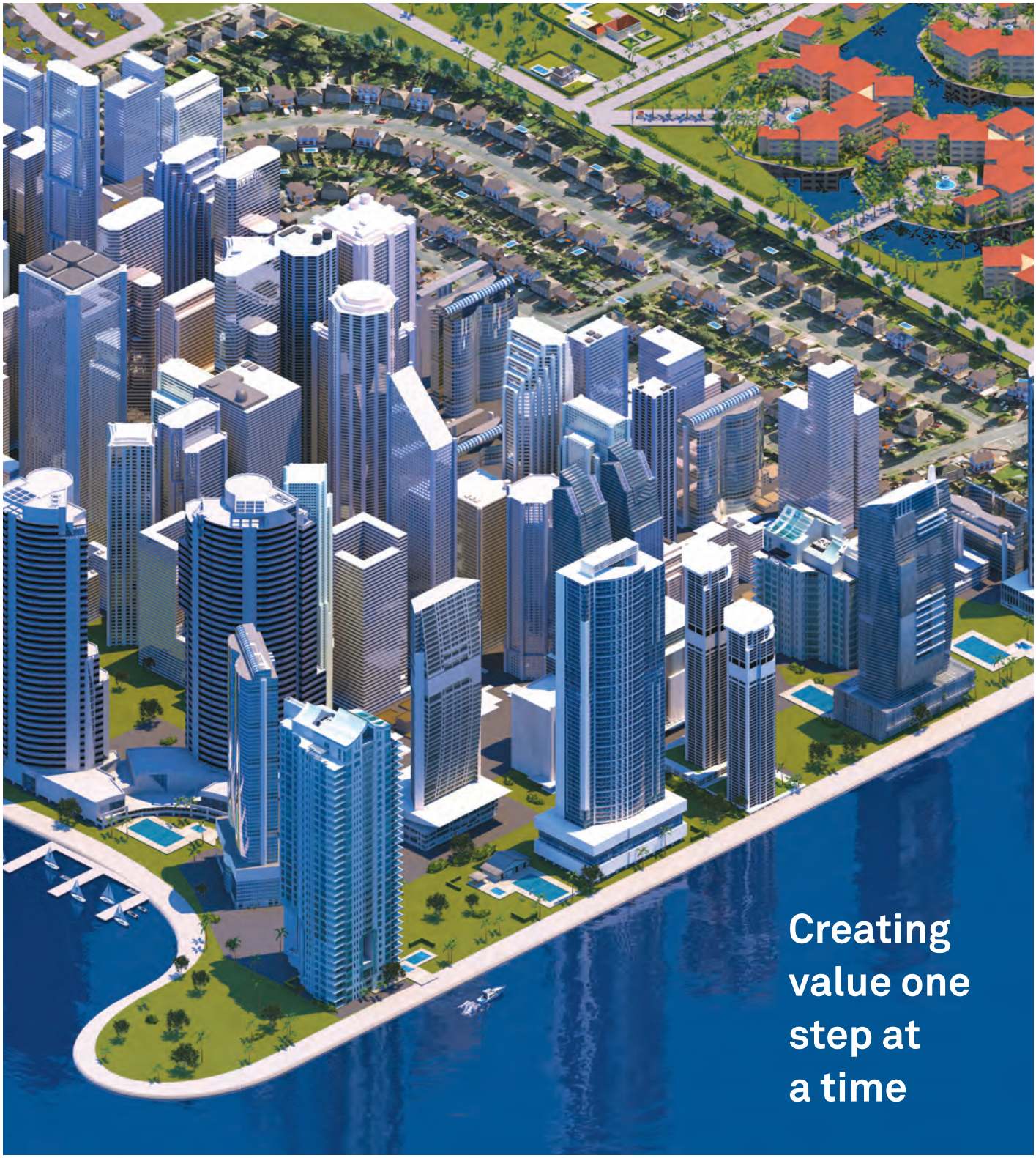
Annual Report 2012

FirstService



Creating value one step at a time

About FirstService Corporation

FirstService Corporation is a global leader in the rapidly growing real estate services sector. As one of the largest property managers in the world, FirstService manages more than 2.3 billion square feet of residential and commercial property and operates through three service platforms:

- Colliers International - one of the top global players in commercial real estate services;
- FirstService Residential - North America's largest manager of residential communities; and
- Property Services - a leading North American provider of essential property services, delivered through company-owned operations, franchise systems and contractor networks.

