to execute on, and adapt to, information technology strategies and trends.
- The ability to comply with laws and regulations related to our operations, including licensure, labour and employment laws and regulations, as well as the anti-corruption laws and trade sanctions.
- Political conditions, including political instability and any outbreak or escalation of terrorism or hostilities and the impact thereof on our business.

- Changes in government laws and policies at the federal, state/provincial or local level that may adversely impact our businesses.

We caution that the foregoing list is not exhaustive of all possible factors, as other factors could adversely affect our results, performance or achievements. The reader is cautioned against undue reliance on these forward-looking statements. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in such forward-looking statements will be realized. The inclusion of such forward-looking statements should not be regarded as a representation by the Company or any other person that the future events, plans or expectations contemplated by the Company will be achieved. We note that past performance in operations and share price are not necessarily predictive of future performance. We disclaim any intention and assume no obligation to update or revise any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

Additional information

Additional information regarding the Company, including the Circular and Old FSV's Annual Information Form, is available on SEDAR at www.sedar.com.