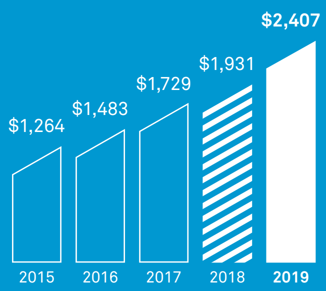
FirstService

2019 Annual Report

Creating Value One Step at a Time

Financial Highlights

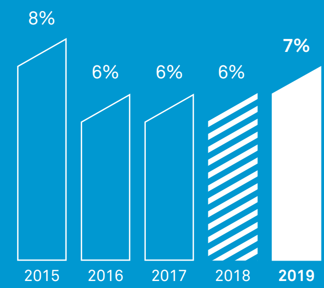
Revenues
(US$ millions)



25%
Growth
2018 – 2019

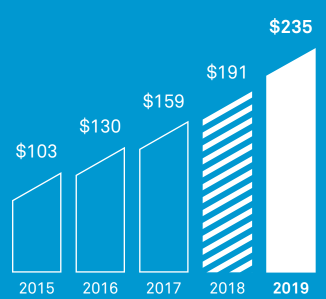
17%
CAGR
2015 – 2019

Organic Revenue Growth



6%+
Annual Organic Growth
Since 2015

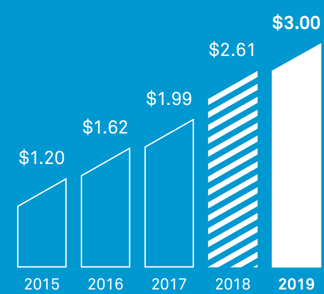
Adjusted EBITDA
(US$ millions)



23%
Growth
2018 – 2019

23%
CAGR
2015 – 2019

Adjusted EPS
(US$)

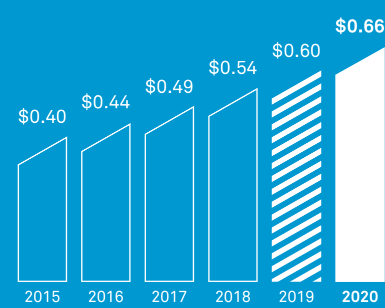


15%
Growth
2018 – 2019

26%
CAGR
2015 – 2019

Long Track Record of Strong and Sustainable Growth

Annual Dividends
(US$)



65%
Cumulative Growth
Since 2015

A Message From Our CEO

2019 was an exciting, action-packed year for FirstService Corporation, headlined by company milestones including the largest acquisition in our history, the elimination of our dual class share structure and our first equity offering in over 20 years.

D. Scott Patterson
Chief Executive Officer

Behind these headlines our operating teams steadily and confidently continued to deliver as we generated 7% organic growth across the organization while maintaining our margins. Our teams recognize and appreciate that our relentless focus on customer experience differentiates us and drives our organic growth.

The alignment around service excellence defines the culture across FirstService and coalesces our teams around a common purpose. As a group we intend to win and we know that winning over the long term is directly related to how we treat our customers day to day. We continue to learn and improve as we listen to our customers and front line associates and act on feedback themes. We are better today than we were last year and we will be better again at this time next year. I take tremendous pride and comfort in knowing that every day 24,000 FirstService associates are focused on making incremental gains that do not necessarily show up in milestone-making press releases.

Some of the highlights which made 2019 a memorable year include:

Acquisition of Global Restoration

In June, we closed the acquisition of Global Restoration, the second largest commercial and large loss property restoration firm in North America. The acquisition is complementary to our Paul Davis franchise system and gives us an entry into the massive commercial restoration market. We have partnered with the best management team in the industry and are very excited about our growth opportunity in the years to come. Between closing and year-end we added four tuck-under acquisitions, enhancing our geographic footprint and further strengthening our leadership team.

Residential Management Market Leadership in Chicago

Early in the year our FirstService Residential division significantly expanded its presence in the competitive Chicago market through the acquisitions of Lieberman Management Services and DK Condo, the condominium division of Draper and Kramer. These acquisitions cemented our position as the clear market leader in Chicago and are strategically important in terms of enhancing our national scale. By year-end these businesses were operating and unified under the

The alignment around service excellence defines the culture across FirstService.

FirstService Residential brand, positioning us for strong growth in this major metropolitan market.

Elimination of Dual Class Share Structure

In April, we settled the Long-Term Incentive Arrangement with Jay Hennick, our Founder, Chairman and largest shareholder. As part of the agreement Jay converted his multiple voting shares to subordinate voting shares on a one-for-one basis, thereby eliminating the dual class share structure and aligning all shareholders with one class of voting shares. We are very pleased to have successfully transitioned control with a structure that accomplished Jay's goal of maintaining a significant equity interest in the Company.

Growth Capital

2019 was also a very successful year in terms of capital deployment with $580 million invested in 15 acquisitions at a weighted average EBITDA multiple largely consistent with our history and stated criteria. We enjoy tremendous support from our lenders and were able to successfully upsize our lines of credit and seamlessly invest over three times the amount that we have averaged since our spin-off in 2015. We believe the strategic acquisitions that we completed during the year will help accelerate growth for the next several years.

To maintain a conservative balance sheet we completed a $200 million equity offering which brought our leverage ratio down to 2.4x and within our long-term target range of 2.0x and 2.5x. It represented our first public equity issuance since 1998, which is remarkable given that our top line has grown at an almost 20% compounded annual rate over the 21-year period. This track record is a strong reflection on our powerful cash flow business model.

Social Purpose

Our Social Purpose continued to evolve during 2019 driven by the caring and dedicated individuals who represent FirstService across North America.

When we began our Social Purpose journey in 2018, there was an emphasis on Our Community. That emphasis continues and we've expanded our focus to include two other important pillars – Our People and Our Environment.

I was privileged to attend and participate in a number of events this year. Seeing our teams give their time to enhance the lives of others and to support each other leaves me with a feeling of great pride. I am also reminded about what matters most, and why #FirstServeOthers is such an integral part of our culture and our future. Please see our website for details and stories about how our teams bring our Social Purpose to life.

Summary and Look Forward

We are extremely pleased with our performance and accomplishments during 2019. I have shared just a few of our highlights above and there were many more that are worthy of mention.

In aggregate, the notable achievements of 2019 have put us in a great position as we enter a new decade. We have strong leadership positions in huge service markets yet our share of these markets is still modest. This structural dynamic presents a significant long term growth opportunity driven by our platform "engines." This has been true for many years and we continue to take advantage of the opportunity while occasionally adding "engines" as we did in 2016 with Century Fire, and this past year with Global Restoration. Our long term goal is to grow our revenues at an average rate of at least 10% with incremental growth at the EBITDA and earnings per share lines. We are confident we can continue to deliver on this stated goal for years to come.

I started this letter with a tribute to our associates who live our values and deliver on our brand promises every day. I will finish the letter by thanking them for all they do. I also thank our loyal customers for their business and referrals and our shareholders for their continued support.

D. Scott Patterson
Chief Executive Officer

FirstService

SUPPLEMENT TO

NOTICE OF ANNUAL MEETING

OF SHAREHOLDERS

AND

MANAGEMENT INFORMATION CIRCULAR

OF

FIRSTSERVICE CORPORATION

Wednesday, April 8, 2020
at 11:00 a.m. (Toronto time)

NEW LOCATION
1255 Bay Street, Suite 600
Toronto, Ontario M5R 2A9

FirstService

March 16, 2020

Dear Shareholder:

Important Notice regarding Participation in the Annual Meeting of Shareholders on April 8, 2020

The health of our shareholders and our employees is the top priority for FirstService Corporation ("**FirstService**"). In view of the current situation regarding the spread of the coronavirus (COVID-19), we have taken the following precautionary measures for the upcoming Annual Meeting of Shareholders of FirstService (the "**AGM**") to be held on Wednesday, April 8, 2020 at 11:00 a.m. (Toronto time):

- the location of the AGM has been changed to FirstService's head office, located at 1255 Bay Street, Suite 600, Toronto, Ontario M5R 2A9;

- attendance in person at the AGM will be restricted to registered shareholders and proxyholders; all external guests will not be allowed to attend. This restriction will be stringently enforced. Attendees who nonetheless wish to attend in person may be subject to health screening at the entrance and will be asked to spread out in the room and avoid close contact with other attendees;

- attendance by board members, employees and other representatives of FirstService will be reduced to those necessary to conduct the AGM;

- the AGM will be limited to the formal business set out in FirstService's management information circular for the AGM dated February 28, 2020 (the "**Circular**"). Unlike in prior years, drinks and appetizers will not be provided following the AGM; and

- management will be making a webinar presentation on FirstService's business operations.

Registered shareholders are those shareholders who hold their shares directly with FirstService and therefore have their names and addresses recorded in FirstService's share registry. Most FirstService shareholders are not registered shareholders. If you purchased FirstService shares through a broker or other intermediary and/or a broker or other intermediary holds your FirstService shares in an account you have with them, you are a non-registered shareholder.

Given the current circumstances, FirstService strongly encourages registered shareholders and proxyholders not to attend the AGM in person. In particular, persons who have travelled outside of Canada prior to the AGM, who do not feel well or who are otherwise in weakened state should not attend the AGM in person. Instead, the Circular and information provided by your broker or other intermediary contains information on how shareholders may vote their shares through the internet, by facsimile or by mail, among other possible methods. In addition, shareholders will have the opportunity to listen to a live webcast of the AGM and see the webinar management presentation. The details concerning the live webcast and webinar will be provided on FirstService's website at www.firstservice.com prior to the AGM. A recorded version of the AGM and a copy of the webinar management presentation will also be made available on FirstService's website following the AGM.

FirstService hopes that by applying the above measures, the AGM can take place in a safe environment. FirstService is monitoring the situation closely and will advise if further action is to be taken as circumstances evolve and further guidance is given and restrictions are imposed by governmental bodies. We thank you for your understanding, and look forward to welcoming you again in person at our 2021 Annual Meeting.

Sincerely yours,

Douglas G. Cooke
Senior Vice President, Corporate Controller and
Corporate Secretary

FirstService

SUPPLEMENT TO
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an annual meeting (the "**Meeting**") of the shareholders of FirstService Corporation ("**FirstService**") will be held at the FirstService's head office, 1255 Bay Street, Suite 600, Toronto, Ontario M5R 2A9 on Wednesday, April 8, 2020, at 11:00 a.m. (Toronto time) for purposes set out in the Notice of Annual Meeting of Shareholders of FirstService dated February 28, 2020 (the "**Original Notice**").

Other than the location of the meeting, all other information contained in the Original Notice remains in effect.

DATED at Toronto, Ontario this 16th day of March, 2020.

By Order of the Board of Directors

DOUGLAS G. COOKE
Senior Vice President, Corporate Controller and
Corporate Secretary

FirstService

FirstService Corporation

MD&A and Consolidated Financial Statements

December 31, 2019

FIRSTSERVICE CORPORATION
Management's discussion and analysis for the year ended December 31, 2019
(in US dollars)
February 20, 2020

The following management's discussion and analysis ("MD&A") should be read together with the audited consolidated financial statements and the accompanying notes (the "Consolidated Financial Statements") of FirstService Corporation ("we," "us," "our," the "Company" or "FirstService") for the year ended December 31, 2019. The 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 year ended December 31, 2019 and up to and including February 20, 2020.

Additional information about the Company, including the Company's current Annual Information Form, which is included in FirstService's Annual Report on Form 40-F, can be found on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

This MD&A includes references to "Adjusted EBITDA" and "Adjusted EPS", which are financial measures that are not calculated in accordance with GAAP. For a reconciliation of these non-GAAP measures to the most directly comparable GAAP financial measures, see "Reconciliation of non-GAAP financial measures."

FirstService's business
FirstService is a leading provider of branded essential property services comprised of two reportable operating segments: (i) FirstService Residential, the largest provider of residential property management services in North America; and (ii) FirstService Brands, a leading provider of essential property services to residential and commercial customers through both franchise systems and company-owned operations. The segments are grouped with reference to the nature of services provided and the types of clients that use those services. FirstService Residential and FirstService Brands are described in further detail in our Annual Information Form.

Consolidated review
Our consolidated revenues for the year ended December 31, 2019 were $2.41 billion, an increase of 25% over the prior year. The top-line performance included approximately 7% organic growth, with the balance from recent acquisitions, with resulting growth in Adjusted EBITDA and Adjusted EPS (see definitions and reconciliations below). GAAP Operating Earnings and earnings per share were down versus the prior year period as a result of recognizing an expense associated with settling the long-term incentive arrangement ("LTIA") with our Founder and Chairman in the amount of $314.4 million.

We acquired controlling interests in fifteen businesses in 2019, including three in our FirstService Residential segment and twelve in our FirstService Brands segment. The total initial cash consideration for these acquisitions was $579.9 million. Our acquisition of Global Restoration (aka Bellwether FOS Holdco, Inc.) was the largest acquisition of 2019, with a purchase price of $506.7 million (net of cash acquired). Global Restoration is a market leader in large loss and commercial property restoration, and provides us with a platform for future growth both organically and through tuck-under acquisitions to expand its geographic footprint and increase its national client account coverage.

Our tuck-under acquisitions increase the geographic footprint and broaden our service offering at FirstService Residential. They also support the growth of our company-owned operations at FirstService Brands, including acquisitions of California Closets and Paul Davis Restoration franchises in selected key markets and expansion of our operations and broadening of our service capabilities at Century Fire.