FirstService generates over US$2.3 billion in annual revenues and has more than 23,000 employees world-wide. More information about FirstService is available at www.firstservice.com

Why Invest in FirstService?

Leader in Global Real Estate Services

- $2.3+ billion in revenues
- Real estate is one of the world's largest markets creating multiple growth opportunities
- Market leading brands in commercial real estate and residential property management
- Proven 17 year track record

Three Engines for Diversified Growth

- Colliers International is one of the top global players in commercial real estate services
- FirstService Residential is North America's largest residential property manager
- Property Services delivers diversification through property service franchising and distressed property management

World Leader in Property Management

- 45% of revenue from management contracts
- 2.3 billion square feet of residential and commercial property under management
- $7+ billion of combined buying power
- Adds value and reduces costs for clients by leveraging scale

Proven Business Model

- Essential services with highly recurring revenue streams
- Partnership philosophy aligns business leaders with shareholders
- Growth strategy balances internal growth with strategic acquisitions

Strong Cash Flow & Balance Sheet

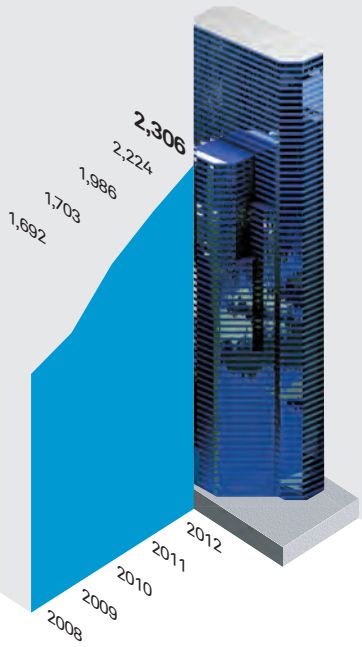
- Strong cash flows, low CAPEX and highly variable costs
- Moderate leverage
- Ample growth capital

Successful Track Record

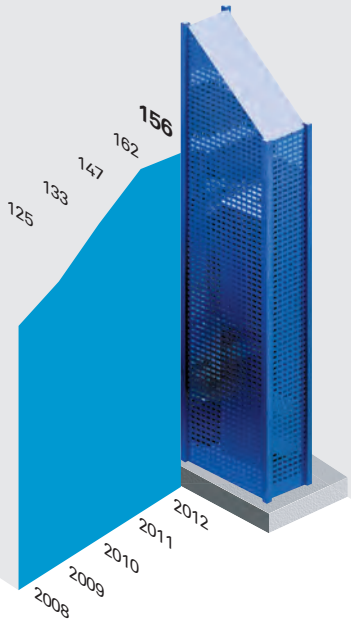
- $100,000 invested in 1995 is worth $2.2 million today
- 19% CAGR over 17 years

Financial Highlights

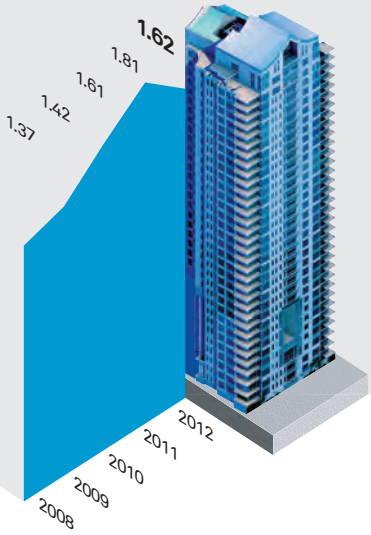
Revenues (US$ millions)
• 8% Five Year CAGR



