CONSOLIDATED HCI HOLDINGS CORPORATION

SECOND QUARTER REPORT

2 For The Six Months Ended March 31, 2012

Consolidated HCI Holdings Corporation

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51 – 102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of Consolidated HCI Holdings Corporation for the six months ended March 31, 2012 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditors have not performed a review of these consolidated interim financial statements in accordance with the standards established by The Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CONSOLIDATED HCI HOLDINGS CORPORATION

INTERIM CONSOLIDATED BALANCE SHEETS

(unaudited, in thousands of Canadian dollars)

	March 31 2012	September 30 2011 (note 5)
ASSETS		
Non-current assets		
Investment properties (note 7)	**$ 9,414**	$ 9,351
Investment in syndicated mortgage loans (note 11(a))	**2,132**	3,585
Amounts receivable (note 10)	**104**	6,786
	11,650	19,722
Current assets		
Land and housing under development (note 8)	**3,467**	5,755
Cash and cash equivalents (note 9)	**6,902**	8,778
Amounts receivable (note 10)	**2,023**	614
Investment in syndicated mortgage loans (note 11(a))	**4,485**	7,437
Short-term investments (note 11(b))	**11,720**	14,719
Marketable securities (note 11(c))	**2,453**	2,155
Income taxes recoverable	**2,208**	217
Other	**168**	228
	33,426	39,903
Total assets	**$ 45,076**	$ 59,625
LIABILITIES		
Non-current liabilities		
Loans payable (note 13)	**$ 3,947**	$ 4,676
Deferred income taxes and other tax liabilities (note 14)	**1,950**	1,929
	5,897	6,605
Current liabilities		
Bank advances (note 12)	**–**	328
Loans payable (note 13)	**1,511**	119
Accounts payable and accrued liabilities	**962**	1,057
Deposits on sales	**55**	64
	2,528	1,568
Total liabilities	**8,425**	8,173
SHAREHOLDERS' EQUITY		
Capital stock	**35,890**	35,890
Retained earnings	**321**	15,382
Accumulated other comprehensive income	**440**	180
Total shareholders' equity	**36,651**	51,452
Total liabilities and shareholders' equity	**$ 45,076**	$ 59,625

See accompanying notes.

CONSOLIDATED HCI HOLDINGS CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, in thousands of Canadian dollars)

	Capital stock	**Retained earnings**	**Accumulated other comprehensive income**	**Total equity**
Balance – October 1, 2011	**$ 35,890**	**$ 15,382**	**$ 180**	**$ 51,452**
Net earnings for the period	**–**	**371**	**–**	**371**
Dividend paid	**–**	**(15,432)**	**–**	**(15,432)**
Other comprehensive income	**–**	**–**	**260**	**260**
Balance – March 31, 2012	**$ 35,890**	**$ 321**	**$ 440**	**$ 36,651**

	Capital stock	Retained earnings	Accumulated other comprehensive income	Total equity
Balance – October 1, 2010	$ 35,890	$ 26,771	$ 395	$ 63,056
Net earnings for the period	–	1,660	–	1,660
Dividend paid	–	(15,432)	–	(15,432)
Other comprehensive income	–	–	197	197
Balance – March 31, 2011	$ 35,890	$ 12,999	$ 592	$ 49,481

See accompanying notes.

CONSOLIDATED HCI HOLDINGS CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited, in thousands of Canadian dollars, except share and per share amounts)

	Three months ended		Six months ended	
	March 31 2012	March 31 2011	**March 31 2012**	March 31 2011
		(note 5)		(note 5)
Housing revenue	**$ 1,483**	$ 3,451	**$ 3,562**	$ 7,055
Housing cost of sales	**1,381**	3,372	**3,213**	6,406
Gross margin on housing	**102**	79	**349**	649
Land sales	**–**	750	**–**	750
Land cost of sales	**–**	158	**–**	158
Gross margin on land sales	**–**	592	**–**	592
Investment properties revenue	**167**	150	**292**	348
Investment properties operating expenses	**64**	39	**118**	87
Net rental income	**103**	111	**174**	261
Other income and expenses				
General and administrative	**(230)**	(192)	**(444)**	(432)
Interest and other income	**259**	434	**627**	1,171
Interest expense	**(54)**	(56)	**(108)**	(113)
Amortization of leasing costs	**(3)**	(2)	**(5)**	(4)
Fair value loss on investment property (note 7)	**(220)**	–	**(263)**	–
	(248)	184	**(193)**	622
Earnings (loss) before income taxes	**(43)**	966	**330**	2,124
Provision for (recovery of) income taxes (note 14)	**(231)**	82	**(41)**	464
Net earnings for the period	**$ 188**	$ 884	**$ 371**	$ 1,660
Basic and diluted earnings per share	**$ 0.01**	$ 0.04	**$ 0.02**	$ 0.08
Weighted average number of shares outstanding	**20,575,866**	20,575,866	**20,575,866**	20,575,866

See accompanying notes.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

	Three months ended		Six months ended	
	March 31 2012	March 31 2011	**March 31 2012**	March 31 2011
		(note 5)		(note 5)
Net earnings for the period	**$ 188**	$ 884	**$ 371**	$ 1,660
Other comprehensive income, net of income tax				
Unrealized gains arising during the period on available-for-sale financial assets	**160**	72	**260**	197
Comprehensive income for the period	**$ 348**	956	**$ 631**	1,857

See accompanying notes.

CONSOLIDATED HCI HOLDINGS CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

	Six months ended **March 31 2012**	March 31 2011 (note 5)
Cash provided by (used in)		
OPERATING ACTIVITIES		
Net earnings for the period	**$ 371**	$ 1,660
Add (deduct) non-cash items (note 17(a))	**565**	(388)
Costs recovered through sales of real estate	**3,213**	6,406
Expenditures on housing under development and land	**(925)**	(3,054)
Mortgage loans on housing under development		
Advances	**–**	158
Repayments	**–**	(733)
Deferred leasing costs incurred	**(85)**	–
Changes in non-cash operating balances (note 17(b))	**2,875**	(1,110)
	6,014	2,939
INVESTING ACTIVITIES		
Investment properties		
Additions	**(246)**	–
Proceeds on sales	**–**	3,788
Investment in syndicated mortgage loans		
Purchases	**(120)**	(2,389)
Maturities	**4,575**	7,090
Short-term investments		
Purchases	**(26,400)**	(31,700)
Sales or maturities	**29,400**	38,500
Restricted cash	**71**	–
	7,280	15,289
FINANCING ACTIVITIES		
Bank advances – net	**(328)**	(71)
Repayment of mortgage loan on investment property	**(119)**	(121)
Loans from related parties	**780**	(330)
Dividend paid	**(15,432)**	(15,432)
	(15,099)	(15,954)
Increase (decrease) in cash and cash equivalents during the period	**(1,805)**	2,274
Cash and cash equivalents, beginning of the period (note 9)	**8,456**	7,175
Cash and cash equivalents, end of the period (note 9)	**$ 6,651**	$ 9,449

SUPPLEMENTARY INFORMATION (note 17(c))

See accompanying notes.

Consolidated HCI Holdings Corporation
Notes to Interim Consolidated Financial Statements
March 31, 2012
(unaudited, in thousands of Canadian of dollars, except share and per share amounts)

1. Description of Business

Consolidated HCI Holdings Corporation and its subsidiaries (together "CHCI" or the "Company") is an Ontario based, publicly traded real estate development company trading on the Toronto Stock Exchange under the symbol CXA.B. The activities of the Company include the redevelopment of an existing industrial property in Vaughan, Ontario for industrial and commercial uses to lease to others and until its sale on February 2, 2011, the ownership of land and another commercial building, both in Mississauga, Ontario, leased to other parties. The Company also conducts activities through various ventures in the building and selling of new homes on land purchased from others and invests in syndicated mortgage loans, which are secured by real property developments of other land developers and builders. The address of its registered office is 40 King Street West, Suite 2100, Toronto, Ontario.

2. Basis of Preparation and Adoption of International Financial Reporting Standards ("IFRS")

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the Handbook of The Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in the interim consolidated financial statements for the three-month period ended December 31, 2011. In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim consolidated financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting, and IFRS 1, First-time adoption of IFRS. Subject to certain transition elections disclosed in note 5, the Company has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at October 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended September 30, 2011.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of May 10, 2012, the date the Board of Directors approved the interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending September 30, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on the change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company's interim consolidated financial statements for the three-month period ended December 31, 2011 and its Canadian GAAP annual consolidated financial statements for the year ended September 30, 2011. IFRS information for the year ended September 30, 2011 that is material to an understanding of these interim consolidated financial statements is disclosed in note 6 of the interim consolidated financial statements for the three-month period ended December 31, 2011.

3. Critical Accounting Estimates

The preparation of the interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of incomes and expenses during the reporting period. Actual results could differ from those estimates.

(a) Impairment of Investments in Syndicated Mortgage Loans

The Company reviews its investments in individual syndicated mortgage loans on a regular basis to evaluate the risk of default on any outstanding loan, which would result in the ultimate realization of less than the balance owing. Factors such as the prospect for completion of the development and sale of the underlying real property security and the present value of estimated future cash flows from the project are taken into consideration when estimating impairment. When a syndicated mortgage loan is impaired, its carrying value is reduced to its recoverable amount.

(b) Fair Value of Investment Properties

The fair value of the Company's investment property was determined by qualified external valuation professionals at September 30, 2011 and March 31, 2012. The valuations of this investment property were done using the "Direct Capitalization Approach" in which the fair value is estimated by capitalizing the net rental income, which the property can reasonably be expected to produce over its remaining life.

(c) Estimated Costs to Complete Housing Under Development

The Company incurs soft costs, such as interest and realty taxes, in its house building operations. Such costs are estimated over the life of a project and allocated on a pro rata basis to each unit sold. These estimates are regularly revisited and adjusted up or down in light of changing circumstances. The Company accounts for such changes in estimates using the cumulative catch-up method whereby estimated cost increases or decreases are applied to all house sales in the project (past, current and future). Using this method results in a cumulative adjustment in a current period to account for the estimated cost increase or decrease on a pro rata basis to homes sold in prior periods.

(d) Income Taxes

The Company is subject to income taxes in one jurisdiction. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax provisions of future periods. The measurement of deferred income tax liabilities at the consolidated balance sheet date requires management to make estimates and assumptions regarding the timing of when temporary differences are expected to reverse. Actual results could differ from those estimates.

4. Accounting Standards Issued and Yet to Be Applied

Unless otherwise noted, the following new standards and amendments to existing standards apply to annual periods beginning on or after January 1, 2013 with earlier adoption permitted. The Company has not yet assessed the impact of these new standards and amendments to its consolidated financial statements.

(a) IFRS 9 – Financial Instruments

This standard was issued in November 2009 and is effective for annual periods beginning on or after January 1, 2015. The standard addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

(b) IFRS 10 – Consolidated Financial Statements

This standard requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities,* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

(c) IFRS 11 – Joint Arrangements

This standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions By Venturers*.

(d) IFRS 12 – Disclosure of Interests in Other Entities

This standard establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and non-consolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

(e) IFRS 13 – Fair Value Measurement

This standard is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(f) Amendments to existing standards not yet effective

There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13.

5. Transition to IFRS

The effect of the Company's transition to IFRS, described in note 2, is summarized as follows:

(i) Transition elections

(ii) Reconciliation of comprehensive income as previously reported under Canadian GAAP to IFRS

(iii) Explanatory notes

(iv) Adjustments to the consolidated statements of cash flows

(i) Transition elections

The adoption of IFRS requires the application of IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of the Company's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The transitional exceptions and exemptions applied by the Company in its preparation of an opening IFRS consolidated balance sheet as at October 1, 2010 are disclosed in note 6(i) of the interim consolidated financial statements for the three-month period ended December 31, 2011 and have been consistently applied in the preparation of these interim consolidated financial statements.

(ii) Reconciliation of comprehensive income as previously reported under Canadian GAAP to IFRS

	Note 5(iii)	Three months ended March 31, 2011 Cdn GAAP	Adj.	IFRS	Six months ended March 31, 2011 Cdn GAAP	Adj.	IFRS
Revenue							
Real estate sales							
Housing		$ 3,451	$ –	$ 3,451	$ 7,055	$ –	$ 7,055
Land		750	–	750	750	–	750
		4,201	–	4,201	7,805	–	7,805
Rental	(c)	123	27	150	242	106	348
Interest and other income		434	–	434	1,171	–	1,171
		4,758	27	4,785	9,218	106	9,324
Expenses							
Real estate cost of sales							
Housing		3,372	–	3,372	6,406	–	6,406
Land		158	–	158	158	–	158
		3,530	–	3,530	6,564	–	6,564
Rental operating expenses	(c)	37	2	39	82	5	87
General and administrative		192	–	192	432	–	432
Interest		56	–	56	113	–	113
Amortization of leasing costs		2	–	2	4	–	4
Depreciation of investment properties	(a)	33	(33)	–	66	(66)	–
		3,850	(31)	3,819	7,261	(61)	7,200
Earnings before income taxes		908	58	966	1,957	167	2,124
Provision for income taxes	(c)	75	7	82	435	29	464
Net earnings for the period from continuing operations		833	51	884	1,522	138	1,660
Net earnings for the period from discontinued operations	(c)	2,392	(2,392)	–	2,446	(2,446)	–
Net earnings for the period		3,225	(2,341)	884	3,968	(2,308)	1,660
Other comprehensive income, net of income taxes		72	–	72	197	–	197
Comprehensive income		$ 3,297	$ (2,341)	$ 956	$ 4,165	$ (2,308)	$ 1,857

(iii) Explanatory notes

(a) Investment properties

The Company has elected to apply the fair value method of accounting for its investment properties subsequent to the transition date with changes in fair value being recorded in the consolidated statements of earnings. Under Canadian GAAP, investment properties were recorded at cost and depreciated over their estimated useful lives. The impact of this change was to increase investment properties by $4,015 and increase deferred income tax liabilities by $676 and increase opening retained earnings on October 1, 2010 by $3,339. A net after-tax fair value gain of $785 was recognized in the year ended September 30, 2011 and a decrease in depreciation expense of $133, $66 and $33 was reflected for the year ended September 30, 2011, the six-month period ended March 31, 2011 and the three-month period ended March 31, 2011, respectively. Adoption of the fair value method of accounting had no impact on the six-month period ended March 31, 2011 because there was no change to the fair value of the investment properties since the transition date.

(b) Leasing costs

Deferred leasing costs of $16 have been reclassified as 'Investment Properties' as at March 31, 2011.

(c) Discontinued operations

Under IFRS, a component of an entity that has been sold or is held-for-sale is only presented as a discontinued operation if it represents a separate major line of business or geographical area of operations. The investment property disposed of in February 2011 does not constitute a major line of business. Consequently, the discontinued operations presented under Canadian GAAP have been reclassified as continuing operations. Assets held-for-sale have been reclassified to Investment Properties and Land and Housing under Development.

(d) A summary of transition adjustments to the Company's shareholders' equity from Canadian GAAP to IFRS is as follows:

	March 31 2011
Shareholders' equity, as reported under Canadian GAAP	$ 48,450
Fair value adjustments to investment properties (notes 5(i) and 5(iii)(a)), net of deferred income taxes:	
Property still owned by the Company	965
Reverse depreciation expense on investment properties (note 5(iii)(a))	66
Shareholders' equity, as reported under IFRS	$ 49,481

(iv) Adjustments to the consolidated statements of cash flows

The transition from Canadian GAAP to IFRS had no impact on the consolidated statements of cash flows.

6. Segmented Information

The Company operates in southern Ontario, in the Greater Toronto Area and surrounding communities and has three reportable segments: the construction and operation of investment properties, the construction and sale of residential units and the investment in syndicated mortgage loans. The results of operations and amounts invested in these segments are as follows:

Three months ended March 31

	Revenue		Earnings (loss)	
	2012	2011	**2012**	2011
Investment properties	**$ 167**	$ 150	**$ (174)**	$ 53
Residential construction	**1,491**	3,460	**110**	88
Syndicated mortgage loans	**111**	212	**111**	212
Unallocated amounts:				
Interest income	**140**	213	**140**	213
Land sales	**–**	750	**–**	592
	$ 1,909	$ 4,785		
General and administrative expenses			**(230)**	(192)
Income tax recovery (expense)			**231**	(82)
Net earnings for the period			**$ 188**	$ 884

Six months ended March 31

	Revenue		Earnings (loss)	
	2012	2011	**2012**	2011
Investment properties	**$ 292**	$ 348	**$ (202)**	$ 144
Residential construction	**3,593**	7,072	**380**	666
Syndicated mortgage loans	**245**	731	**245**	731
Unallocated amounts:				
Interest income	**351**	423	**351**	423
Land sales	**–**	750	**–**	592
	$ 4,481	$ 9,324		
General and administrative expenses			**(444)**	(432)
Income tax recovery (expense)			**41**	(464)
Net earnings for the period			**$ 371**	$ 1,660

Identifiable Assets

	Investment properties	Residential construction	Syndicated mortgage loans	Unallocated corporate assets	Total assets
March 31, 2012	**$ 9,551**	**$ 7,291**	**$ 6,617**	**$ 21,617**	**$ 45,076**
September 30, 2011	$ 9,541	$ 11,523	$ 11,022	$ 27,539	$ 59,625

Identifiable Liabilities

	Investment properties	Residential construction	Syndicated mortgage loans	Unallocated corporate liabilities	Total liabilities
March 31, 2012	**$ 4,558**	**$ 1,694**	**$ –**	**$ 2,173**	**$ 8,425**
September 30, 2011	$ 4,447	$ 1,406	$ –	$ 2,320	$ 8,173

Capital expenditures in the investment properties segment for the six months ended March 31, 2012 amounted to $331 (2011 - $nil).

7. Investment Properties

		March 31 2012		September 30 2011
Balance, beginning of the period	**$**	**9,351**	$	12,245
Amortization of leasing costs		**(5)**		(7)
Additions (disposals)		**331**		(3,788)
Fair value adjustment (note 5(iii)(a))		**(263)**		901
Balance, end of the period	**$**	**9,414**	$	9,351

On February 2, 2011, the Company completed the sale of its 25% co-tenancy interest in land subject to a long-term ground lease in Mississauga to an arm's length purchaser for the purchase price of $3,377 and the sale of its 12.55% co-tenancy interest in a leased building of 8,103 square feet, also located in Mississauga, to a related party co-tenant in the property for the purchase price of $439. The consideration received by the Company for both transactions was paid in cash and totaled $3,788 after closing adjustments.

The basis of valuation of the Company's last remaining investment property is set out in note 3(b). The key valuation metrics for this investment property are set out in the following table:

	March 31, 2012			September 30, 2011		
	Minimum	**Maximum**	**Applied**	Minimum	Maximum	Applied
Capitalization rate						
Rental building	**8.25%**	**8.75%**	**8.5%**	6.7%	8.2%	8.0%
Adjoining land	**6.0%**	**6.7%**	**6.25%**	6.0%	6.7%	6.25%

Presented separately from investment properties is $104 (September 30, 2011 - $61) of net straight-line rent receivable (included in note 10) arising from recognition of rental revenues on a straight-line basis over the lease term in accordance with IAS 17, Leases. The fair value of investment properties has been reduced by these amounts presented separately.

The Company's investment property, exclusive of the adjacent land component referred to above, which is unencumbered, with a fair value of $8,700 (September 30, 2011 - $8,600) has been pledged as security for a mortgage loan payable (note 13).

8. Land and Housing Under Development

		March 31 2012		September 30 2011
Housing under construction	**$**	**3,467**	$	5,755

On February 2, 2011, the Company closed the sale of its 25% interest in a 2.5 acre parcel of serviced vacant land in Mississauga, Ontario to an arm's length purchaser for net proceeds, before closing adjustments, of $750.

9. Cash and Cash Equivalents

		March 31 2012		September 30 2011
Cash and cash equivalents	**$**	**6,651**	$	8,456
Restricted cash		**251**		322
	$	**6,902**	$	8,778

Cash and cash equivalents include unrestricted cash and term deposits with a maturity of three months or less from the date of acquisition. Restricted cash includes deposits required to secure outstanding guarantees and letters of credit.

Included in cash and cash equivalents is the Company's proportionate share of cash and cash equivalents of the Company's proportionately consolidated entities of $1,775 (September 30, 2011 - $5,550).

10. Amounts Receivable

		March 31 2012		September 30 2011
Receivable on land sale	**$**	**–**	$	7,182
Straight-line rent receivable		**104**		61
Condominium units in occupancy – amounts due on final closing		**1,886**		–
Other		**137**		157
	$	**2,127**	$	7,400
Current	**$**	**2,023**	$	614
Non-current		**104**		6,786
	$	**2,127**	$	7,400

The receivable on land sale at September 30, 2011 constitutes the vendor take-back mortgage, including accrued interest receivable of $406, resulting from the Company's sale of its land held for future development on October 10, 2007. The mortgage bore interest at 4% for the first two years of its term and 6% for the third and fourth years and was payable as to interest only annually, together with $50 of principal per quarter during the last two years. The mortgage was secured by the land and was due on October 10, 2011. During the first quarter of 2012, the mortgage was extended to mature on January 31, 2012. The extension agreement provided for interest at 6% per annum calculated and payable quarterly, an extension fee of $25 payable on or before November 30, 2011 and a principal payment of $250 on January 10, 2012. The loan was repaid in full on January 24, 2012.

The fair value of the receivable on land sale and the condominium units in occupancy approximate their carrying value due to their short term to maturity.

11. Investments in Syndicated Mortgage Loans, Short-term Investments and Marketable Securities

		March 31 2012	September 30 2011
(a)	Syndicated mortgage loans secured by real property, for remaining terms from 1 to 32 months (September 30, 2011 – 1 to 38 months), bearing interest at a period-end weighted average rate of 8.5% (September 30, 2011 – 9.2%) per annum.	**$ 6,617**	$ 11,022
	Current	**$ 4,485**	$ 7,437
	Non-current	**2,132**	3,585
		$ 6,617	$ 11,022

The Company has commitments to make additional advances totaling $75 under one of its syndicated mortgage loans.

The syndicated mortgage loans can be repaid by the borrowers prior to maturity and are due as follows: $2,405 in 2012, $2,080 in 2013 and $2,132 in 2015.

At March 31, 2012, the Company had provisions for loan losses totaling $690, unchanged from September 30, 2011.

Outstanding syndicated mortgage loans past due but not impaired are as follows:

	1 - 30 days	31 - 60 days	61 - 90 days	Over 90 days	**Total March 31, 2012**
Syndicated mortgage loans	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**

	1 - 30 days	31 - 60 days	61 - 90 days	Over 90 days	Total September 30, 2011
Syndicated mortgage loans	$ 3,816	$ –	$ –	$ –	$ 3,816

		March 31 2012	September 30 2011
(b)	Short-term investments consist of the following:		
	Canadian chartered bank term deposits issued for periods of 90 days or greater, bearing interest at a period-end weighted average rate of 1.35%.	**$ 11,720**	$ 14,719

		March 31 2012		September 30 2011
(c) Marketable securities consist of the following:				
16,000 CIBC non-cumulative Class A preferred shares, Series 27, to yield 5.6% per annum (cost – $400)	**$**	**412**	$	401
12,000 TD Bank Class A first preferred shares, Series O, to yield 4.85% per annum (cost – $300)		**315**		310
3,466 Faircourt Split Seven Trust, preferred securities, due December 31, 2014, to yield 6.25% (cost – $35)		**36**		36
52,840.03 B/1 shares York Select Unit Trust (cost – US$1,000; fair value – US$1,696; September 30, 2011 – fair value – US$1,348)		**1,690**		1,408
	$	**2,453**	$	2,155

12. Bank Advances

Bank advances at September 30, 2011 consist of the Company's share of joint venture demand operating loans bearing interest at prime plus 1.0%, secured by the joint venture housing projects.

As security for the Company's letter of credit facilities of $251 (September 30, 2011 - $322), the bank holds a general security agreement, a registered general assignment of book debts and a specific assignment of certain amounts due under agreements of purchase and sale.

13. Loans Payable

The loans are as follows:

		March 31 2012		September 30 2011
Secured by an investment property, net of deferred financing fees of $28 (September 30, 2011 – $29)	**$**	**4,168**	$	4,285
Loans from related parties		**1,290**		510
Total loans payable	**$**	**5,458**	$	4,795

Principal repayments of loans payable are due as follows:

Years ending September 30,	2012	$	1,409
	2013		237
	2014		237
	2015		237
	2016		237
	Thereafter		3,129
			5,486
Less: Deferred financing fees			(28)
		$	5,458

The estimated fair value of loans payable at March 31, 2012 is $5,458 (September 30, 2011- $4,795) due to the fact that these loans payable bear interest at a variable rate.

The mortgage loan on the investment property constitutes the Company's 50% share of a first mortgage loan on its Vaughan, Ontario property. The loan bears interest at the Business Development Bank of Canada's base rate for commercial and industrial loans and matures in 2029. At March 31, 2012, the base rate was 5.0%. The Company has provided the lender with a guarantee of 50% of amounts due under the loan. A condition of the mortgage loan is that the co-tenancy maintains a long-term debt to tangible equity ratio of 3:1. As at March 31, 2012, with a ratio at that date of 2.69:1, this condition has been met.

Loans from related parties comprise loans payable to companies partly owned by a shareholder of the Company. The loans are unsecured, bear interest at prime plus 1% and are due on demand.

14. Income Taxes

(a) Significant components of the income tax provision (recovery) for the six months ended March 31 are as follows:

	Six months ended **March 31 2012**	Six months ended March 31 2011
Current	**$ (24)**	$ 1,137
Deferred	**(17)**	(673)
	(41)	464
Income tax provision on other comprehensive income included in deferred income taxes	**38**	25
	$ (3)	$ 489

(b) The income tax provision differs from the amount computed by applying the average statutory Canadian federal and provincial income tax rates to earnings before income taxes. These differences are as follows:

	Six months ended **March 31 2012**	Six months ended March 31 2011
Expected income tax at 26.75% (2011 – 28.75%)	**$ 88**	$ 611
Other	**(129)**	(147)
Income tax provision (recovery) in consolidated interim statements of earnings	**(41)**	464
Income tax provision in consolidated interim statements of comprehensive income	**38**	25
	$ (3)	$ 489

(c) Deferred income taxes and other tax liabilities relate to:

	March 31 2012	September 30 2011
Temporary differences:		
Capital cost allowance in excess of accounting amortization booked	**$ 340**	$ 269
Costs capitalized for accounting, deducted for income tax	**201**	237
Unrealized gain on investment property (notes 5(i) and 5(iii)(a))	**329**	346
Mortgage reserves and discounts on amounts receivable	**27**	16
Reserve not currently deductible	**(45)**	(45)
Other comprehensive income	**68**	30
	920	853
Other reserves and provisions	**1,030**	1,076
	$ 1,950	$ 1,929
Comprised of:		
Deferred income tax liabilities reversing after more than 12 months	**$ 1,881**	$ 1,806
Deferred income tax liabilities reversing within 12 months	**69**	123
	$ 1,950	$ 1,929

15. Financial Instruments

Fair Values

The fair values of investments traded in active markets, such as marketable securities classified as available-for-sale, are based on the quoted bid price on the consolidated balance sheet dates.

The fair values of cash and cash equivalents, restricted cash, investments in term deposits, accounts payable and accrued liabilities, and deposits on sales approximate their carrying values due to their short-term maturities.

The fair value of investments in syndicated mortgage loans approximates their carrying value, as they are repayable in full at the option of the borrower at any time and, for the most part, the interest rate is subject to adjustment.

The fair value of the bank advances approximates their carrying value because they bear interest at floating rates.

Market Risk – Interest Rate Risk

The Company is subject to interest rate fluctuations; however, current low and stable interest rates have lessened the risk associated with such fluctuations. The syndicated mortgage loans are repayable in full at the option of the borrower at any time and, for the most part, are subject to a minimum specified rate of interest or prime plus a specified interest spread if such exceeds the minimum specified rate. The Company's debt comprises project specific house building joint ventures' prime based bank debt and a mortgage loan payable on an investment property.

The following interest sensitivity table outlines the potential impact of a 1% change in interest rates on variable rate assets and liabilities for the period ended March 31, 2012:

	Carrying Value	Interest Rate Risk			
		-1%		+1%	
Increase (decrease)		Net Earnings	Equity	Net Earnings	Equity
Financial assets					
Cash and cash equivalents	$ 6,902	$ (25)	$ (25)	$ 25	$ 25
Investment in preferred shares	763	–	162	–	(108)
Financial liabilities					
Mortgage payable	4,196	16	16	(16)	(16)
Loans payable	1,290	6	6	(6)	(6)
Total increase (decrease)		$ (3)	$ 159	$ 3	$ (105)

Credit and Operational Risks

The Company's credit risk relates to the potential of financial loss resulting from the failure of a borrower or counterparty to fully honour its financial or contractual obligations, such as to repay principal and/or interest on a syndicated mortgage loan. Fluctuations in real property values may increase the risk of default and may also reduce the net realizable value of the collateral real property to the Company. Credit losses occur when the counterparty fails to meet its obligations to the Company and the value realized on sale of the underlying security deteriorates below the carrying amount of the exposure. Credit risk is mitigated through credit enhancement, which is comprised of excess spread and obtaining sufficient real property collateral, as well as monitoring the level of concentration of credit risk from individual borrowers. Furthermore, the Company leverages the credit risk management objectives, policies and procedures of the mortgage syndicator to help mitigate the credit risk. These policies and procedures govern credit administration and arrears management.

The Company's operational risk relates to the potential of losses on housing under construction resulting from any instability in the real estate sector in the Greater Toronto Area and any reduction in the level of activity in the Company's house building joint ventures.

The Company's maximum exposure to credit risk is the fair values of cash and cash equivalents, amounts receivable, mortgage receivable, investments in syndicated mortgage loans and marketable securities.

Liquidity Risk

Liquidity risk is managed by maintaining cash and cash equivalents in excess of projected needs, which includes the funding of commitments under certain of the Company's syndicated mortgage loan investments, as indicated in note 11(a). The Company expects to be able to repay or, if required, obtain extensions on the loans payable in a house building joint venture on maturity of the loans, and on the mortgage loan payable on the investment property, if required, on demand.

The following table summarizes the contractual amounts and maturity periods of the Company's financial liabilities at March 31, 2012 on an undiscounted basis:

Contractual obligations are due as follows:	**Total**	Less than 1 year	1 - 3 years	4 - 5 years	Thereafter
Loans payable	$ **6,059**	$ 442	$ 848	$ 801	$ 3,968
Accounts payable and accrued liabilities	**962**	962	–	–	–
Deposits on sales	**55**	55	–	–	–
Further advances under syndicated mortgage loans*	**75**	75	–	–	–
Liabilities and other contractual obligations	**$ 7,151**	$ 1,534	$ 848	$ 801	$ 3,968

* Based on management's estimate of the timing of borrowers requesting additional funding as per the terms of the original lending agreement. Any such additional funding will form part of the Company's investment in syndicated mortgage loans.

Capital Risk Management

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by obtaining an appropriate amount of debt, commensurate with the level of risk, to reduce the after-tax cost of capital.

The Company's capital consists of loans payable and shareholders' equity and, other than the capital requirement with respect to a mortgage loan on its investment property as discussed in note 13, it is not subject to any externally imposed capital requirements.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase shares, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company's objective is met by retaining adequate liquidity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements.

16. Financial Guarantees

At March 31, 2012, the Company has available letters of credit totaling $251 (September 30, 2011 - $322) of which $251(September 30, 2011 - $322) has been utilized in support of its obligation to complete servicing requirements in connection with various house building projects.

The Company is contingently liable for its co-investors' share of the obligations in joint venture and co-tenancy developments. At March 31, 2012, the Company's co-investors' share of obligations of such entities comprises liabilities of $4,872 (September 30, 2011 - $8,787) and letters of credit of $730 (September 30, 2011 - $895) in support of obligations to complete servicing requirements in connection with various house building projects. In each case, assets of the joint ventures and co-tenancy developments, consisting primarily of cash and cash equivalents and housing under development, are available to satisfy such obligations.

17. Interim Consolidated Statements of Cash Flows

(a) Non-cash items in operating activities are as follows:

	Six months ended March 31 2012	Six months ended March 31 2011
Deferred income taxes	**$ (17)**	$ (673)
Amortization of deferred leasing costs	**5**	4
Amortization of deferred financing costs	**2**	4
Accrued interest receivable	**355**	280
Straight-line rent receivable	**(43)**	(3)
Fair value loss on investment property	**263**	–
	$ 565	$ (388)

(b) Changes in non-cash balances in operating activities are as follows:

	Six months ended March 31 2012	Six months ended March 31 2011
Amounts receivable	**$ 4,910**	$ (385)
Deposits on land purchases	**–**	30
Accounts payable and accrued liabilities	**(95)**	(150)
Deposits on sales	**(9)**	(68)
Income tax recoverable	**(1,991)**	(407)
Other	**60**	(130)
	$ 2,875	$ (1,110)

(c) Supplementary information consists of the following:

	Six months ended March 31 2012	Six months ended March 31 2011
Interest paid	**$ 108**	$ 134
Income taxes paid	**$ 1,626**	$ 1,561
Change in fair value of marketable securities reported in other comprehensive income	**$ 298**	$ 222

18. Related Party Transactions

The following is a summary of the Company's related party relationships:

- some lots within the house building joint ventures were acquired from companies partly owned by or related to certain shareholders who are directors and/or officers of the Company;
- certain shareholders, and certain shareholders who are directors and officers or parties related to them, are also participants in all of the house building joint ventures;
- the Company is managed by two shareholders who are also officers and directors under a management agreement;
- a company controlled by an officer and a director provides certain construction contracting services to the Company;
- a director who is also an officer is a partner in a law firm that provides legal services to the Company;
- a director is associated with a law firm that provides legal services to the Company and its joint ventures;
- a director who is also an officer of the Company serves as a director of a Toronto Stock Exchange listed mortgage loan investment corporation. This corporation is a co-investor with the Company in the syndicated mortgage loans described in note 11(a). Two directors who are also officers participate as investors in some of the syndicated mortgage loans in which the Company has invested;
- a director who is also an officer partly owns a company that has made loans to a house building joint venture in which the Company is a participant;
- three companies, one owned by one co-tenant and the other two owned by another co-tenant of the Company's Vaughan, Ontario investment property, lease space in that property; and
- a company owned by a co-tenant of the Company's Vaughan, Ontario investment property acts as the manager of that property and is paid management fees.

Related party transactions are recorded at their exchange amounts, which is the consideration agreed to by the parties.

Transactions with related parties during the period were as follows:

	Six months ended **March 31 2012**	March 31 2011
Management fee expense	**$ 159**	$ 160
Legal services	**12**	23
Rental income	**89**	83
Construction contracting services	**–**	125
Interest paid or payable on loans payable	**33**	8

The consolidated balance sheets include the following balances with related parties:

	March 31 2012	September 30 2011
Accounts payable and accrued liabilities	**$ 150**	$ 302
Loans payable	**1,290**	510

19. Contingencies and Commitments

The Company, from time to time, is subject to legal proceedings brought against it and its subsidiaries. Management does not believe these proceedings in aggregate will have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company has commitments to make additional advances in connection with its syndicated mortgage loan investments as explained in note 11(a).

The following Management's Discussion and Analysis ("MD&A") is intended to provide readers with an explanation of the performance of Consolidated HCI Holdings Corporation ("CHCI" or the "Company") for the three and six-month periods ended March 31, 2012 and 2011, as well as updating CHCI's most recently issued MD&A, dated March 9, 2012. This MD&A should be read in conjunction with the unaudited consolidated interim financial statements of the Company, including the notes thereto, for the three and six-month periods ended March 31, 2012 and 2011 and December 31, 2011 and 2010 and should also be read in conjunction with the audited consolidated financial statements and the MD&A for the fiscal years ended September 30, 2011 and 2010, as set out in the Company's 2011 Annual Report.

The interim consolidated financial statements underlying this MD&A, including 2011 comparative information, have been prepared in accordance with International Financial Reporting Standards ("IFRS") unless otherwise noted. Effective October 1, 2011, the Company has adopted IFRS as its basis of financial reporting commencing with the unaudited interim financial statements for the three months ended December 31, 2011 and using October 1, 2010 as the transition date. All dollar amounts included in this MD&A are in thousands of Canadian dollars, unless otherwise noted.

The effect of the Company's transition to IFRS is summarized as follows:

(i) Transition elections

(ii) Reconciliation of comprehensive income as previously reported under Canadian GAAP to IFRS

(iii) Explanatory notes

(iv) Adjustments to the consolidated statements of cash flows

(i) Transition elections

The adoption of IFRS requires the application of IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of the Company's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The transitional exceptions and exemptions applied by the Company in its preparation of an opening IFRS consolidated balance sheet as at October 1, 2010 are disclosed in note 6(i) of the interim consolidated financial statements for the three-month period ended December 31, 2011 and have been consistently applied in the preparation of these interim consolidated financial statements.

(a) Business combinations

In accordance with IFRS 1, the Company has elected to apply IFRS 3, Business Combinations, prospectively to all business combinations occurring after its transition date.

(b) Borrowing costs

IAS 23, Borrowing Costs, requires the capitalization of borrowing costs that are directly attributable to qualifying assets. In accordance with IFRS 1, the Company has elected to apply the requirements of IAS 23 prospectively from its transition date.

(c) Estimates

In accordance with IFRS 1, the Company has applied the mandatory exemption from full retrospective application of IFRS for estimates. The exemption requires that estimates previously made under Canadian GAAP not be revised due to the application of IFRS, except where necessary to reflect differences in accounting policies.

(ii) Reconciliation of comprehensive income as previously reported under Canadian GAAP to IFRS

	Note 5(iii)	Three months ended March 31, 2011 Cdn GAAP	Adj.	IFRS	Six months ended March 31, 2011 Cdn GAAP	Adj.	IFRS
Revenue							
Real estate sales							
Housing		$ 3,451	$ –	$ 3,451	$ 7,055	$ –	$ 7,055
Land		750	–	750	750	–	750
		4,201	–	4,201	7,805	–	7,805
Rental	(c)	123	27	150	242	106	348
Interest and other income		434	–	434	1,171	–	1,171
		4,758	27	4,785	9,218	106	9,324
Expenses							
Real estate cost of sales							
Housing		3,372	–	3,372	6,406	–	6,406
Land		158	–	158	158	–	158
		3,530	–	3,530	6,564	–	6,564
Rental operating expenses	(c)	37	2	39	82	5	87
General and administrative		192	–	192	432	–	432
Interest		56	–	56	113	–	113
Amortization of leasing costs		2	–	2	4	–	4
Depreciation of investment properties	(a)	33	(33)	–	66	(66)	–
		3,850	(31)	3,819	7,261	(61)	7,200
Earnings before income taxes		908	58	966	1,957	167	2,124
Provision for income taxes	(c)	75	7	82	435	29	464
Net earnings for the period from continuing operations		833	51	884	1,522	138	1,660
Net earnings for the period from discontinued operations	(c)	2,392	(2,392)	–	2,446	(2,446)	–
Net earnings for the period		3,225	(2,341)	884	3,968	(2,308)	1,660
Other comprehensive income, net of income taxes		72	–	72	197	–	197
Comprehensive income		$ 3,297	$ (2,341)	$ 956	$ 4,165	$ (2,308)	$ 1,857

iii) Explanatory notes

(a) Investment properties

The Company has elected to apply the fair value method of accounting for its investment properties subsequent to the transition date with changes in fair value recorded in the consolidated statements of earnings. Under Canadian GAAP, investment properties were recorded at cost and depreciated over their estimated useful lives. The impact of this change was to increase investment properties by $4,015 and increase deferred income tax liabilities by $676 and increase opening retained earnings on October 1, 2010 by $3,339. A net after-tax fair value gain of $785 was recognized in the year ended September 30, 2011 and a decrease in depreciation expense of $133, $66 and $33 reflected for the year ended September 30, 2011, the six-month period ended March 31, 2011 and the three-month period ended March 31, 2011, respectively. