FIRSTSERVICE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2023
(in US dollars)
May 4, 2023

The following Management's Discussion and Analysis ("MD&A") should be read together with the unaudited interim consolidated financial statements of FirstService Corporation (the "Company" or "FirstService") for the three month period ended March 31, 2023 and the Company's audited consolidated financial statements, and MD&A, for the year ended December 31, 2022. The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). All financial information herein is presented in United States dollars.

The Company has prepared this MD&A with reference to National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. This MD&A provides information for the three month period ended March 31, 2023 and up to and including May 4, 2023.

Additional information about the Company, including the Company's 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 the US Securities and Exchange Commission website at www.sec.gov.

Results of operations - three months ended March 31, 2023

Consolidated revenues for our first quarter were $1.02 billion, 22% higher than the comparable prior year quarter. On an organic basis, revenues were up 17%, with the balance from contribution of tuck-under acquisitions.

Adjusted EBITDA (see "Reconciliation of non-GAAP measures" below) for the first quarter was $82.1 million versus $62.3 million reported in the prior year quarter. Our Adjusted EBITDA margin was 8.1% of revenues, versus 7.5% in the prior year quarter. Consolidated operating earnings for the quarter were $40.9 million, compared to $29.0 million in the prior year period. The operating earnings margin was 4.0% versus 3.5% in the prior year quarter. The increase in margins was driven by operating leverage at our FirstService Brands segment, partially offset by margin compression in the FirstService Residential segment.

Depreciation and amortization expense totalled $31.9 million, relative to $25.9 million in the prior year, with the increase primarily related to recently acquired company-owned operations in our FirstService Brands segment.

Net interest expense increased to $10.6 million, up from $4.4 million in the prior year quarter, with the difference mainly attributable to the higher cost of debt, as well as an increase in our average outstanding debt.

The consolidated income tax rate for the quarter was 26%, compared to 25% in the prior year quarter, relative to the statutory rate of 27% in both periods. The effective tax rate for the full year is expected to be approximately 26%.

Net earnings for the quarter were $22.7 million, versus $18.8 million in the prior year quarter. The increase was primarily attributable to higher profitability in the FirstService Brands segment, partially offset by higher depreciation and amortization expense, as well as increased interest expense in the quarter.

The non-controlling interest ("NCI") share of earnings was $2.4 million for the first quarter, relative to $0.6 million in the prior period, with the increase attributable to earnings mix from the relative performance at our non-wholly owned operations.

The FirstService Residential segment reported revenues of $445.6 million for the first quarter, up 13% versus the prior year quarter, including 11% organic growth. Top-line performance was driven by new property management contract wins and very strong growth in our labour-related services across most markets. Adjusted EBITDA was $32.0 million relative to $30.4 million in the prior year quarter. Operating earnings for the first quarter were $22.7 million versus $23.4 million in the prior year period. Operating margins were impacted by the strong year-over-year growth of lower margin labour-driven services, including the ramp-up of amenity management operations during the typical seasonal trough period.

Revenues from the FirstService Brands segment in the first quarter were $572.9 million, up 30% relative to the prior year period. The revenue increase was comprised of 23% organic growth, together with the contribution from recent tuck-under acquisitions. Top-line organic growth was exceptionally strong within our Century Fire Protection and restoration brands, the latter of which benefitted from significant activity arising from area-wide weather events. Adjusted EBITDA for the quarter was $54.8 million, up from $36.1 million in the prior year period. Operating earnings were $30.2 million versus $15.8 million in the prior year quarter. Operating margins increased primarily as a result of operating leverage driven by the strong revenue growth across our service lines.

Corporate costs, as presented in Adjusted EBITDA were $4.7 million for the quarter, relative to $4.2 million in the prior year period. On a GAAP basis, corporate costs for the current quarter were $11.9 million, compared to $10.1 million in the prior year period, with the increase primarily due to stock-based compensation expense.

Summary of quarterly results
(in thousands of US dollars, except per share amounts) (unaudited)