Adjusted EBITDA (US$ millions)
• 5% Five Year CAGR



Adjusted EPS (US$)
• 4% Five Year CAGR



(US$ thousands, except per share amounts)	Year ended December 31				
	2012	2011	2010	2009	2008
Operations					
Revenues	**$ 2,305,537**	$ 2,224,171	$ 1,986,271	$ 1,703,222	$ 1,691,811
Operating earnings	**78,397**	98,061	97,532	38,181	71,327
Net earnings (loss) from continuing operations	**40,933**	101,743	47,900	(7,279)	19,837
Net (loss) earnings from discontinued operations	**–**	–	–	(576)	45,297
Net earnings (loss)	**40,933**	101,743	47,900	(7,855)	65,134
Financial Position					
Total assets	**$ 1,317,910**	$ 1,233,718	$ 1,129,541	$ 1,009,530	$ 990,637
Long-term debt	**337,205**	316,415	240,740	235,994	266,369
Convertible debentures	**77,000**	77,000	77,000	77,000	–
Shareholders' equity	**239,935**	243,619	199,248	166,034	199,141
Earnings Data					
Adjusted EBITDA[1]	**$ 155,660**	$ 161,561	$ 147,308	$ 133,067	$ 124,745
Adjusted earnings per common share[2]	**1.62**	1.81	1.61	1.42	1.37
GAAP diluted net (loss) earnings per common share from continuing operations	**(0.12)**	2.03	0.11	(1.85)	(0.19)
Diluted weighted average common shares outstanding (thousands)	**30,376**	33,301	30,367	29,516	29,914
Preferred Share Data					
Number outstanding (thousands)	**5,231**	5,623	5,772	5,772	5,772
Cash dividends per preferred share	**$ 1.75**	$ 1.75	$ 1.75	$ 1.75	$ 1.75

Notes
1. Adjusted EBITDA is defined as net earnings from continuing operations before income tax, interest, depreciation, amortization, goodwill impairment charges, other expense (income), acquisition-related items, stock-based compensation expense, cost containment expense and reorganization charges.
2. Adjusted earnings per common share is defined as diluted net (loss) earnings per common share from continuing operations, adjusted for the effect, after income tax, of non-controlling interest redemption increment, amortization, goodwill impairment charges, acquisition-related items, stock-based compensation expense, cost containment expense, reorganization charges and deferred income tax asset valuation allowances.

Founder & CEO's Message

Jay S. Hennick
Founder & CEO

Since 1993, our goal at FirstService has been focused and consistent: to create value for shareholders, one step at a time. Year after year, we have followed a disciplined approach: building on existing operations, seeking out new growth opportunities and prudently deploying our capital. Today, FirstService is a global leader in the rapidly growing real estate services sector offering abundant growth opportunities.

2012 was another year of solid growth. Revenues hit a record $2.3 billion on the strength of excellent performances from Colliers International, FirstService Residential and FirstService Brands. Unfortunately, overall earnings declined as results from Field Asset Services fell off considerably due to challenging market conditions. Strong results from Field Asset Services during the recent financial crisis together with solid results from FirstService Residential and FirstService Brands allowed us to strategically invest in Colliers International at the right time in the cycle – and those investments are paying off handsomely.

For 2013 and beyond we intend to continue creating value for our shareholders, through our three service platforms: Colliers International, one of the top global players in commercial real estate services, FirstService Residential, North America's largest manager of residential communities; and the Property Services division, one of North America's largest providers of property services delivered through company-owned operations, franchise systems and contractor networks.

2012 was another year of solid growth: revenues hit a record $2.3 billion.

Colliers USA grew an impressive 21%, reflecting strong market share gains and continued growth.

Here are some highlights from 2012:

- For the year, Colliers International grew revenue and EBITDA by 18% and 52%, respectively, and increased margins by 150 basis points to almost 7%.

- Colliers USA grew an impressive 21%, reflecting strong market share gains and continued growth in multi-market assignments, corporate services, and investment and capital markets.

- A key achievement was the acquisition of Colliers UK adding a total of 13 offices, 700 employees and about $100 million in annual revenue.

- Colliers received numerous awards and distinctions:
  - Third largest and fastest growing real estate services company based on revenue growth
  - Second in terms of financial strength
  - The #1 commercial real estate firm in Canada, Australia, Poland and Latin America
  - One of the top 20 global outsourcing firms by the International Association of Outsourcing Professionals
  - Second most recognized commercial real estate brand, by The Lipsey Company for the 8th consecutive year

- FirstService Residential grew revenue and EBITDA by 10% and 3%, respectively, in a business where 85% of revenue is generated through long-term contracts with 95% retention rates.

- Our sustainability commitments to reduce energy costs across our portfolio continue to expand, with FS Energy making the largest impact. By tracking and measuring the energy consumption and operating costs of buildings we manage, we help clients become more energy efficient and save costs. This creates another important motivation for clients to choose FirstService Residential to manage their communities.