Results of operations – year ended December 31, 2019
Our revenues were $2.41 billion for 2019, up 25% relative to 2018. The increase included organic revenue growth of 7%, with the balance coming from recent acquisitions.

The operating loss for the period was $174.4 million, down from $127.6 million of operating earnings in the prior year period, with the decrease attributable to the settlement of the LTIA with our Founder and Chairman in the amount of $314.4 million. Adjusted EBITDA rose 23% to $235.2 million in 2019 versus $190.6 million in the prior year. Our FirstService Residential division generated earnings growth in 2019 as a result of strong organic growth and modest operating margin improvements. Our FirstService Brands division was positively impacted by solid organic growth and significant acquisition growth in 2019.

Depreciation expense was $40.9 million in 2019 relative to $35.3 million in the prior year, with the increase primarily related to recently acquired company-owned operations in our FirstService Brands segment.

Amortization expense was $38.7 million in 2019 relative to $17.5 million in 2018, with the increase attributable to our significant Global Restoration acquisition in the FirstService Brands segment.

Net interest expense increased to $32.1 million in 2019 from $12.6 million in the prior year, with the difference primarily attributable to an increase in our average outstanding debt to finance the Global Restoration acquisition. Our weighted average interest rate increased to 4.4% in 2019 from 4.0% in the prior year.

Other income of $6.0 million was primarily due to the gain on sale from two small, non-core divestitures: (i) our Arizona and Florida-based landscaping operations within FirstService Residential; and (ii) our national accounts commercial painting operations within FirstService Brands, both occurring in the second quarter of 2019. Also included in other income was a small loss in the fourth quarter of the current year on the sale of our College Pro window cleaning operations for nominal consideration, as part of our exit from the College Pro franchise system within the FirstService Brands segment. In conjunction with this sale, we also wound-down our College Pro painting operations at the end of 2019.

Our consolidated income tax rate for the nine month period was negative 14%, compared to 22% of earnings before income tax in the prior year-to-date period, and relative to the statutory rate of 27% in both periods. The current period's tax rate was affected by the settlement of the LTIA, which is not deductible for tax purposes.

Net loss for the period was $227.6 million, versus net earnings of $90.3 million in the prior year period. The decrease was attributable to the settlement of the LTIA.

The non-controlling interest ("NCI") share of earnings was $7.9 million for the year, relative to $11.2 million in the prior year period, with the decrease primarily attributable to the significant purchases of NCI in the current year. The NCI redemption increment for 2019 was $16.1 million, versus $13.2 million in the prior period, and was attributable to changes in the trailing two-year average of earnings of non-wholly owned subsidiaries.

At FirstService Residential, revenues were $1.41 billion in 2019, an increase of 13% compared to the prior year. Organic growth was 7% and was driven primarily by strong sales resulting in new contract wins throughout the year across most markets. This segment reported Adjusted EBITDA of $130.6 million in 2019 or 9.2% of revenues, relative to $112.8 million or 9.0% of revenues in the prior year. Operating earnings for 2019 were $104.7 million or 7.4% of revenues, relative to $89.0 million or 7.1% of revenues in the prior year.

Our FirstService Brands operations reported revenues of $995.4 million in 2019, an increase of 47% versus the prior year, comprised of 6% organic growth and the balance from recent acquisitions, principally the acquisition of Global Restoration. Organic growth was largely attributable to double-digit revenue growth at all of our service lines, with the exception of Paul Davis Restoration which experienced milder weather patterns and lower activity levels throughout 2019 compared to the prior year. Adjusted EBITDA for this segment was $118.3 million in 2019 or 11.9% of revenues, relative to $88.4 million or 13.1% of revenues in the prior year. The margins were negatively impacted by our recently acquired Global Restoration operation, which had lower margins than the overall division, and the lower revenue performance at Paul Davis Restoration. Operating earnings were $60.6 million or 6.1% of revenues, versus $55.0 million or 8.1% of revenues a year ago. Our operating earnings margin was further impacted by increased intangible amortization from the acquisition of Global Restoration.

Corporate costs, as presented in Adjusted EBITDA were $13.7 million in 2019 relative to $10.5 million in the prior year. The year-over-year increase primarily reflects the impacts of foreign exchange. On a GAAP basis, corporate costs were $339.7 million versus $16.5 million in the prior year period, with the increase primarily attributable to the settlement of the LTIA in the second quarter of 2019.

Results of operations – year ended December 31, 2018

Our revenues were $1.93 billion for 2018, up 12% relative to 2017. The increase was comprised of organic revenue growth of 6%, with the balance coming from recent acquisitions.

Operating earnings increased 22% to $127.6 million in 2018, while Adjusted EBITDA rose 20% to $190.6 million. Our FirstService Residential division generated earnings growth in 2018 as a result of continued operating margin improvements. Our FirstService Brands division was positively impacted by significant organic revenue growth and acquisition activity in 2018. During the fourth quarter of 2018, we made the decision to wind-down our Service America operations, one of eight property service lines reported within the FirstService Brands division. We have previously indicated that Service America was a small, non-core business, with declining revenues, poor profitability and limited growth prospects. The wind-down of Service America during 2018 did not significantly impact our consolidated full year results.

Depreciation expense was $35.3 million in 2018 relative to $27.7 million in the prior year, with the increase primarily related to recently acquired company-owned operations in our FirstService Brands segment. We also incurred accelerated software depreciation in relation to the wind-down of our Service America operations.

Amortization expense was $17.5 million in 2018 relative to $14.4 million in 2017, with the increase attributable to recent acquisitions in the FirstService Brands segment.

Net interest expense increased to $12.7 million in 2018 from $9.9 million in the prior year, which was attributable to the increase in our average outstanding debt, as well as our weighted average interest rate increasing to 4.0% in 2018 from 3.6% in the prior year.

Our consolidated income tax rate for 2018 was 22%, flat versus the prior year period.

Net earnings were $90.3 million in 2018, compared to $75.0 million in the prior year. The increase was primarily attributable to strong profitability driven mainly by operating margin improvements in the FirstService Residential division and strong organic revenue growth and significant acquisition activity in the FirstService Brands division.

At FirstService Residential, revenues were $1.25 billion in 2018, an increase of 7% compared to the prior year. Organic growth was 4% and was primarily driven by competitive contract wins across our markets. This segment reported Adjusted EBITDA of $112.8 million in 2018 or 9.0% of revenues, relative to $99.9 million or 8.5% of revenues in the prior year. Operating earnings for 2018 were $89.0 million or 7.1% of revenues, relative to $77.6 million or 6.6% of revenues in the prior year. Margin expansion in this division was driven by continued operating improvements and further optimization of labour resources.

Our FirstService Brands operations reported revenues of $676.6 million in 2018, an increase of 22% versus the prior year. Organic growth of 9% was largely attributable to double-digit revenue growth at our California Closets and Century Fire company-owned operations, and within our franchised operations which largely benefit from strong home improvement spending. Adjusted EBITDA for this segment was $88.4 million in 2018 or 13.1% of revenues, relative to $71.7 million or 12.9% of revenues in the prior year. Operating earnings for 2018 were $55.0 million or 8.1% of revenues, versus $44.0 million or 7.9% of revenues in the prior year.

Corporate costs, as presented in Adjusted EBITDA were $10.5 million in 2018 relative to $12.3 million in the prior year. The year-over-year decrease primarily reflects the impact of foreign exchange. On a GAAP basis, corporate costs for 2018 were $16.5 million, compared to $16.6 million in the prior year.

Selected annual information - last five years
(in thousands of US$, except share and per share amounts)
(derived from audited financial statements prepared in accordance with US GAAP)

	Year ended December 31				
	2019	2018	2017	2016	2015
Operations					
Revenues	$ 2,407,210	$ 1,931,473	$ 1,729,031	$ 1,482,889	$ 1,264,077
Operating earnings (loss)	(174,419)	127,568	104,962	90,550	70,747
Net earnings	(227,631)	90,280	75,047	54,243	38,198
Financial position					
Total assets	$ 1,955,469	$ 1,007,474	$ 848,266	$ 770,964	$ 600,483
Long-term debt	766,623	334,523	269,625	250,909	201,199
Redeemable non-controlling interests	174,662	151,585	117,708	102,352	77,559
Shareholders' equity	425,887	236,226	192,286	181,028	167,026
Common share data					
Net earnings (loss) per common share:					
Basic	$ (6.58)	1.83	1.43	0.93	0.59
Diluted	(6.58)	1.80	1.41	0.92	0.59
Weighted average common shares outstanding (thousands)					
Basic	38,225	35,952	35,909	35,966	36,013
Diluted	38,662	36,571	36,559	36,366	36,425
Cash dividends per common share	$ 0.60	0.54	0.49	0.44	0.40
Other data					
Adjusted EBITDA	$ 235,182	$ 190,611	$ 159,312	$ 130,324	$ 103,038
Adjusted EPS	3.00	2.61	1.99	1.62	1.20

Notes:

(1) Any per share amounts prior to June 1, 2015 in the table above have been calculated using former FirstService Corporation's share balances and the terms of the June 1, 2015 spin-off. There are differences in accounting policies in 2019 with respect to the new lease standard (ASC 842) and in 2018 with respect to ASC 606 - Revenue from contracts with customers.

(2) On May 2019, we effected an amendment to our articles that eliminated the multiple voting shares and the "blank cheque" preference shares as part of the authorized capital of FirstService, and re-classified our subordinate voting shares as common shares. The information in the table provided prior to May 10, 2019 relates to the subordinate voting shares and multiple voting shares of FirstService.

Results of operations – fourth quarter ended December 31, 2019

Consolidated operating results for the fourth quarter ended December 31, 2019 were up significantly relative to the results experienced in the comparable prior year quarter, driven by strong top-line growth at our FirstService Brands segment and improved margins at our FirstService Residential operations.

FirstService Residential revenues increased 11%, with Adjusted EBITDA increasing 15% and operating earnings increasing 15% in the fourth quarter ended December 31, 2019 versus the prior year quarter. Performance was primarily driven by 7% organic growth as a result of new contract wins across our markets and strong ancillary services growth.

Our FirstService Brands operations experienced substantial revenue growth of 72% in the fourth quarter ended December 31, 2019 compared to the prior year quarter, with strong contribution from acquisition activity, primarily Global Restoration. Organic growth of 2% for the quarter was driven by strong performance within our Century Fire and California Closets service lines, largely offset by a significant year-over-year decline at our Paul Davis Restoration company-owned operations due to softer weather-related activity levels. FirstService Brands' Adjusted

EBITDA increased 59% in the fourth quarter versus the prior year quarter. Operating earnings increased 26% versus the prior year quarter. The Adjusted EBITDA margin decreased to 11.6% from 12.5% in the prior year quarter, and was principally driven by the lower activity levels and revenue at Paul Davis Restoration, as well as the addition of Global Restoration, with its lower margin profile than the overall FirstService Brands division, to the current quarter results. The operating earnings margin in the segment decreased to 4.2% from 5.8% in the prior year quarter, as a result of increased amortization of backlog and other intangible assets from the Global Restoration acquisition.

Summary of quarterly results - years ended December 31, 2019 and 2018
(in thousands of US$, except per share amounts)
(derived from unaudited interim consolidated financial statement prepared in accordance with US GAAP)

	Q1	Q2	Q3	Q4	Year
Year ended December 31, 2019					
Revenues	$ 485,655	$ 573,908	$ 672,253	$ 675,594	$ 2,407,410
Operating earnings	12,930	(268,470)	49,698	31,423	(174,419)
Net earnings	8,145	(275,680)	26,336	13,568	(227,631)
Net earnings per share:					
Basic	0.06	(7.48)	0.51	0.13	(6.58)
Diluted	0.06	(7.48)	0.50	0.13	(6.58)
Year ended December 31, 2018					
Revenues	$ 426,456	$ 495,348	$ 506,356	$ 503,313	$ 1,931,473
Operating earnings	11,073	42,350	45,298	28,847	127,568
Net earnings	8,935	29,894	31,664	19,787	90,280
Net earnings per share:					
Basic	0.17	0.63	0.72	0.32	1.83
Diluted	0.17	0.62	0.70	0.31	1.80
Other data					
Adjusted EBITDA - 2019	$ 29,150	$ 65,031	$ 77,144	$ 63,857	$ 235,182
Adjusted EBITDA - 2018	25,414	57,118	59,426	48,653	190,611
Adjusted EPS - 2019	0.30	1.12	0.92	0.66	3.00
Adjusted EPS - 2018	0.25	0.86	0.89	0.62	2.61

Operating outlook

We are committed to a long-term growth strategy that includes average annual organic revenue growth in the mid-single digit range, combined with tuck-under acquisitions within each of our service platforms, resulting in targeted average annual growth in revenues of 10% or higher. We are targeting some incremental operating leverage and higher growth rates for operating earnings, and earnings per share. Economic conditions will negatively or positively impact these target growth rates in any given year.

In our FirstService Residential segment, revenues are expected to increase at a mid-single digit percentage organic growth rate in 2020 primarily from new business wins. Any additional tuck-under acquisitions will augment organic growth. Operating margins for 2020 are expected to be in-line with 2019.