Quarter	Q1	Q2	Q3	Q4
YEAR ENDING DECEMBER 31, 2023				
Revenues	$ 1,018,445			
Operating earnings	40,950			
Net earnings per share:				
Basic	0.36			
Diluted	0.36			
YEAR ENDED DECEMBER 31, 2022				
Revenues	$ 834,572	$ 930,707	$ 960,455	$ 1,020,101
Operating earnings	29,046	59,813	62,709	67,458
Net earnings per share:				
Basic	0.32	0.78	0.77	0.86
Diluted	0.32	0.78	0.77	0.86
YEAR ENDED DECEMBER 31, 2021				
Revenues	$ 711,066	$ 831,630	$ 849,431	$ 856,945
Operating earnings	33,882	61,383	61,527	44,850
Net earnings per share:				
Basic	0.50	0.84	1.04	0.71
Diluted	0.50	0.83	1.03	0.70
OTHER DATA				
Adjusted EBITDA - 2023	$ 82,096			
Adjusted EBITDA - 2022	62,338	$ 91,346	$ 95,501	$ 102,547
Adjusted EBITDA - 2021	59,795	$ 89,853	$ 94,196	$ 83,532
Adjusted EPS - 2023	0.85			
Adjusted EPS - 2022	0.73	1.12	1.17	1.22
Adjusted EPS - 2021	0.66	1.21	1.50	1.21

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 home improvement brands, which generate the majority of their revenues during the second and third quarters, and restoration operations which are influenced by weather patterns that typically can result in higher revenues and earnings in any given reporting quarter.

Reconciliation of non-GAAP 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 (income) expense; (iii) interest expense; (iv) depreciation and amortization; (v) acquisition-related items; and (vi) stock-based compensation expense. The Company uses adjusted EBITDA to evaluate its own operating performance, its ability to service debt, and 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 a measure is useful to investors as a reasonable indicator of operating performance, due to the low capital intensity of the Company's 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 dollars)	Three months ended March 31	
	2023	2022
Net earnings	**$ 22,667**	$ 18,821
Income tax	**7,916**	6,394
Other income	**(264)**	(535)
Interest expense, net	**10,631**	4,366
Operating earnings	**40,950**	29,046
Depreciation and amortization	**31,882**	25,910
Acquisition-related items	**2,107**	1,561
Stock-based compensation expense	**7,157**	5,821
Adjusted EBITDA	**$ 82,096**	$ 62,338

A reconciliation of segment operating earnings to segment Adjusted EBITDA appears below.

(in thousands of US$)

Three months ended, March 31, 2023	**FirstService Residential**	**FirstService Brands**	**Corporate**
Operating earnings (loss)	**$ 22,712**	**$ 30,160**	**$ (11,922)**
Depreciation and amortization	**8,793**	**23,067**	**22**
Acquisition-related items	**463**	**1,566**	**78**
Stock-based compensation expense	**-**	**-**	**7,157**
Adjusted EBITDA	**$ 31,968**	**$ 54,793**	**$ (4,665)**

Three months ended, March 31, 2022	FirstService Residential	FirstService Brands	Corporate
Operating earnings (loss)	$ 23,397	$ 15,751	$ (10,102)
Depreciation and amortization	7,005	18,882	23
Acquisition-related items	8	1,449	104
Stock-based compensation expense	-	-	5,821
Adjusted EBITDA	$ 30,410	$ 36,082	$ (4,154)

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 expense related to intangible assets recognized in connection with acquisitions; and (iv) stock-based compensation expense. 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 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 net earnings to adjusted net earnings and of diluted net earnings per share to adjusted EPS appears below.

(in thousands of US dollars)		Three months ended March 31		
		2023		2022
Net earnings	**$**	**22,667**	$	18,821
Non-controlling interest share of earnings		**(2,433)**		(565)
Acquisition-related items		**2,107**		1,561
Amortization of intangible assets		**14,286**		11,466
Stock-based compensation expense		**7,157**		5,821
Income tax on adjustments		**(5,575)**		(4,495)
Non-controlling interest on adjustments		**(282)**		(228)
Adjusted net earnings	**$**	**37,927**	$	32,381

(in US dollars)		Three months ended March 31		
		2023		2022
Diluted net earnings per share	**$**	**0.36**	$	0.32
Non-controlling interest redemption increment		**0.09**		0.09
Acquisition-related items		**0.05**		0.03
Amortization of intangible assets, net of tax		**0.23**		0.19
Stock-based compensation expense, net of tax		**0.12**		0.10
Adjusted EPS	**$**	**0.85**	$	0.73

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.

Liquidity and capital resources

Net cash used by operating activities was $0.3 million during the three month period ended March 31, 2023, versus $1.5 million of cash generated in the prior year period.

For the three months ended March 31, 2023, capital expenditures were $21.5 million. Based on our current operations, maintenance capital expenditures for the year ending December 31, 2023 are expected to be approximately $80 million, with total capital expenditures approaching $100 million, which includes a significant office move in the FirstService Residential segment.

In April 2023, we paid a quarterly dividend of $0.225 per common share in respect of the quarter ended March 31, 2023.