- FirstService Brands increased EBITDA by more than 20% on the strength of modest increases in consumer spending. While royalty revenues from more than 1,800 franchisees generating greater than $1.1 billion in system-wide revenues are predictable, a larger percentage of future growth will come from strategically expanding our company-owned operations where we can increase our market share while continuing to generate high returns on invested capital.

- Continuously measuring and improving the customer experience and employee satisfaction levels through the Net Promoter Score system has become part of our culture and is a key metric in monitoring and improving our performance on a market-by-market basis.

- In early 2012, we strengthened our balance sheet with a new $350 million, 5 year revolving credit facility provided by a syndicate of 11 banks. The facility is priced at attractive rates and includes an accordion feature that enables us to increase the facility to $450 million if needed.

- Finally, just after year-end, we completed a private placement with two prominent life insurance companies of $150 million, 3.84% senior notes for a 12 year term, maturing January 2025. Completing this financing on very attractive terms provides us with low cost long-term capital while confirming our financial strength, diversification and historical track record of success.

While our shares did not perform as well as we would have liked during 2012, they are up almost 20% since year end. FirstService shareholders have done well with their investment over the long term. A $100,000 investment when we first listed on the NASDAQ in 1995 is worth about $2.2 million today. That's a 19% annualized return over a 17 year period – an exceptional return by any standard! We remain confident that our successful track record, proven business model, solid financial position and focus on global real estate services will continue to deliver strong returns for our shareholders in 2013 and beyond.

On behalf of the Board, I would like to thank all of our business leaders, partners and employees for their inspired work over the past year and for helping us continue to build a strong foundation for the road ahead.

Jay S. Hennick
Founder & Chief Executive Officer

Colliers International

Colliers International is one of the world's top global real estate service organizations, offering comprehensive commercial property services to investors, property owners, tenants and developers worldwide. More than 13,000 Colliers professionals in 482 offices worldwide are united by a spirit of enterprise – they take initiative, think creatively, collaborate and use their expertise to deliver outstanding business outcomes through personal attention to client needs. 2012 was the best year to date for Colliers. Continued investment in the platform enabled Colliers to create innovative and improved services for its clients, leading to record global revenues and a significant increase in average income per professional.

Revenue

$1,170M

(including affiliates $1,900M)

EBITDA

$79M

Recognized Global Leader With Worldwide Coverage

- 482 offices in 62 countries (company-owned and affiliates)
- 200 company-owned offices in 34 countries
- 8,300 professionals, 2,700 brokers
- 39,000 lease/sale transactions, $40 billion in total transaction value
- $1.0+ billion in operating budgets administered annually in commercial property management

Growth Strategy

- Expand market share in core markets
- Strengthen existing operations
- Broaden service offerings
- Continue to increase EBITDA margins

Institutional Reputation

- Third-largest global player based on revenues
- Fastest-growing based on revenue growth
- Ranked #2 of the top 25 commercial real estate brands by The Lipsey Company
- Founding global partner of the World Green Building Council and Regenerative Network
- Ranked in top 20 global players by International Association of Outsourcing Professionals
- Ranked as #1 real estate firm in Canada, Australia, Latin America and Poland based on market share

FirstService is a global leader in the rapidly growing real estate services sector.

FirstService Residential Management

FirstService is North America's largest manager of residential communities. FirstService Residential administers client expenditures of more than $6 billion annually while managing the daily operation and maintenance of properties under management. The goal of FirstService Residential is to enhance the property values of the properties it manages and the lifestyles of the residents. To achieve this, FirstService Residential leverages its scale, expertise and local knowledge to deliver service excellence.

This division also includes American Pool Enterprises, the largest commercial swimming pool and recreational facility management operation in North America.

Revenue
$839M

EBITDA
$64M

FirstService
Residential Management

Largest Player In North America

- Low, medium and high-rise condominiums, co-op's
- Large-scale and lifestyle homeowner associations
- Multi-family and investor-owned rentals
- 95% of managed portfolio is owner-occupied
- Commercial property association management
- Leader in highly fragmented market, with 5% share

6,500 Properties Under Management

- 1.3+ million units under management
- 107 offices
- $6+ billion in operating budget administered annually

85% Recurring Revenues

- 95+% contract retention rates

Growth Strategy

- Re-brand all property management operations to "FirstService Residential"
- Build market share by improving service excellence and employee satisfaction
- Add value and reduce costs through differentiated services
- Expand the geographic footprint through selective acquisitions and green-fielding
- Enhance operational efficiency through increased economies of scale and centralized back office

Property Services

The Property Services division is one of North America's largest providers of essential property services, delivered through company-owned operations, franchise systems and contractor networks. FirstService Brands offers essential property services delivered through franchise and company-owned operations. More than 1,800 franchisees generate in excess of $1.1 billion in system-wide sales. FirstService Brands has a business model that leverages decentralized platform management, while centralizing business and strategic planning, brand development and the sharing of best practices.