Our FirstService Brands segment is expected to generate mid-single digit percentage organic revenue growth in 2020 primarily from growth of our company-owned operations at California Closets, Paul Davis Restoration, Century Fire, and Global Restoration. Tuck-under acquisitions within our company-owned operations at Paul Davis Restoration, Global Restoration, California Closets and Century Fire will add to organic growth. Operating margins are expected to remain in-line with 2019, unless influenced by further acquisitions of businesses with different margin profiles.

The foregoing contains forward-looking statements, and readers should refer to “Forward-looking statements and risks” below regarding our cautions relating to these forward-looking statements and the material risk factors that could cause actual results to differ materially from these forward-looking statements. The above forward-looking statements are made on the assumption that general economic conditions and the conduct of the Company’s businesses remain as they exist on the date hereof, with none of the material risk factors (as noted under "Forward-looking statements and risks" below) occurring during 2020.

Seasonality and quarterly fluctuations

Certain segments of the Company's operations 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 consolidated service mix.

FirstService Residential generates peak revenues and earnings in the third quarter, as seasonal ancillary swimming pool management revenues are earned. FirstService Brands includes certain franchise operations, which generate the majority of their revenues during the second and third quarters, and restoration operations which are influenced by weather patterns that typically should result in higher revenues and earnings in the fourth quarter.

Liquidity and capital resources

The Company generated cash flow from operating activities of $107.8 million for the year ended December 31, 2019, relative to $99.4 million in the prior year. Operating cash flow was favourably impacted by strong profitability at both of our segments. We believe that cash from operations and other existing resources, including our revolving credit facility described below, will continue to be adequate to satisfy the ongoing working capital needs of the Company.

In June 2019, in connection with the acquisition of Global Restoration, we entered into a $890 million amended and restated credit agreement, consisting of our existing $450 million revolving credit facility and a new $440 million term loan (drawn in a single advance). The maturity date of the revolving credit facility remains January 2023, and the maturity date of the term loan is June 2024, with repayments of 5% per annum, paid quarterly, beginning in September 2020, with the balance payable at maturity.

We have outstanding $150 million of senior secured notes bearing interest at a rate of 3.84% to 4.84%, depending on leverage ratios. As of December 31, 2019, the current interest rate is 4.84%. The senior secured notes are due on January 16, 2025, with five annual equal repayments beginning on January 16, 2021.

During 2019, we invested cash in acquisitions as follows: an aggregate of $579.9 million (net of cash acquired) in fifteen new business acquisitions, $10.1 million in contingent consideration payments related to previously completed acquisitions, and $30.6 million in acquisitions of redeemable non-controlling interests ("RNCI").

In relation to acquisitions completed during the past three years, we have outstanding contingent consideration, assuming all contingencies are satisfied and payment is due in full, totalling $14.4 million as at December 31, 2019 (December 31, 2018 - $13.3 million). The contingent consideration liability is recognized at fair value upon acquisition and is updated to fair value each quarter. The contingent consideration is based on achieving specified earnings levels, and is paid or payable after the end of the contingency period, which extends to July 2022. We estimate that a majority of the contingent consideration outstanding as of December 31, 2019 will ultimately be paid.

Capital expenditures for the year were $46.6 million (2018 - $40.6 million), which consisted primarily of office leasehold improvements, new vehicles and productivity-enhancing information technology systems in both of our operating segments.

Net indebtedness as at December 31, 2019 was $645.6 million, versus $268.2 million at December 31, 2018. Net indebtedness is calculated as the current and non-current portions of long-term debt less cash and cash equivalents. We were in compliance with the covenants contained in our credit agreement and the agreement governing our senior secured notes as at December 31, 2019 and we expect to remain in compliance with such covenants going forward.

The Company declared common share dividends totalling $0.60 per share during 2019, with $0.585 paid in cash during the year and $0.15 paid in January 2020. In February 2020, our Board of Directors approved an increase to our dividend such that, commencing with the quarter ended March 31, 2020, the quarterly dividend would be US$0.165 (a rate of US$0.66 per annum). The Company's policy is to pay quarterly dividends on its common shares in the future, subject to the discretion of our Board of Directors.

During the year we distributed $5.7 million (2018 - $6.9 million) to non-controlling shareholders of subsidiaries, in part to facilitate the payment of income taxes on account of those subsidiaries organized as flow-through entities.

The following table summarizes our contractual obligations as at December 31, 2019:

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	$ 756,470	$ 12,874	$ 105,190	$ 608,406	$ 30,000
Interest on long term debt	130,801	32,976	59,410	36,687	1,728
Capital lease obligations	10,153	3,896	4,764	1,493	-
Contingent acquisition consideration	14,423	6,269	8,154	-	-
Operating leases	161,564	36,128	61,442	33,914	30,080
Total contractual obligations	$ 1,073,411	$ 92,143	$ 238,960	$ 680,500	$ 61,808

At December 31, 2019, we had commercial commitments totaling $6.3 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 an interest rate of 4.84%.

To manage our insurance costs, we take on risk in the form of high deductibles on many of our coverages. We believe this step reduces overall insurance costs in the long term, but may cause fluctuations in the short term depending on the frequency and severity of insurance incidents.

In most operations where managers or employees are also non-controlling 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. Non-controlling owners may also "put" their interest to the Company at the same price, with certain limitations including (i) the inability to "put" more than 33% or 50% 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 non-controlling shareholder acquired their interest, as the case may be. The total value of the RNCI (the "redemption amount"), as calculated in accordance with shareholders' agreements, was as follows.

(in thousands of US$)	**December 31 2019**	December 31 2018
FirstService Residential	**$ 62,407**	$ 80,631
FirstService Brands	**108,576**	68,501
	$ 170,983	$ 149,132

The amount recorded on our balance sheet under the caption "redeemable non-controlling interests" is the greater of (i) the redemption amount (as above) or (ii) the amount initially recorded as RNCI at the date of inception of the minority equity position. As at December 31, 2019, the RNCI recorded on the balance sheet was $174.7 million. The purchase prices of the RNCI may be paid in cash or in common shares of FirstService. If all RNCI were redeemed in cash, the pro forma estimated accretion to net earnings per share for 2019 would be $0.46, and the accretion to Adjusted EPS would be $0.04.

Stock-based compensation expense

One of our key operating principles is for senior management to have a significant long-term equity stake in the businesses they operate. The equity owned by senior management takes the form of stock, stock options or notional value appreciation plans, the latter two of which require the recognition of compensation expense under GAAP. The amount of expense recognized with respect to stock options is determined for the Company plan by allocating the grant-date fair value of each option over the expected term of the option. The amount of expense recognized with respect to the notional value appreciation plans is re-measured quarterly.

Critical accounting estimates

Critical accounting estimates are those that management deems to be most important to the portrayal of our financial condition and results of operations, and that require management's most difficult, subjective or complex judgments, due to the need to make estimates about the effects of matters that are inherently uncertain. We have identified three critical accounting estimates: determination of fair values of assets acquired and liabilities assumed in business combinations, impairment testing of the carrying value of goodwill, and the collectability of accounts receivable.

The determination of fair values of assets acquired and liabilities assumed in business combinations requires the use of estimates and judgment by management, particularly in determining fair values of intangible assets acquired. For example, if different assumptions were used regarding the profitability and expected attrition rates of acquired customer relationships, different amounts of intangible assets and related amortization could be reported.

Impairment of goodwill is tested at the reporting unit level. The Company has seven reporting units determined with reference to business segment, customer type, service delivery model and geography. Impairment is tested by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Where it is determined to be more likely than not that its fair value is greater than its carrying amount, then no further testing is required. Where the qualitative analysis is not sufficient to support that the fair value exceeds the carrying amount then a goodwill impairment test is performed. A quantitative goodwill impairment test is performed by comparing the fair value of each reporting unit to its carrying value, including goodwill. Fair value is estimated using a market multiple method, which estimates market multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA") for comparable entities with similar operations and economic characteristics. Significant assumptions used in estimating the fair value of each reporting unit include the market multiples of EBITDA.

Accounts receivable allowances are determined using a combination of historical experience, current information, and management judgment. Actual collections may differ from our estimates. A 10% increase in the accounts receivable allowance would increase bad debt expense by $1.3 million.

Reconciliation of non-GAAP financial measures

In this MD&A, we make reference to "Adjusted EBITDA" and "Adjusted EPS," 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) settlement of the LTIA. The Company uses Adjusted EBITDA to evaluate its own operating performance and its ability to service debt, as well as an integral part of its planning and reporting systems. Additionally, this measure is used in conjunction with discounted cash flow models to determine the Company's overall enterprise valuation and to evaluate acquisition targets. Adjusted EBITDA is presented as a supplemental measure because the Company believes such measure is useful to investors as a reasonable indicator of operating performance because of the low capital intensity of its service operations. The Company believes 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 or cash flow from operating activities, as determined in accordance with GAAP. The Company's 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 to Adjusted EBITDA appears below.

(in thousands of US$)	Year ended December 31 2019	2018
Net earnings (loss)	**$ (227,631)**	$ 90,280
Income tax	**27,147**	24,922
Other income	**(6,015)**	(254)
Interest expense, net	**32,080**	12,620
Operating earnings (loss)	**(174,419)**	127,568
Depreciation and amortization	**79,557**	52,772
Settlement of long-term incentive arrangement	**314,379**	-
Acquisition-related items	**7,539**	4,504
Stock-based compensation expense	**8,126**	5,767
Adjusted EBITDA	**$ 235,182**	$ 190,611

Adjusted EPS is defined as diluted net earnings per share, adjusted for the effect, after income tax, of: (i) the non-controlling interest redemption increment; (ii) acquisition-related items; (iii) amortization of intangible assets recognized in connection with acquisitions; (iv) stock-based compensation expense; (v) a stock-based compensation tax adjustment related to a US GAAP change; and (vi) settlement of the LTIA. The Company believes 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 EPS is not a recognized measure of financial performance under GAAP, and should not be considered as a substitute for diluted net earnings per common share, as determined in accordance with GAAP. The Company's 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 diluted net earnings per common share to Adjusted EPS appears below.

(in US$)	Year ended December 31 2019	2018
Diluted net earnings per share	**$ (6.51)**	$ 1.80
Non-controlling interest redemption increment	**0.42**	0.36
Settlement of long-term incentive arrangement	**8.13**	-
Acquisition-related items	**0.16**	0.09
Amortization of intangible assets, net of tax	**0.72**	0.35
Stock-based compensation expense, net of tax	**0.15**	0.12
Stock-based compensation tax adjustment for US GAAP change	**(0.07)**	(0.11)
Adjusted EPS	**$ 3.00**	$ 2.61

We believe that the presentation of Adjusted EBITDA and Adjusted EPS, 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 EPS 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.

Initial adoption of, and changes in, accounting policies

The Company adopted ASU 842, Leases, as of January 1, 2019, using the modified retrospective approach. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the historical lease classification. The Company has lease agreements with lease and non-lease components, and has elected to account for each lease component (e.g., fixed rent payments) separately from the non-lease components (e.g., common-area maintenance costs). The Company has also elected not to recognize the right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. Leases are recognized on the balance sheet when the lease term commences, and the associated lease payments are recognized as an expense on a straight-line basis over the lease term.

In June 2016, FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. In November 2018, FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, which amends the scope and transition requirements of ASU 2016-13. The standard requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. The standard will become effective for the Company beginning January 1, 2020 and will require a cumulative-effect adjustment to Accumulated retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

Off-balance sheet arrangements

The Company does not believe that it has off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial performance or financial condition.

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 year ended December 31, 2019 was $1.3 million (2018 - $1.2 million). These amounts are settled monthly in cash, and are priced at market rates. The rental arrangements have fixed terms of up to 10 years.

As at December 31, 2019, the Company had $2.6 million of loans receivable from minority shareholders (December 31, 2018 - $2.1 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 market rates plus a spread. The loans generally have terms of 5 to 10 years, but are open for repayment without penalty at any time.

Outstanding share data

The authorized capital of the Company consists of an unlimited number of common shares. The holders of common shares are entitled to one vote in respect of each common share held at all meetings of the shareholders of the Company.

As of the date hereof, the Company has outstanding 41,588,007 common shares. In addition, as at the date hereof 2,022,050 common shares are issuable upon exercise of options granted under the Company's stock option plan.

Canadian tax treatment of common share 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 common 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.

Disclosure controls and procedures
Our Chief Executive Officer and Chief Financial Officer, with the assistance and participation of other Company management, have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Canada by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings and in the United States by Rules 13a-15(e) and 15d-15(e) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2019. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of December 31, 2019, the Company's disclosure controls and procedures were effective to give reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under Canadian securities legislation and the Exchange Act is: (i) recorded, processed, summarized and reported within the time periods specified therein; and (ii) accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's report on internal control over financial reporting
Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have excluded fifteen entities acquired by the Company during the 2019 fiscal year from our assessment of internal control over financial reporting as at December 31, 2019. The total assets and total revenues of the fifteen majority-owned entities represent 11.8% and 13.4%, respectively, of the related consolidated financial statement amounts as at and for the year ended December 31, 2019.

Management has assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2019, based on the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as at December 31, 2019, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as at December 31, 2019, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report dated February 20, 2020 which accompanies the Company's audited consolidated financial statements for the year ended December 31, 2019.