Net indebtedness as at March 31, 2023 was $707.2 million, versus $598.2 million at December 31, 2022. Net indebtedness is calculated as the current and non-current portion of long-term debt less cash and cash equivalents. The change in indebtedness resulted primarily from acquisition spending in the quarter which totalled $82.4 million.

We are in compliance with the covenants within our financing agreements as at March 31, 2023 and, based on our outlook for the balance of the year, we expect to remain in compliance with these covenants. We had $244.1 million of available un-drawn credit as of March 31, 2023.

In relation to acquisitions completed during the past two years, we have outstanding contingent consideration totalling $33.7 million as at March 31, 2023 ($34.2 million as at December 31, 2022) assuming all contingencies are satisfied and payment is due in full. Such payments, if any, are due during the period extending to October 2025. The contingent consideration liability is recognized at fair value upon acquisition and is re-measured each quarter, unless it contains an element of compensation, in which case such element is treated as compensation expense over the contingency period. The contingent consideration is based on achieving specified earnings levels, and is paid or payable at the end of the contingency period. During the three months ended March 31, 2023, $6.1 million of contingent consideration was paid (2022 - $0.2 million).

The following table summarizes our contractual obligations as at March 31, 2023:

Contractual obligations (in thousands of US dollars)	**Payments due by period** Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	$ 822,891	$ 30,000	$ 30,000	$ 702,891	$ 60,000
Interest on long-term debt	119,834	43,363	59,973	13,780	2,718
Capital lease obligations	15,690	5,320	7,326	3,044	-
Contingent acquisition consideration	33,734	25,295	8,439	-	-
Operating leases	262,644	54,945	88,841	53,034	65,824
Total contractual obligations	$ 1,254,793	$ 158,923	$ 194,579	$ 772,749	$ 128,542

At March 31, 2023, we had commercial commitments totaling $19.4 million comprised of letters of credit outstanding due to expire within one year. We are required to make semi-annual payments of interest on both our senior secured and senior unsecured notes at interest rates of 3.84% and 4.53%, respectively.

Redeemable non-controlling interests

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

(in thousands of US dollars)	**March 31 2023**	December 31 2022
FirstService Residential	**$ 64,814**	$ 60,424
FirstService Brands	**160,504**	148,522
	$ 225,318	$ 208,946

The amount recorded on our balance sheet under the caption "redeemable non-controlling interests" ("RNCI") is the greater of: (i) the redemption amount (as above) or (ii) the amount initially recorded as RNCI at the date of inception of the minority equity position. As at March 31, 2023, the RNCI recorded on the balance sheet was $244.7 million. The purchase prices of the RNCI may be paid in cash or in our common shares, at the option of FirstService. If all

RNCI were redeemed in cash, the pro forma estimated accretion to GAAP diluted net earnings per share for the first quarter of 2023 would be $0.09 and nil impact to adjusted EPS.

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.

Critical accounting policies and estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions with respect to the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are based upon management's historical experience and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates. Our critical accounting policies and estimates have been reviewed and discussed with our Audit Committee. There have been no material changes to our critical accounting policies and estimates from those disclosed in the Company's MD&A for the year ended December 31, 2022.

Financial instruments

We use financial instruments as part of our strategy to manage the risk associated with interest rates and currency exchange rates from time to time. We do not use financial instruments for trading or speculative purposes. As of the date of this MD&A, we have two interest swaps in place to exchange the floating interest rate on $200 million of debt under our Credit Agreement for a fixed rate.

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 three months ended March 31, 2023 was $1.1 million (2022 - $1.2 million).

As at March 31, 2023, the Company had $2.4 million of loans receivable from minority shareholders (December 31, 2022 - $2.4 million). The business purpose of the loans receivable is to finance the sale of non-controlling interests in subsidiaries to senior managers. The loan amounts are measured based on the formula price of the underlying non-controlling interests, and interest rates are determined based on the Company's cost of borrowing plus a spread. The loans generally have terms of 5 to 10 years, but are open for repayment without penalty at any time.

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 of this MD&A, the Company has outstanding 44,558,817 common shares. In addition, as at the date hereof 2,620,249 common shares are issuable upon exercise of options granted under the Company's stock option plan.

Canadian tax treatment of dividends

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

Changes in internal controls over financial reporting

There have been no changes in our internal controls over financial reporting during the three month period ended March 31, 2023 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

Forward-looking statements

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

- 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.
- The outbreak of epidemics or pandemics or other health crises could result in volatility and disruptions in the supply and demand for our products and services, global supply chains and financial markets.

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

Additional information regarding the Company, including our Annual Information Form for the year ended December 31, 2022, is available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov. Further information about us can also be obtained at www.firstservice.com.