This division also includes Field Asset Services, a leading provider of property preservation and distressed property management services to the residential mortgage industry, and delivered through a large network of third party contractors.

Revenue
$296M

EBITDA
$24M

FirstService
Brands

FIELD ASSET SERVICES

FirstService Brands

- Owns and operates 9 essential property service brands
  - Paul Davis Restoration
  - CertaPro Painters
  - California Closets
  - College Pro Painters
  - Pillar to Post Home Inspection
  - Floorcoverings International
  - Handyman Connection
  - BrandPoint Services
  - Service America
- 1,845 franchisees and 10 company-owned operations
- $1.1 billion in total system-wide sales

75% Recurring Revenues

- Royalties from franchisees
- Long term asset management contracts

Field Asset Services

- Preserves and manages distressed REO properties through centralized asset management
- On-site services performed by third party contractors
- 25,000+ properties under management

Growth Strategy

- Accelerate growth of FirstService Brands as the economy strengthens
- Strategically add company-owned operations at FirstService Brands
- Diversify services at Field Asset Services

Corporate Information

Board of Directors

David R. Beatty, O.B.E. [2, 3, 4]
Corporate Director, Director of the Clarkson Centre for Business Ethics

Brendan Calder [3,4]
Corporate Director, Professor, "Getting-It-Done" Rotman School of Management, University of Toronto

Peter F. Cohen [1,2,4]
President, The Dawsco Group

Bernard I. Ghert [2]
Founder, The B.I. Ghert Family Foundation

Jay S. Hennick
Founder and CEO, FirstService Corporation

Michael D. Harris [3]
22nd Premier of Ontario (1995-2002)
Senior Business Advisor
Cassels Brock & Blackwell LLP

Steven S. Rogers
President, Four Box Holdings Inc.

[1] Chairman
[2] Audit Committee
[3] Executive Compensation Committee
[4] Nominating and Corporate Governance Committee

Corporate Offices

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www.FirstService.com

FirstService

Senior Officers

Peter F. Cohen
Chairman

Jay S. Hennick
Founder & CEO

D. Scott Patterson
President & COO

John B. Friedrichsen
Senior Vice-President & CFO

Douglas G. Cooke
Vice-President, Corporate Controller & Corporate Secretary

Elias Mulamoottil
Senior Vice-President, Strategy & Corporate Development

Jeremy Rakusin
Vice-President, Strategy & Corporate Development

Christian Mayer
Vice-President, Finance

Neil D. Chander
Vice-President, Tax

David Han
Director, Compliance & Risk Management

Arty Commisso
Director, Financial Planning & Analysis

Alex Nguyen
Director, Strategy & Corporate Development

Lynda A. Cralli
Assistant Corporate Secretary

Legal Counsel
Canada - Fogler, Rubinoff LLP
United States - Olshan LLP; Fox Rothschild LLP

Independent Auditors
PricewaterhouseCoopers LLP

Registrar and Transfer Agent
Canada - Equity Financial Trust Company
Phone: 416.361.0152
E-mail: investor@equityfinancialtrust.com

U.S. co-transfer agent - Registrar and Transfer Company
Phone: 1.800.368.5948
E-mail: info@rtco.com

Stock Exchange Listings

NASDAQ Global Select Market
Toronto Stock Exchange

FirstService common shares are included in the S&P/TSX Composite Index.

Commercial Real Estate

Douglas P. Frye
CEO - Colliers International

Residential Property Management

Gene Gomberg
Chairman - FirstService Residential

Mitchell Friedlander
CEO - American Pool Enterprises

Property Services

Charles E. Chase
CEO - FirstService Brands

Dale McPherson
CEO - Field Asset Services

Notice of Shareholders' Meeting

The annual meeting of the shareholders will be held on Wednesday April 17, 2013 at 4:00 p.m. (ET) at The Design Exchange, 234 Bay Street, Toronto-Dominion Centre, Toronto, Ontario