Changes in internal control over financial reporting
During the year ended December 31, 2019, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Legal proceedings
FirstService is involved in litigation in the normal course of its business, both as a defendant and as a plaintiff. Management reviews all of the relevant facts for each claim and applies judgment in evaluating the likelihood and, if applicable, the amount of any potential loss. Where a potential loss is considered probable and the amount is reasonably estimable, provisions for loss are made based on management's assessment of the likely outcome. Where a range of loss can be reasonably estimated with no best estimate in the range, FirstService records the minimum amount in the range. FirstService does not provision for claims for which the outcome is not determinable or claims for which the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provisioned for when reasonably determinable.

As of February 20, 2020, there are no claims outstanding for which FirstService has assessed the potential loss as both probable to result and reasonably estimable, therefore no accrual has been made.

Market risk of financial instruments

FirstService is engaged in operating and financing activities that generate risk in three primary areas as set out below. See Note 18 to the Consolidated Financial Statements for additional information regarding these risks. FirstService's overall risk management program and business practices seek to minimize any potential adverse effects on FirstService's financial performance. Risk management is carried out by the senior management team and is reviewed by FirstService's board of directors.

For an understanding of other potential risks, including non-financial risks, see the section entitled "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2019 available on SEDAR at www.sedar.com, which is also included in the Company's Annual Report on Form 40-F available on EDGAR at www.sec.gov.

Foreign exchange

FirstService is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the U.S. dollar. A majority of FirstService's revenues in fiscal 2019 were transacted in U.S. dollars. A portion of FirstService's revenues were denominated in Canadian dollars, which results in foreign currency exposure related to fluctuations between the Canadian and U.S. dollars. FirstService's head office expenses are incurred in Canadian dollars, which is hedged by Canadian dollar denominated revenue. As an additional part of its risk management strategy, FirstService maintains net monetary asset and/or liability balances in foreign currencies and may engage in foreign currency hedging activities using financial instruments, including currency forward contracts and currency options. FirstService does not use financial instruments for speculative purposes. As at the date of this MD&A, FirstService does not have any such financial instruments.

FirstService's credit agreement allows FirstService to borrow under its revolving credit facility in Canadian and U.S. dollars. To mitigate any foreign exchange risk related to its Canadian dollar denominated debt, FirstService may from time to time enter into forward foreign exchange contracts to sell Canadian dollars in an amount equal to the principal amount of its Canadian dollar denominated borrowings. As at the date of this MD&A, FirstService does not have any such foreign exchange contracts.

Interest rate

FirstService has no significant interest-bearing assets. FirstService's income and operating cash flows are substantially independent of changes in market interest rates.

FirstService's primary interest rate risk arises from its long-term debt under its credit agreement and senior secured notes. FirstService manages its exposure to changes in interest rates by using a combination of fixed and variable rate debt, varying lengths of terms to achieve the desired proportion of variable and fixed rate debt and, from time to time, may enter into hedging/interest rate swap contracts. Fluctuations in interest rates affect the fair value of any hedging/interest rate swap contracts as their value depends on the prevailing market interest rate. Hedging/interest rate swap contracts are monitored on a monthly basis. As at the date of this MD&A, FirstService does not have any such hedging/interest rate swap contracts. An increase (or decrease) in interest rates by 1% would result in a $6.1 million increase (or decrease) in annual interest expense under the credit facility contained in FirstService's credit agreement.

Credit risk

Credit risk refers to the risk of losses due to failure of FirstService's customers or other counterparties to meet their payment obligations. Credit risk also arises from deposits with banks. Credit risk with respect to the customer receivables are limited due to the large number of entities comprising FirstService's customer base and their dispersion across many different service lines. Credit risk with respect to deposits is limited by the use of multiple large and reputable banks.

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 and those set out in detail in the "Risk Factors" section of the Company's Annual Information Form for the year ended December 31, 2019 available on SEDAR at www.sedar.com, which is also included in the Company's Annual Report on Form 40-F available on EDGAR at www.sec.gov:

- Economic conditions, especially as they relate to credit conditions, consumer spending and demand for managed residential property, particularly in regions where our business may be concentrated.
- 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.
- Economic deterioration impacting our ability to recover goodwill and other intangible assets.
- A decline in our ability to generate cash from our businesses to fund future acquisitions and meet our debt obligations.
- The effects of changes in foreign exchange rates in relation to the U.S. dollar on our Canadian dollar denominated revenues and expenses.
- Competition in the markets served by the Company.
- Labour shortages or increases in wage and benefit costs.
- The effects of changes in interest rates on our cost of borrowing.
- A decline in our performance impacting our continued compliance with the financial covenants under our debt agreements, or our ability to negotiate a waiver of certain covenants with our lenders.
- 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.
- A decline in our ability to make acquisitions at reasonable prices and successfully integrate acquired operations.
- The performance of acquired businesses and potential liabilities acquired in connection with such acquisitions.
- Changes in laws, regulations and government policies at the federal, state/provincial or local level that may adversely impact our businesses.
- Risks related to liability for employee acts or omissions, or installation/system failure, in our fire protection businesses.
- A decline in our performance impacting our ability to pay dividends on our common shares.
- Risks arising from any regulatory review and litigation.
- Risks associated with intellectual property and other proprietary rights that are material to our business.
- Disruptions or security failures in our information technology systems.
- Political conditions, including any outbreak or escalation of terrorism or hostilities and the impact thereof on our business.
- Performance in our commercial and large loss property restoration business.
- Volatility of the market price of our common shares.
- Potential future dilution to the holders of our common shares.
- Risks related to our qualification as a foreign private issuer.
- Although the spin-off is complete, the transaction exposes FirstService to certain ongoing tax and indemnification risks.

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. All forward-looking statements in this MD&A are qualified by these cautionary statements. The forward-looking statements are made as of the date of this MD&A and, unless otherwise required by applicable securities laws, we do not intend, nor do we undertake any obligation, to update or revise any forward-looking statements contained in this MD&A to reflect subsequent information, events, results or circumstances or otherwise.

Additional information

Copies of publicly filed documents of the Company, including our Annual Information Form, can be found through the SEDAR website at www.sedar.com and on EDGAR at www.sec.gov.

FirstService Corporation
Consolidated Financial Statements

Year ended
December 31, 2019

FIRSTSERVICE CORPORATION

MANAGEMENT'S REPORT
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS
The accompanying consolidated financial statements and management discussion and analysis ("MD&A") of FirstService Corporation (the "Company") and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America using the best estimates and judgments of management, where appropriate. The most significant of these accounting principles are set out in Note 2 to the consolidated financial statements. Management has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the consolidated financial statements.

The MD&A has been prepared in accordance with National Instrument 51-102 of the Canadian Securities Administrators, taking into consideration other relevant guidance, including Regulation S-K of the US Securities and Exchange Commission.

The Board of Directors of the Company has an Audit Committee consisting of three independent directors. The Audit Committee meets regularly to review with management and the independent auditors any significant accounting, internal control, auditing and financial reporting matters.

These consolidated financial statements have been audited by PricewaterhouseCoopers LLP, which have been appointed as the independent registered public accounting firm of the Company by the shareholders. Their report outlines the scope of their examination and opinion on the consolidated financial statements and the effectiveness of ICFR at December 31, 2019. As auditors, PricewaterhouseCoopers LLP have full and independent access to the Audit Committee to discuss their findings.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of its effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has excluded fifteen entities acquired by the Company during the last fiscal period, including the acquisition of Global Restoration, from its assessment of internal control over financial reporting as at December 31, 2019. The total assets and total revenues of the fifteen majority-owned entities represent 11.8% and 13.4%, respectively, of the related consolidated financial statement amounts as at and for the year ended December 31, 2019.

Management has assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2019, based on the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as at December 31, 2019, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as at December 31, 2019, has been audited by PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm as stated in their report which appears herein.

/s/ Scott Patterson
Chief Executive Officer
February 20, 2020

/s/ Jeremy Rakusin
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of FirstService Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of FirstService Corporation and its subsidiaries (together, the Company) as of December 31, 2019 and 2018, and the related consolidated statements of earnings (loss), consolidated statements of comprehensive earnings (loss), consolidated statements of shareholders' equity and consolidated statements of cash flows for the years then ended, including the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America (US GAAP). Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded 15 entities from its assessment of internal control over financial reporting as of December 31, 2019 because they were acquired by the Company in purchase business combinations during 2019. We have also excluded these 15 entities from our audit of internal control over financial reporting. Total assets and total revenues of these majority-owned entities excluded from management's assessment and our audit of internal control over financial reporting represent 11.8% and 13.4%, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2019.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Acquisition of Global Restoration - Fair Value of Intangible Assets

As described in Note 4 to the consolidated financial statements, the Company acquired Global Restoration for net cash consideration of $506.7 million in 2019, which resulted in $222.1 million of intangible assets being recorded. Intangible assets acquired comprised of customer relationships of $213.2 million, backlog of $7.1 million, trademarks and trade names of $1.8 million. Management recorded the intangible assets acquired at fair value on the date of acquisition using the income approach on an individual asset basis. Management applied judgment in estimating the fair value of intangible assets acquired, which included the use of assumptions with respect to future earnings before interest, taxes, depreciation and amortization (EBITDA) margins, revenue growth rates, expected attrition rates of acquired customer relationships and discount rates.

The principal considerations for our determination that performing procedures relating to the fair value of intangible assets recorded in the acquisition of Global Restoration is a critical audit matter are (i) there was a high degree of auditor judgment and subjectivity in performing procedures relating to the fair value measurement of intangible assets acquired due to the judgment applied by management when developing the estimate; (ii) significant audit effort was required in evaluating the assumptions relating to the estimated fair value of intangible assets, including future EBITDA margins, revenue growth rates, expected attrition rates of acquired customer relationships and discount rates; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the acquisition accounting, including controls over management's valuation of intangible assets and controls over development of the assumptions related to the valuation of intangible assets, including future EBITDA margins, revenue growth rates, expected attrition rates of acquired customer relationships and discount rates. These procedures also included, among others, (i) reading the purchase agreement; (ii) testing management's process for estimating the fair value of intangible assets; (iii) evaluating the appropriateness of the valuation method; (iv) testing the completeness, accuracy and relevance of the data used in estimating the fair value of intangible assets; and (v) evaluating the reasonableness of assumptions used by management. Evaluating the reasonableness of assumptions used by management including future EBITDA margins, revenue growth rates and expected attrition rates of acquired customer relationships involved considering the past performance of the acquired business, economic and industry forecasts, and similar prior acquisitions made by the Company. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's valuation method and certain assumptions, such as the discount rates.

Goodwill Impairment Assessment

As described in Notes 2 and 10 to the consolidated financial statements, the Company's goodwill balance was $644.8 million as of December 31, 2019. Management conducts an impairment test as of August 1 of each year, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired. Potential impairment is identified by comparing the fair value of each reporting unit to its carrying value, including goodwill. Fair value is estimated by management using a market multiple method. Management applied significant judgment in estimating the fair value of each reporting unit, which included the use of significant assumptions with respect to multiples of EBITDA for comparable entities with similar operations and economic characteristics.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment is a critical audit matter are (i) there was significant judgment applied by management when estimating the fair value of the reporting units; which in turn led to (ii) a high degree of auditor judgment and subjectivity in performing procedures to evaluate management's significant assumptions, including multiples of EBITDA for comparable entities with similar operations and economic characteristics.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment, including controls over the estimation of the fair value of the Company's reporting units. These procedures also included, among others, (i) testing management's process for estimating the fair value of the reporting units; (ii) evaluating the appropriateness of the market multiple method; (iii) testing the completeness, accuracy and relevance of the data used in estimating the fair value of the reporting units; and (iv) evaluating the reasonableness of the significant assumptions used by management, including multiples of EBITDA for comparable entities with similar operations and economic characteristics. Evaluating the reasonableness of the significant assumptions used by management involved (i) comparing the multiples of EBITDA to the multiples of similar prior acquisitions made by the Company and to the current trading multiple of the Company, as well as to external market and industry data, and (ii) performing sensitivity analyses.

/s/ PricewaterhouseCoopers LLP
Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
February 20, 2020

We have served as the Company's auditor since 2014.

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
(in thousands of US dollars, except per share amounts)

Years ended December 31	**2019**	2018
Revenues	**$ 2,407,410**	$ 1,931,473
Cost of revenues (exclusive of depreciation and amortization shown below)	**1,634,097**	1,320,252
Selling, general and administrative expenses	**546,257**	426,377
Depreciation	**40,859**	35,257
Amortization of intangible assets	**38,698**	17,515
Settlement of long-term incentive arrangement ("LTIA") (note 19)	**314,379**	-
Acquisition-related items (note 4)	**7,539**	4,504
Operating earnings (loss)	**(174,419)**	127,568
Interest expense, net	**32,080**	12,620
Other (income) expense, net (note 6)	**(6,015)**	(254)
Earnings (loss) before income tax	**(200,484)**	115,202
Income tax (note 15)	**27,147**	24,922
Net earnings (loss)	**(227,631)**	90,280
Non-controlling interest share of earnings (note 12)	**7,874**	11,180
Non-controlling interest redemption increment (note 12)	**16,105**	13,235
Net earnings (loss) attributable to Company	**$ (251,610)**	$ 65,865
Net earnings (loss) per common share (note 16)		
Basic	**$ (6.58)**	$ 1.83
Diluted	**$ (6.58)**	$ 1.80

The accompanying notes are an integral part of these financial statements.

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)
(in thousands of US dollars)

Years ended December 31	**2019**	2018
Net earnings (loss)	**$ (227,631)**	$ 90,280
Foreign currency translation (loss) gain	**2,659**	(2,623)
Comprehensive earnings (loss)	**(224,972)**	87,657
Less: Comprehensive earnings attributable to non-controlling shareholders	**23,979**	24,415
Comprehensive earnings (loss) attributable to Company	**$ (248,951)**	$ 63,242

The accompanying notes are an integral part of these financial statements.

FIRSTSERVICE CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands of US dollars)

As at December 31		**2019**		2018
Assets				
Current assets				
Cash and cash equivalents	**$**	**121,198**	$	66,340
Restricted cash		**13,093**		13,504
Accounts receivable, net of allowance of $13,136 (December 31, 2018 - $9,177)		**393,730**		239,925
Income tax recoverable		**4,147**		9,337
Inventories (note 7)		**94,511**		48,227
Prepaid expenses and other current assets		**41,457**		37,739
		668,136		415,072
Other receivables		**4,033**		4,212
Other assets		**4,955**		6,135
Deferred income tax (note 15)		**2,836**		-
Fixed assets (note 8)		**131,545**		98,102
Operating lease right-of-use assets (note 5)		**132,893**		-
Intangible assets (note 9)		**366,224**		148,798
Goodwill (note 10)		**644,847**		335,155
		1,287,333		592,402
	$	**1,955,469**	$	1,007,474
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable	**$**	**76,226**	$	41,709
Accrued liabilities (note 7)		**165,444**		132,572
Unearned revenues		**74,100**		36,746
Operating lease liabilities - current (note 5)		**30,622**		-
Long-term debt - current (note 11)		**5,545**		3,915
Contingent acquisition consideration - current (note 18)		**6,269**		12,005
		358,206		226,947
Long-term debt - non-current (note 11)		**761,078**		330,608
Operating lease liabilities - non-current (note 5)		**111,247**		-
Contingent acquisition consideration (note 18)		**8,154**		1,281
Unearned revenues		**12,593**		13,453
Other liabilities		**45,403**		40,797
Deferred income tax (note 15)		**58,239**		6,577
		996,714		392,716
Redeemable non-controlling interests (note 12)		**174,662**		151,585
Shareholders' equity		**425,887**		236,226
	$	**1,955,469**	$	1,007,474

Commitments and contingencies (note 19)

The accompanying notes are an integral part of these financial statements.

On behalf of the Board of Directors,

/s/Bernard I. Ghert	*/s/D. Scott Patterson*
Director	Director

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands of US dollars, except share information)

	Common shares				Accumulated	
	Issued and outstanding shares	Amount	Contributed surplus	Retained Earnings (Deficit)	other comprehensive loss	Total
Balance, December 31, 2017	35,916,383	$ 143,770	$ 41,463	$ 7,545	$ (492)	$ 192,286
Net earnings	-	-	-	65,865	-	65,865
Other comprehensive loss	-	-	-	-	(2,623)	(2,623)
Subsidiaries' equity transactions	-	-	(336)	-	-	(336)
Common Shares:						
Stock option expense	-	-	5,767	-	-	5,767
Stock options exercised	194,100	5,479	(1,797)	-	-	3,682
Dividends	-	-	-	(19,417)	-	(19,417)
Purchased for cancellation	(130,436)	(542)	-	(8,456)	-	(8,998)
Balance, December 31, 2018	35,980,047	$ 148,707	$ 45,097	$ 45,537	$ (3,115)	$ 236,226
Net earnings (loss)	-	-	-	(251,610)	-	(251,610)
Other comprehensive earnings	-	-	-	-	2,659	2,659
Impact of ASC 842 - Leases (note 5)	-	-	-	(390)	-	(390)
Subsidiaries' equity transactions	-	-	(10)	-	-	(10)
Common Shares:						
Stock option expense	-	-	8,126	-	-	8,126
Stock options exercised	432,050	13,481	(2,424)	-	-	11,057
Dividends	-	-	-	(23,411)	-	(23,411)
Issued - settlement of LTIA (note 19)	2,918,860	251,503	-	-	-	251,503
Issued - share offering (note 13)	2,165,000	191,737	-	-	-	191,737
Balance, December 31, 2019	**41,495,957**	**$ 605,428**	**$ 50,789**	**$(229,874)**	**$ (456)**	**$ 425,887**

The accompanying notes are an integral part of these financial statements.

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of US dollars)

Years ended December 31		**2019**		2018
Cash provided by (used in)				
Operating activities				
Net earnings	**$**	**(227,631)**	$	90,280
Items not affecting cash:				
Depreciation and amortization		**79,557**		52,772
Settlement of long-term incentive arrangement		**251,503**		-
Deferred income tax		**(8,988)**		1,989
Other		**2,258**		5,837
Changes in non-cash working capital:				
Accounts receivable		**(17,396)**		(37,100)
Inventories		**(7,107)**		(5,780)
Prepaid expenses and other current assets		**(1,033)**		(6,152)
Accounts payable		**858**		(3,249)
Accrued liabilities		**7,228**		12,462
Income tax payable		**4,644**		(5,142)
Unearned revenues		**11,808**		(6,330)
Other liabilities		**13,069**		1,257
Contingent acquisition consideration paid		**(962)**		(1,383)
Net cash provided by operating activities		**107,808**		99,461
Investing activities				
Acquisitions of businesses, net of cash acquired (note 4)		**(579,863)**		(59,444)
Disposal of businesses, net of cash disposed (note 6)		**13,030**		-
Purchases of fixed assets		**(46,628)**		(40,597)
Other investing activities		**(1,504)**		(6,158)
Net cash used in investing activities		**(614,965)**		(106,199)
Financing activities				
Increase in long-term debt		**624,052**		103,914
Repayment of long-term debt		**(194,193)**		(41,626)
Proceeds received on common share issuance (note 13)		**191,737**		-
Financing fees paid		**(4,000)**		(575)
Purchases of non-controlling interests		**(34,319)**		(3,600)
Sale of interests in subsidiaries to non-controlling interests		**3,671**		1,200
Contingent acquisition consideration paid		**(9,094)**		(7,862)
Proceeds received on exercise of stock options		**11,057**		3,682
Dividends paid to common shareholders		**(22,044)**		(18,780)
Distributions paid to non-controlling interests		**(5,725)**		(6,913)
Repurchases of Common Shares		**-**		(8,998)
Net cash provided by financing activities		**561,142**		20,442
Effect of exchange rate changes on cash		**462**		(754)
Increase in cash, cash equivalents and restricted cash		**54,447**		12,950
Cash, cash equivalents and restricted cash, beginning of year		**79,844**		66,894
Cash, cash equivalents and restricted cash, end of year	**$**	**134,291**	$	79,844

1. Description of the business

FirstService Corporation (the "Company") is a North American provider of residential property management and other essential property services to residential and commercial customers. The Company's operations are conducted in two segments: FirstService Residential and FirstService Brands. 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; (ii) proprietary banking and insurance products; and (iii) energy conservation and management solutions.

FirstService Brands provides a range of essential property services to residential and commercial customers in North America through franchise networks and company-owned locations. The principal brands in this division include Paul Davis Restoration, Global Restoration, California Closets, CertaPro Painters, Pillar to Post Home Inspectors, Floor Coverings International, and Century Fire Protection.

2. Summary of significant accounting policies

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant estimates are related to the determination of fair values of assets acquired and liabilities assumed in business combinations, recoverability of goodwill and intangible assets, estimated fair value of contingent consideration related to acquisitions, and the collectability of accounts receivable. Actual results could be materially different from these estimates.

Significant accounting policies are summarized as follows:

Basis of consolidation
The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries where the Company is the primary beneficiary. Where the Company does not have a controlling interest but has the ability to exert significant influence, the equity method is used. Inter-company transactions and accounts are eliminated on consolidation.

Cash and cash equivalents
Cash equivalents consist of short-term interest-bearing securities, which are readily convertible into cash and have original maturities at the date of purchase of three months or less.

Restricted cash
Restricted cash consists of cash over which the Company has legal ownership but is restricted as to its availability or intended use, including funds held on behalf of clients and franchisees.

On January 1, 2018, the Company adopted updated guidance issued by the FASB on restricted cash (ASU No. 2016-18). This ASU requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. The Company's restricted cash balance consists primarily of cash related to our marketing funds in the FirstService Brands segment, cash held for certain employees' benefit plans, and cash held for insurance broker commissions owed in our FirstService Residential segment. This update has been applied retrospectively.

Accounts Receivable

In the ordinary course of business, the Company extends non-interest bearing trade credit to its customers. Accounts receivable are reported on the face of the consolidated balance sheets, net of an allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. In determining the allowance for doubtful accounts, the Company analyzes the aging of accounts receivable, historical payment experience, customer creditworthiness and current economic trends.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined using the weighted average method. Work-in-progress inventory relates to construction contracts and real estate project management projects in process and are accounted for using the percentage of completion method.

Fixed assets

Fixed assets are carried at cost less accumulated depreciation. The costs of additions and improvements are capitalized, while maintenance and repairs are expensed as incurred. Fixed assets are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset group may not be recoverable. An impairment loss is recorded to the extent the carrying amount exceeds the estimated fair value of an asset group. Fixed assets are depreciated over their estimated useful lives as follows:

Buildings	20 to 40 years straight-line
Vehicles	3 to 5 years straight-line
Furniture and equipment	3 to 10 years straight-line
Computer equipment and software	3 to 5 years straight-line
Leasehold improvements	term of the lease to a maximum of 10 years straight-line

Fair value

The Company uses the fair value measurements framework for financial assets and liabilities and for non-financial assets and liabilities that are recognized or disclosed at fair value on a non-recurring basis. The framework defines fair value, gives guidance for measurement and disclosure, and establishes a three-level hierarchy for observable and unobservable inputs used to measure fair value. The classification of an asset or liability within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – Observable market-based inputs other than quoted prices in active markets for identical assets or liabilities
Level 3 – Unobservable inputs for which there is little or no market data, which requires the Company to develop its own assumptions

Financing fees

Financing fees related to our amended and restated credit agreement (the "Credit Agreement") with a syndicate of lenders and our $150,000 of senior secured notes (the "Senior Notes") are deferred and amortized to interest expense using the effective interest method.

Adoption of ASC 842

The Company adopted ASU 842, Leases, as of January 1, 2019, using the modified retrospective approach. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the historical lease classification.

The Company has lease agreements with lease and non-lease components, and has elected to account for each lease component (e.g., fixed rent payments) separately from the non-lease components (e.g., common-area maintenance costs). The Company has also elected not to recognize the right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. Leases are recognized on the balance sheet when the lease term commences, and the associated lease payments are recognized as an expense on a straight-line basis over the lease term.

See note 5 to the consolidated financial statements for additional disclosures about the impact of adoption of ASC 842.

Accounting Policy for Leases under ASC 842

At lease commencement, which is generally when the Company takes possession of the asset, the Company records a lease liability and a corresponding right-of-use asset. Lease liabilities represent the present value of minimum lease payments over the expected lease term, which includes options to extend or terminate the lease when it is reasonably certain those options will be exercised. The present value of the lease liability is determined using the Company's incremental collateralized borrowing rate at the lease commencement.

Minimum lease payments include base rent, fixed escalation of rental payments, and rental payments that are adjusted periodically depending on a rate or index. In determining minimum lease payments, the Company does not separate non-lease components for real estate leases. Non-lease components are generally services that the lessor performs for the Company associated with the leased asset, such as common area maintenance.

Right-of-use assets represent the right to control the use of the leased asset during the lease and are initially recognized in an amount equal to the lease liability. In addition, prepaid rent, initial direct costs, and adjustments for lease incentives are components of the right-of-use asset. Over the lease term the lease expense is amortized on a straight-line basis beginning on the lease commencement date. Right-of-use assets are assessed for impairment as part of the impairment of long-lived assets, which is performed whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable.

A right-of-use asset and lease liability are not recognized for leases with an initial term of 12 months or less, and the lease expense is recognized on a straight-line basis over the lease term.

Goodwill and intangible assets

Goodwill represents the excess of purchase price over the fair value of assets acquired and liabilities assumed in a business combination and is not subject to amortization.

Intangible assets are recorded at fair value on the date they are acquired. They are amortized over their estimated useful lives as follows:

Customer relationships	straight-line over 4 to 20 years
Franchise rights	by pattern of use, currently estimated at 2.5% to 15% per year
Trademarks and trade names	straight-line over 1 to 35 years
Management contracts and other	straight-line over life of contract ranging from 2 to 15 years
Backlog	straight-line over 6 to 12 months

The Company reviews the carrying value of finite life intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable from the estimated future cash flows expected to result from their use and eventual disposition. If the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset group, an impairment loss is recognized. Measurement of the impairment loss is based on the excess of the carrying amount of the asset group over the fair value calculated using an income approach.

Goodwill is tested for impairment annually, on August 1, or more frequently if events or changes in circumstances indicate the asset might be impaired, in which case the carrying amount of the asset is written down to fair value.

Impairment of goodwill is tested at the reporting unit level. The Company has seven reporting units determined with reference to business segment, customer type, service delivery model and geography. Impairment is tested by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Where it is determined to be more likely than not that its fair value is greater than its carrying amount, then no further testing is required. Where the qualitative analysis is not sufficient to support that the fair value exceeds the carrying amount then a goodwill impairment test is performed. A quantitative goodwill impairment test is performed by comparing the fair value of each reporting unit to its carrying value, including goodwill. Fair value is estimated using a market multiple method, which estimates market multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA") for comparable entities with similar operations and economic characteristics. Significant assumptions used in estimating the fair value of each reporting unit include the market multiples of EBITDA.

Redeemable non-controlling interests
Redeemable non-controlling interests ("RNCI") are recorded at the greater of (i) the redemption amount or (ii) the amount initially recorded as RNCI at the date of inception of the minority equity position. This amount is recorded in the "mezzanine" section of the balance sheet, outside of shareholders' equity. Changes in the RNCI amount are recognized immediately as they occur.

Revenue recognition and unearned revenues
The Company accounts for a contract with a customer when there is approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. The Company's revenues are measured based on consideration specified in the contract of each customer and revenue is recognized as the performance obligations are satisfied by transferring the control of the service or product to a customer.

(a) Franchisor operations
The Company operates several franchise systems within its FirstService Brands segment. Initial franchise fees are deferred and recognized over the term of the franchise agreement. Royalty revenues are recognized based on a contracted percentage of franchisee revenues, as reported by the franchisees. Revenues from administrative and other support services, as applicable, are recognized as the services are provided.

The Company's franchise systems operate marketing funds on behalf of franchisees. Advertising fund contributions from franchisees are reported as revenues and advertising fund expenditures are reported as expenses in our statements of earnings. To the extent that contributions received exceed advertising expenditures, the excess amount is accrued and offset as a deferred liability, whereas any expenditures in excess of contributions are expensed as incurred. As such, advertising fund contributions and the related revenues and expenses may be reported in different periods.

(b) Revenues from construction contracts and service operations other than franchisor operations
Revenues are recognized at the time the service is rendered. Certain services including but not limited to restoration and construction contracts, are recognized over time based on percentage of completion, based on a ratio of actual costs to total estimated contract costs. In cases where anticipated costs to complete a project exceed the revenue to be recognized, a provision for the additional estimated losses is recorded in the period when the loss becomes apparent. Amounts received from customers in advance of services being provided are recorded as unearned revenues when received.

Stock-based compensation
For equity classified awards, compensation cost is measured at the grant date based on the estimated fair value of the award. The related stock option compensation expense is allocated using the graded attribution method.

Notional value appreciation plans
Under these plans, subsidiary employees are compensated if the notional value of the subsidiary increases. Awards under these plans generally have a term of up to fifteen years and a vesting period of five years. The increase in notional value is calculated with reference to growth in earnings relative to a fixed threshold amount plus or minus changes in indebtedness relative to a fixed opening amount. If an award is subject to a vesting condition, then graded attribution is applied to the intrinsic value. The related compensation expense is recorded in selling, general and administrative expenses and the liability is recorded in accrued liabilities.

Foreign currency translation
Assets, liabilities and operations of foreign subsidiaries are recorded based on the functional currency of each entity. For certain foreign operations, the functional currency is the local currency, in which case the assets, liabilities and operations are translated at current exchange rates from the local currency to the reporting currency, the US dollar. The resulting unrealized gains or losses are reported as a component of accumulated other comprehensive earnings. Realized and unrealized foreign currency gains or losses related to any foreign dollar denominated monetary assets and liabilities are included in net earnings.

Income tax
Income tax has been provided using the asset and liability method whereby deferred income tax assets and liabilities are recognized for the expected future income tax consequences of events that have been recognized in the consolidated financial statements or income tax returns. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to reverse, be recovered or settled. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in earnings in the period in which the change occurs. A valuation allowance is recorded unless it is more likely than not that realization of a deferred income tax asset will occur based on available evidence.

The Company recognizes uncertainty in tax positions taken or expected to be taken in a tax return by recording a liability for unrecognized tax benefits on its balance sheet. Uncertainties are quantified by applying a prescribed recognition threshold and measurement attribute.

The Company classifies interest and penalties associated with income tax positions in income tax expense.

Business combinations
All business combinations are accounted for using the purchase method of accounting. Transaction costs are expensed as incurred.

The determination of fair values of assets and liabilities assumed in business combinations requires the use of estimates and judgement by management, particularly in determining fair values of intangible assets acquired.

The fair value of the contingent consideration is classified as a financial liability and is recorded on the balance sheet at the acquisition date and is re-measured at fair value at the end of each period until the end of the contingency period, with fair value adjustments recognized in earnings.

3. Revenue from contracts with customers

Within the FirstService Brands segment, franchise fee revenue recognized during the twelve months ended December 31, 2019 that was included in deferred revenue at the beginning of the period was $4,462 (2018 - $3,392). These fees are recognized over the life of the underlying franchise agreement, usually between 5 - 10 years.

External broker costs and employee sales commissions in obtaining new franchisees are capitalized in accordance with the revenue standard and are amortized over the life of the underlying franchise agreement. Costs amortized during the twelve months ended December 31, 2019 were $1,717 (2018 - $1,220). The closing amount of the capitalized costs to obtain contracts on the balance sheet as at December 31, 2019 was $6,711 (2018 - $7,031). There were no impairment losses recognized related to those assets in the quarter.

The Company's backlog represents remaining performance obligations and is defined as contracted work yet to be performed. As at December 31, 2019, the aggregate amount of backlog was $300,499. The Company expects to recognize revenue on the remaining backlog over the next 12 months.

Disaggregated revenues are as follows:

	Year ended December 31	
	2019	**2018**
Revenues		
FirstService Residential	$ 1,411,998	$ 1,254,840
FirstService Brands company-owned operations	836,637	540,058
FirstService Brands franchisor	153,826	132,079
FirstService Brands franchise fee	4,949	4,496

The Company disaggregates revenue by segment, and within the FirstService Brands segment, further disaggregates its company-owned operations revenue; these businesses primarily recognize revenue over time as they perform because of continuous transfer of control to the customer. As such, revenue is recognized based on the extent of progress towards completion of the performance obligation. The Company generally uses the cost-to-cost measure of progress method. The extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred.

We believe this disaggregation best depicts how the nature, amount, timing and uncertainty of the Company's revenue and cash flows are affected by economic factors.

4. Acquisitions

2019 acquisitions:
The Company acquired controlling interests in fifteen businesses, including three in the FirstService Residential segment and twelve in the FirstService Brands segment.

In the FirstService Brands segment, the Company acquired Global Restoration (aka Bellwether FOS Holdco, Inc.), a leading commercial and large loss firm headquartered in Colorado and with operations across the U.S. and Canada.

Details of the final fair values of assets acquired and liabilities assumed for the Company's significant Global Restoration acquisition, which closed in June 2019 are as follows:

		Global Restoration
Accounts receivable	$	118,678
Inventories		31,677
Prepaid expenses and other current assets		3,240
Fixed assets		22,574
Operating lease right-of-use assets		10,566
Accounts payable		(24,337)
Accrued liabilities		(21,345)
Unearned revenues		(12,779)
Operating lease liabilities - current		(6,500)
Other current liabilities		(649)
Operating lease liabilities - non-current		(4,072)
Long-term debt - non-current		(5,711)
Other liabilities		(615)
Deferred tax liabilities		(51,590)
Redeemable non-controlling interests		(25,433)
	$	33,704
Cash consideration, net of cash acquired of $6,518	$	(506,680)
Backlog	$	7,130
Customer relationships		213,150
Trademarks and trade names		1,850
Goodwill	$	250,846

"Acquisition-related items" related to the Global Restoration acquisition included transaction costs of $2,158.

The Global Restoration acquisition was accounted for by the purchase method of accounting for business combinations. Accordingly, the accompanying consolidated statements of earnings do not include any revenues or expenses related to Global Restoration prior to the June 21, 2019 closing date. The consideration for the transaction was financed from borrowings under the Credit Agreement, consisting of the Company's revolving credit facility as well as a $440,000 term loan (see note 11 for further detail).

The amounts of revenues and earnings contributed from the date of acquisition and included in the Company's consolidated results for the year ended December 31, 2019, and the supplemental pro forma revenues and earnings of the combined entity had the acquisition date for Global Restoration been January 1, 2018, are as follows:

		Revenues		Net earnings
Actual from Global Restoration for 2019	$	219,204	$	14,991
Supplemental pro forma for 2019 (unaudited)		2,613,433		(211,188)
Supplemental pro forma for 2018 (unaudited)		2,368,673		125,174

Supplemental pro forma results were adjusted for non-recurring items.

Other 2019 acquisitions:
In the FirstService Residential segment, the Company acquired controlling interests in regional firms operating in Chicago and western Canada.

Within the FirstService Brands segment, in addition to Global Restoration, the Company acquired five independent restoration companies, operating in Ohio, California, Missouri, Illinois and Quebec, as well as a Paul Davis Restoration franchise located in the mid-western U.S. The Company also acquired three California Closets franchises operating in Maryland, New Jersey, and Arizona and two fire protection operations based in Houston and Atlanta.

Details of the other 2019 acquisitions, in aggregate, are as follows:

		Aggregate Acquisitions
Current assets	**$**	**34,454**
Non-current assets		**8,175**
Current liabilities		**(29,059)**
Non-current liabilities		**(1,574)**
Deferred tax liabilities		**(6,328)**
Redeemable non-controlling interest		**(9,874)**
	$	**(4,206)**
Cash consideration, net of cash acquired of $4,964	**$**	**(73,183)**
Acquisition date fair value of contingent consideration		**(10,611)**
Total purchase consideration	**$**	**(83,794)**
Backlog	**$**	**4,240**
Customer relationships		**13,168**
Trademarks and trade names		**567**
Management contracts and other		**11,644**
Goodwill	**$**	**58,381**

For these other 2019 acquisitions, “Acquisition-related items” included both transaction costs and contingent acquisition consideration fair value adjustments. Acquisition-related transaction costs for the year ended December 31, 2019 totaled $5,884 (2018 - $4,671). Also included in acquisition-related items was a reversal of $503 related to contingent acquisition consideration fair value adjustments (2018 – $167).

The acquisitions referred to above were accounted for by the purchase method of accounting for business combinations. Accordingly, the accompanying consolidated statements of earnings do not include any revenues or expenses related to these acquisitions prior to their respective closing dates. The consideration for the acquisitions during the year ended December 31, 2019 was financed from borrowings under the Credit Agreement and cash on hand.

The amount of revenues and earnings contributed from the date of acquisition and included in the Company’s consolidated results for the year ended December 31, 2019, and the supplemental pro forma revenues and earnings of the combined entity had the acquisition date been January 1, 2018, are as follows:

		Revenues		Net earnings
Actual from other acquired entities for 2019	$	103,124	$	3,780
Supplemental pro forma for 2019 (unaudited)		2,494,196		(221,769)
Supplemental pro forma for 2018 (unaudited)		2,163,426		106,069

Supplemental pro forma results were adjusted for non-recurring items.

2018 acquisitions:

The Company acquired controlling interests in twelve businesses, three in the FirstService Residential segment and nine in the FirstService Brands segment. In the FirstService Residential segment, the Company acquired regional firms operating in South Carolina, Georgia, and Ontario. In the FirstService Brands segment, the Company acquired two California Closets franchises located in Las Vegas and Houston, an independent restoration company in Florida, three Paul Davis Restoration franchises based in Alberta, Kentucky, and Seattle, and three fire protection companies operating in the Southeastern U.S., all of which will be operated as company-owned locations.

Details of these acquisitions are as follows:

		Aggregate Acquisitions
Current assets	$	22,383
Non-current assets		6,961
Current liabilities		(12,049)
Deferred tax liabilities		(4,230)
Redeemable non-controlling interest		(19,889)
	$	(6,824)
Note consideration	$	(1,035)
Cash consideration, net of cash acquired of $3,038		(59,444)
Acquisition date fair value of contingent consideration		(4,536)
Total purchase consideration	$	(65,015)
Acquired intangible assets	$	28,960
Goodwill	$	42,879

In all years presented, the fair values of non-controlling interests for all acquisitions were determined using an income approach with reference to a discounted cash flow model using the same assumptions implied in determining the purchase consideration.

The purchase price allocations of all acquisitions resulted in the recognition of goodwill. The primary factors contributing to goodwill are assembled workforces, synergies with existing operations and future growth prospects. For certain acquisitions completed during the year ended December 31, 2019, goodwill in the amount of $6,911 is deductible for income tax purposes (2018 - $26,401). No goodwill that arose from the Global Restoration acquisition is deductible for tax purposes.

The determination of fair values of assets acquired and liabilities assumed in business combinations required the use of estimates and judgement by management, particularly in determining fair values of intangible assets acquired. Intangible assets acquired at fair value on the date of acquisition are recorded using the income approach on an individual asset basis. The assumptions used in estimating the fair values of intangible assets include future EBITDA margins, revenue growth rates, expected attrition rates of acquired customer relationships and the discount rates. Also, given the significance of the acquisition, the fair values of identifiable assets and liabilities related to the Global Restoration acquisition were developed with the assistance of a third-party valuation firm.

The Company typically structures its business acquisitions to include contingent consideration. Vendors, at the time of acquisition, are entitled to receive a contingent consideration payment if the acquired businesses achieve specified earnings levels during the one- to two-year periods following the dates of acquisition. The ultimate amount of payment is determined based on a formula, the key inputs to which are (i) a contractually agreed maximum payment; (ii) a contractually specified earnings level and (iii) the actual earnings for the contingency period. If the acquired business does not achieve the specified earnings level, the maximum payment is reduced for any shortfall, potentially to nil.

The fair value of the contingent consideration liability recorded on the consolidated balance sheet as at December 31, 2019 was $14,423 (see note 18). The estimated range of outcomes (undiscounted) for these contingent consideration arrangements is determined based on the formula price and the likelihood of achieving specified earnings levels over the contingency period, and ranges from $13,187 to a maximum of $15,514. These contingencies will expire during the period extending to July 2022. During the year ended December 31, 2019, $10,056 was paid with reference to such contingent consideration (2018 - $9,245).

5. Leases

The standard had a material impact on the Company's consolidated balance sheet, the primary impact being the recognition of right-of-use ("ROU") assets and lease liabilities for operating leases, while its accounting for finance leases remained substantially unchanged.

Select Consolidated Balance Sheet line items, which reflect the adoption of ASC 842 are as follows:

(In thousands)	As Previously Reported, at 31-Dec-18	Adjustments	As Adjusted for 1-Jan-19
Assets:			
Prepaid	$ 37,739	$ (125)	$ 37,614
Operating lease right-of-use-assets	-	99,265	99,265
Liabilities and equity:			
Accrued liabilities	132,572	(7,939)	124,633
Operating lease liabilities	-	107,469	107,469
Retained Earnings	45,537	(390)	45,147

Adoption of ASC 842 had no impact to net earnings in the Company's Consolidated Statements of Earnings as well as no impact to net cash from or used in operating, investing or financing activities in the Company's Consolidated Statements of Cash Flows.

The Company has operating leases for corporate offices, copiers, and certain equipment. Its leases have remaining lease terms of 1 year to 10 years, some of which may include options to extend the leases for up to 8 years, and some of which may include options to terminate the leases within 1 year. The Company evaluates renewal terms on a lease by lease basis to determine if the renewal is reasonably certain. The amount of operating lease expense recorded in the statement of earnings for the twelve months ended December 31, 2019 was $32,161 (2018 - $26,784).

Other information related to leases was as follows (in thousands, except lease term and discount rate):

Supplemental Cash Flows Information, twelve months ended December 31	2019
Cash paid for amounts included in the measurement of operating lease liabilities	$ 32,383
Right-of-use assets obtained in exchange for operating lease obligation	$ 55,663
Weighted Average Remaining Operating Lease Term	5 years
Weighted Average Discount Rate	4.2%

Future minimum operating lease payments under non-cancellable leases as of December 31, 2019 were as follows:

2020	$	36,128
2021		34,586
2022		26,856
2023		20,049
2024		13,865
Thereafter		30,080
Total future minimum lease payments		161,564
Less imputed interest		(19,695)
Total		141,869

Future minimum operating lease payments under non-cancellable leases as of December 31, 2018 were as follows:

2019	$	24,505
2020		23,124
2021		19,643
2022		15,384
2023		11,946
Thereafter		21,446
Total future minimum lease payments		116,048

6. Other (income) expense

		2019		2018
Gain on disposal of business	**$**	**(6,082)**	$	-
Other (income) expense		**67**		(254)
	$	**(6,015)**	$	(254)

During the second quarter, the Company completed the divestiture of two non-core businesses. The Company sold its national accounts commercial painting operations for cash consideration of $3,386 and notes receivable of $2,800. The pre-tax gain on disposal was $1,406. The Company also completed the sale of its Florida and Arizona-based landscaping operations for cash consideration of $9,644 (net of cash disposed of $600). The pre-tax gain on disposal was $4,676.

7. Components of working capital accounts

		December 31, 2019		December 31, 2018
Inventories				
Work-in-progress	**$**	**66,514**	$	26,534
Finished goods		**15,347**		11,843
Supplies and other		**12,650**		9,850
	$	**94,511**	$	48,227
Accrued liabilities				
Accrued payroll and benefits	**$**	**94,010**	$	73,454
Value appreciation plans		**6,510**		8,860
Customer advances		**1,454**		1,365
Other		**63,470**		48,893
	$	**165,444**	$	132,572

8. Fixed assets

December 31, 2019	Cost	Accumulated depreciation	**Net**
Land	$ 2,521	$ -	**$ 2,521**
Buildings	10,602	5,136	**5,466**
Vehicles	85,585	48,308	**37,277**
Furniture and equipment	92,863	54,806	**38,057**
Computer equipment and software	112,752	83,371	**29,381**
Leasehold improvements	43,170	24,327	**18,843**
	$ 347,493	$ 215,948	**$ 131,545**

December 31, 2018	Cost	Accumulated depreciation	Net
Land	$ 2,521	$ -	$ 2,521
Buildings	10,581	4,952	5,629
Vehicles	67,441	40,821	26,620
Furniture and equipment	74,052	49,275	24,777
Computer equipment and software	100,743	76,108	24,635
Leasehold improvements	34,477	20,557	13,920
	$ 289,815	$ 191,713	$ 98,102

Included in fixed assets are vehicles, office and computer equipment under finance lease at a cost of $21,060 (2018 - $9,628) and net book value of $10,745 (2018 - $4,404).

9. Intangible assets

December 31, 2019	Gross carrying amount	Accumulated amortization	**Net**
Customer relationships	$ 360,228	$ 71,474	**$ 288,754**
Franchise rights	49,806	26,707	**23,099**
Trademarks and trade names	30,303	18,543	**11,760**
Management contracts and other	79,073	36,462	**42,611**
	$ 519,410	$ 153,186	**$ 366,224**

December 31, 2018	Gross carrying amount	Accumulated amortization	Net
Customer relationships	$ 135,844	$ 52,600	$ 83,244
Franchise rights	48,558	22,500	26,058
Trademarks and trade names	27,506	16,360	11,146
Management contracts and other	50,290	21,940	28,350
	$ 262,198	$ 113,400	$ 148,798

During the year ended December 31, 2019, the Company acquired the following intangible assets:

	Amount	Estimated weighted average amortization period (years)
Customer relationships	$ 226,318	11.9
Franchise rights	965	7.7
Trademarks and trade names	2,417	3.8
Management Contracts and other	22,049	6.0
	$ 251,749	11.3

The following is the estimated annual amortization expense for recorded intangible assets for each of the next five years ending December 31:

2020	$ 42,602
2021	34,690
2022	34,010
2023	32,669
2024	30,967

10. Goodwill

	FirstService Residential	FirstService Brands	Consolidated
Balance, December 31, 2017	$ 188,223	$ 103,697	$ 291,920
Goodwill acquired during the year	6,248	36,631	42,879
Other items	922	1,633	2,555
Foreign exchange	(1,450)	(749)	(2,199)
Balance, December 31, 2018	193,943	141,212	335,155
Goodwill acquired during the year	18,446	290,781	309,227
Goodwill disposed during the year	(2,025)	(229)	(2,254)
Other items	527	956	1,483
Foreign exchange	835	401	1,236
Balance, December 31, 2019	**$ 211,726**	**$ 433,121**	**$ 644,847**

Goodwill represents the excess of purchase price over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. A test for goodwill impairment is required to be completed annually, in the Company's case as of August 1, or more frequently if events or changes in circumstances indicate the asset might be impaired. Based on the quantitative assessment in 2019, the Company has concluded that goodwill is not impaired.

11. Long-term debt

	December 31, 2019
Credit Agreement	**$ 602,977**
Senior Notes	**150,000**
Capital leases maturing at various dates through 2022	**10,153**
Other long-term debt maturing at various dates up to 2023	**3,493**
	766,623
Less: current portion	**5,545**
Long-term debt - non-current	**$ 761,078**

The Company has $150 million of Senior Notes bearing interest at a rate of 4.84%. The Senior Notes are due on January 16, 2025, with five annual equal repayments beginning on January 16, 2021.

The Company has entered into the Credit Agreement with a syndicate of lenders. The Credit Agreement is comprised of a committed multi-currency revolving credit facility of $450,000 (the "Facility") and a term loan (drawn in a single advance) in the aggregate amount of $440,000 (the "Term Loan"). The Facility portion of the Credit Agreement has a term ending on January 17, 2023 and bears interest at 0.25% to 2.50% over floating preference rates, depending on certain leverage ratios. The Term Loan portion of the Credit Agreement has a term ending on June 21, 2024, with repayments of 5% per annum, paid quarterly, beginning in September 2020, with the balance payable at maturity, and bears interest at 0.25% to 2.50% over floating preference rates, depending on certain leverage ratios. The weighted average interest rate for 2019 was 4.4%. The Facility had $261,259 of available un-drawn credit as at December 31, 2019. As of December 31, 2019, letters of credit in the amount of $6,316 were outstanding ($5,214 as at December 31, 2018). The Credit Agreement requires a commitment fee of 0.25% to 0.50% of the unused portion, depending on certain leverage ratios. The Company may repay amounts owing under the Credit Agreement at any time without penalty. The Facility is available to fund working capital requirements (including acquisitions and any associated contingent purchase consideration) and other general corporate purposes. The Term Loan was implemented in order to substantially finance the purchase price for Global Restoration.

The indebtedness under the Credit Agreement and the Senior Notes rank equally in terms of seniority. The Company has granted the lenders under the Credit Agreement and the holders of the Senior Notes various security, including an interest in all of our assets. The Company is prohibited under the Credit Agreement and the Senior Notes from undertaking certain acquisitions and dispositions, and incurring certain indebtedness and encumbrances, without prior approval of the lenders under the Credit Agreement and the holders of the Senior Notes.

The effective interest rate on the Company's long-term debt for the year ended December 31, 2019 was 4.4%. The estimated aggregate amount of principal repayments on long-term debt required in each of the next five years ending December 31 and thereafter to meet the retirement provisions are as follows:

2020	$	16,770
2021		55,230
2022		54,724
2023		220,980
2024 and thereafter		418,919

12. Redeemable non-controlling interests

The minority equity positions in the Company's subsidiaries are referred to as redeemable non-controlling interests ("RNCI"). The RNCI are considered to be redeemable securities. Accordingly, the RNCI is recorded at the greater of (i) the redemption amount or (ii) the amount initially recorded as RNCI at the date of inception of the minority equity position. This amount is recorded in the "mezzanine" section of the balance sheet, outside of shareholders' equity. Changes in the RNCI amount are recognized immediately as they occur. The following table provides a reconciliation of the beginning and ending RNCI amounts:

		2019		2018
Balance, January 1	**$**	**151,585**	$	117,708
RNCI share of earnings		**7,874**		11,180
RNCI redemption increment		**16,105**		13,235
Distributions paid to RNCI		**(5,725)**		(6,913)
Purchases of interests from RNCI, net		**(30,648)**		(3,890)
RNCI recognized on business acquisitions		**35,307**		19,889
Other		**164**		376
Balance, December 31	**$**	**174,662**	$	151,585

The Company has shareholders' agreements in place at each of its non-wholly owned subsidiaries. These agreements allow the Company to "call" the non-controlling interest at a price determined with the use of a formula price, which is usually equal to a fixed multiple of average annual net earnings before extraordinary items, income taxes, interest, depreciation, and amortization. The agreements also have redemption features which allow the owners of the RNCI to "put" their equity to the Company at the same price subject to certain limitations. The formula price is referred to as the redemption amount and may be paid in cash or in Common Shares. The redemption amount as of December 31, 2019 was $170,983 (2018 - $149,132). The redemption amount is lower than that recorded on the balance sheet as the formula price of certain RNCI are lower than the amount initially recorded at the inception of the minority equity position. If all put or call options were settled with Common Shares as at December 31, 2019, approximately 1,800,000 such shares would be issued, and would have resulted in an increase of $0.90 to earnings per share for the year ended December 31, 2019.

13. Capital stock

The authorized capital stock of the Company is as follows:

An unlimited number of Common Shares having one vote per share.

The following table provides a summary of total capital stock issued and outstanding:

	Common Shares	
	Number	Amount
Balance, December 31, 2019	41,495,957	$ 605,428

On December 13, 2019, the Company completed a public offering of a total of 2,165,000 Common Shares at a price of US$92.50 per share, for gross proceeds of US$200,262 (net proceeds of $191,737) with a syndicate of underwriters led by BMO Capital Markets and TD Securities Inc. The net proceeds of the offering were used to repay existing indebtedness under the Facility.

14. Stock-based compensation

The Company has a stock option plan for certain officers and key full-time employees of the Company and its subsidiaries. Options are granted at the market price for the underlying shares on the date of grant. Each option vests over a four-year term, expires five years from the date granted and allows for the purchase of one Common Share. All Common Shares issued are new shares. As at December 31, 2019, there were 689,500 options available for future grants.

Grants under the Company's stock option plan are equity-classified awards. Stock option activity for the year ended December 31, 2019 is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Shares issuable under options - Beginning of period	1,633,150	$ 44.68		
Granted	438,000	83.89		
Exercised	(432,050)	25.30		
Shares issuable under options - December 31, 2019	1,639,100	$ 60.26	2.6	$ 53,724
Options exercisable - End of period	610,952	$ 47.49	1.8	$ 27,831

The Company incurred stock-based compensation expense related to these awards of $8,126 during the year ended December 31, 2019 (2018 - $5,767).

As at December 31, 2019, the range of option exercise prices was $23.96 to $83.89 per share. Also as at December 31, 2019, the aggregate intrinsic value and weighted average remaining contractual life for in-the-money options vested and expected to vest were $53,724 and 2.61 years, respectively.

The following table summarizes information about option exercises during year ended December 31, 2019:

		2019
Number of options exercised		**432,050**
Aggregate fair value	**$**	**37,890**
Intrinsic value		**26,833**
Amount of cash received		**11,057**
Tax benefit recognized	**$**	**2,932**

As at December 31, 2019, there was $9,043 of unrecognized compensation cost related to non-vested awards which is expected to be recognized over the next 4 years. During the year ended December 31, 2019, the fair value of options vested was $4,711 (2018 - $11,670).

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, utilizing the following weighted average assumptions:

	2019
Risk free rate	**2.4%**
Expected life in years	**4.75**
Expected volatility	**30.6%**
Dividend yield	**0.7%**
Weighted average fair value per option granted	**$23.85**

The risk-free interest rate is based on the implied yield of a zero-coupon US Treasury bond with a term equal to the option's expected term. The expected life in years represents the estimated period of time until exercise and is based on historical experience. The expected volatility is based on the historical prices of the Company's shares over the previous four years.

15. Income tax

Income tax differs from the amounts that would be obtained by applying the statutory rate to the respective year's earnings before tax. Differences result from the following items:

		2019		2018
Income tax expense using combined statutory rate of 26.5% (2018 - 26.5%, 2017 - 26.5%)	**$**	**(53,128)**	$	30,529
Permanent differences		**1,566**		785
Tax effect of flow through entities		**(307)**		(491)
Adjustments to tax liabilities for prior periods		**(328)**		(526)
Non-deductible stock-based compensation		**2,153**		1,528
Excess tax benefits related to stock-based compensation		**(3,672)**		(3,968)
Foreign, state and provincial tax rate differential		**(2,402)**		(2,863)
Settlement of long-term incentive arrangement		**83,310**		-
Other taxes		**(45)**		(72)
Provision for income taxes as reported	**$**	**27,147**	$	24,922

Earnings before income tax by jurisdiction comprise the following:

	2019	2018
Canada	**$ (323,100)**	$ 6,854
United States	**122,616**	108,348
Total	**$ (200,484)**	$ 115,202

Income tax expense (recovery) comprises the following:

	2019	2018
Current		
Canada	**$ 369**	$ (554)
United States	**33,978**	23,615
	34,347	23,061
Deferred		
Canada	**(1,620)**	403
United States	**(5,580)**	1,458
	(7,200)	1,861
Total	**$ 27,147**	$ 24,922

The significant components of deferred income tax are as follows:

	2019	2018
Deferred income tax assets		
Loss carry-forwards	**$ 2,788**	$ 1,567
Expenses not currently deductible	**23,283**	20,440
Stock-based compensation	**749**	1,312
Allowance for doubtful accounts	**3,860**	2,018
Inventory and other reserves	**3,024**	113
	33,704	25,450
Deferred income tax liabilities		
Depreciation and amortization	**86,072**	29,393
Basis differences of partnerships and other entities	**793**	166
Prepaid and other expenses deducted for tax purposes	**1,276**	1,689
	88,141	31,248
Net deferred income tax asset (liability) before valuation allowance	**(54,437)**	(5,798)
Valuation allowance	**965**	779
Net deferred income tax asset (liability)	**$ (55,402)**	$ (6,577)

The recoverability of deferred income tax assets is dependent on generating sufficient taxable income before the 20 year loss carry-forward limitation. Although realization is not assured, the Company believes it is more likely than not that the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry-forward period are reduced.

The Company has gross operating loss carry-forwards as follows:

	Loss carry forward		Gross losses not recognized		Net	
	2019	2018	2019	2018	2019	2018
Canada	**$ 4,430**	$ 1,638	**$ -**	$ -	**$ 4,430**	$ 1,638
United States	**18,615**	12,562	**15,840**	10,529	**2,775**	2,033

These amounts above are available to reduce future federal, state, and provincial income taxes in their respective jurisdictions. Net operating loss carry-forward balances attributable to the United States and Canada expire over the next 6 to 20 years.

Cumulative unremitted earnings of US and foreign subsidiaries approximated $528,519 as at December 31, 2019 (2018 - $429,173). Income tax is not provided on the unremitted earnings of US and foreign subsidiaries because it has been the practice and is the intention of the Company to reinvest these earnings indefinitely in these subsidiaries.

The gross unrecognized tax benefits are $148 (2018 - $148). Of this balance, $148 (2018 - $148) would affect the Company's effective tax rate if recognized. For the year ended December 31, 2019, there was no adjustment to interest and penalties related to provisions for income tax (2018 - nil). As at December 31, 2019, the Company had accrued $38 (2018 - $38) for potential income tax related interest and penalties.

The Company's significant tax jurisdictions include the United States and Canada. The number of years with open tax audits varies depending on the tax jurisdictions. Generally, income tax returns filed with the Canada Revenue Agency and related provinces are open for three to four years and income tax returns filed with the U.S. Internal Revenue Service and related states are open for three to five years.

The Company does not currently expect any other material impact on earnings to result from the resolution of matters related to open taxation years, other than noted above. Actual settlements may differ from the amounts accrued. The Company has, as part of its analysis, made its current estimates based on facts and circumstances known to date and cannot predict changes in facts and circumstances that may affect its current estimates.

16. Net earnings per common share

The following table reconciles the denominator used to calculate earnings per common share:

	2019	**2018**
Shares issued and outstanding at beginning of period	**35,980,047**	35,916,383
Weighted average number of shares:		
Issued during the period	**2,245,229**	111,904
Repurchased during the period	**-**	(76,076)
Weighted average number of shares used in computing basic earnings per share	**38,225,276**	35,952,211
Assumed exercise of stock options, net of shares assumed acquired under the Treasury Stock Method	**437,204**	619,089
Number of shares used in computing diluted earnings per share	**38,662,480**	36,571,300

17. Other supplemental information

	2019	2018
Franchisor operations		
Revenues	**$ 148,607**	$ 132,079
Operating earnings	**33,999**	37,709
Initial franchise fee revenues	**4,956**	4,496
Depreciation and amortization	**6,959**	5,893
Total assets	**140,439**	128,627
Cash payments made during the period		
Income taxes	**$ 31,562**	$ 28,221
Interest	**29,772**	11,714
Non-cash financing activities		
Increases in finance lease obligations	**$ 9,928**	$ 1,919

18. Financial instruments

Concentration of credit risk

The Company is subject to credit risk with respect to its cash and cash equivalents, accounts receivable and other receivables. Concentrations of credit risk with respect to cash and cash equivalents are limited by the use of multiple large and reputable banks. Concentrations of credit risk with respect to the receivables are limited due to the large number of entities comprising the Company's customer base and their dispersion across many different service lines.

Interest rate risk

The Company maintains an interest rate risk management strategy that uses interest rate hedging contracts from time to time. The Company's specific goals are to: (i) manage interest rate sensitivity by modifying the characteristics of its debt and (ii) lower the long-term cost of its borrowed funds.

Foreign currency risk

Foreign currency risk is related to the portion of the Company's business transactions denominated in currencies other than U.S. dollars. A portion of revenue is generated by the Company's Canadian operations. The Company's head office expenses are incurred in Canadian dollars which is economically hedged by Canadian dollar denominated revenue.

Fair values of financial instruments

The following table provides the financial assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2019:

	Carrying value at December 31, 2019	Fair value measurements		
		Level 1	Level 2	Level 3
Contingent consideration liability	$ 14,423	$ -	$ -	$ 14,423

The inputs to the measurement of the fair value of contingent consideration related to acquisitions are Level 3 inputs. The fair value measurements were made using a discounted cash flow model; significant model inputs were expected future operating cash flows (determined with reference to each specific acquired business) and discount rates (which range from 8% to 10%). The range of discount rates is attributable to level of risk related to economic growth factors combined with the length of the contingent payment periods; and the dispersion was driven by unique characteristics of the businesses acquired and the respective terms for these contingent payments. Within the range of discount rates, there is a data point concentration at 9%. A 2% increase in the weighted average discount rate would not have a significant impact on the fair value of the contingent consideration balance.

Balance, December 31, 2018	$ 13,286
Amounts recognized on acquisitions	10,611
Amounts recognized on acquisitions of management contracts	1,751
Fair value adjustments	(503)
Resolved and settled in cash	(10,056)
Other	(666)
Balance, December 31, 2019	$ 14,423
Less: current portion	$ 6,269
Non-current portion	$ 8,154

The carrying amounts for cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short maturity of these instruments, unless otherwise indicated. The inputs to the measurement of the fair value of long term debt are Level 3 inputs. The fair value measurements were made using a net present value approach; significant model inputs were expected future cash outflows and discount rates (which range from 2.0% to 2.5%). The following are estimates of the fair values for other financial instruments:

	2019		2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Other receivables	**$ 4,033**	**$ 4,033**	$ 4,212	$ 4,212
Long-term debt	**766,623**	**779,279**	334,523	344,198

Other receivables include notes receivable from non-controlling shareholders and other non-current receivables.

19. Contingencies

In the normal course of operations, the Company is subject to routine claims and litigation incidental to its business. Litigation currently pending or threatened against the Company includes disputes with former employees and commercial liability claims related to services provided by the Company. The Company believes resolution of such proceedings, combined with amounts set aside, will not have a material impact on the Company's financial condition or the results of operations.

In May 2019, the Company settled the restated management services agreement ("MSA"), including the long-term incentive arrangement (the "LTIA"), between the Company and Jay S. Hennick, the Company's Founder and Chairman. As part of the settlement, the Multiple Voting Shares of the Company were converted into Subordinate Voting Shares on a one-for-one basis for no consideration, thereby eliminating the Company's dual class share structure. For consideration of $314,379, which is the purchase price determined with reference to the LTIA formula provided in the restated MSA, FirstService acquired all of the shares in the company which indirectly held the MSA. The Company, under the terms of the transaction: (a) paid $62,900 (approximately C$84,300) in cash; and issued a total of 2,918,860 Subordinate Voting Shares. Subsequent to the completion of the transaction, the MSA was terminated, thereby eliminating the LTIA and all future fees and other entitlements owing thereafter, and the Company filed an amendment to its articles that re-classified its Subordinate Voting Shares as Common Shares. The settlement of the LTIA was considered a modification of a share-based payment arrangement, which was accounted for as compensation expense in the Company's Consolidated Statements of Earnings. The net cash impact was included in operating activities in the Company's Consolidated Statements of Cash Flows.

20. Related party transactions

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 year ended December 31, 2019 was $1,330 (2018 - $1,156). These amounts are settled monthly in cash, and are priced at market rates. The rental arrangements have fixed terms of up to 10 years.

As at December 31, 2019, the Company had $2,564 of loans receivable from minority shareholders (December 31, 2018 - $2,064). 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 market rates plus a spread. The loans generally have terms of 5 to 10 years, but are open for repayment without penalty at any time.

21. Segmented information

Operating segments

The Company has two reportable operating segments. The segments are grouped with reference to the nature of services provided and the types of clients that use those services. The Company assesses each segment's performance based on operating earnings or operating earnings before depreciation and amortization. FirstService Residential provides property management and related property services to residential communities in North America. FirstService Brands provides franchised and Company-owned property services to customers in North America. Corporate includes the costs of operating the Company's corporate head office. The reportable segment information excludes intersegment transactions.

2019	FirstService Residential	FirstService Brands	Corporate	Consolidated
Revenues	$ 1,411,998	$ 995,412	$ -	$ 2,407,410
Depreciation and amortization	25,628	53,886	43	79,557
Operating earnings (loss)	104,706	60,586	(339,711)	(174,419)
Other income, net				6,015
Interest expense, net				(32,080)
Income taxes				(27,147)
Net earnings				$ (227,631)
Total assets	$ 625,310	$ 1,323,024	$ 7,135	$ 1,955,469
Total additions to long lived assets	112,482	636,555	308	749,345

2018	FirstService Residential	FirstService Brands	Corporate	Consolidated
Revenues	$ 1,254,840	$ 676,633	$ -	$ 1,931,473
Depreciation and amortization	23,045	29,686	41	52,772
Operating earnings (loss)	89,043	54,988	(16,463)	127,568
Other expense, net				254
Interest expense, net				(12,620)
Income taxes				(24,922)
Net earnings				$ 90,280
Total assets	$ 474,837	$ 525,850	$ 6,787	$ 1,007,474
Total additions to long lived assets	31,548	90,592	-	122,140

Geographic information
Revenues in each geographic region are reported by customer locations.

	2019	2018
United States		
Revenues	**$ 2,184,789**	$ 1,822,688
Total long-lived assets	**1,022,721**	539,645
Canada		
Revenues	**$ 222,621**	$ 108,785
Total long-lived assets	**252,788**	42,410
Consolidated		
Revenues	**$ 2,407,410**	$ 1,931,473
Total long-lived assets	**1,275,509**	582,055

22. Impact of recently issued accounting standards

In June 2016, FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. In November 2018, FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, which amends the scope and transition requirements of ASU 2016-13. The standard requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. The standard will become effective for the Company beginning January 1, 2020 and will require a cumulative-effect adjustment to Accumulated retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In December 2019, FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This ASU affects a number of aspects of tax accounting including simplifying the accounting for income taxes by removing a number of reporting exceptions. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

FirstService

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Notice of Shareholders’ Meeting

The annual meeting of the shareholders will be held on Wednesday, April 8, 2020 at 11:00 a.m. (ET) at The TMX Gallery, located in First Canadian Place, 130 King Street West, Toronto, Ontario, Canada.

Corporate Information

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Stock Exchange Listings

NASDAQ Global Select Market – FSV
Toronto Stock Exchange – FSV

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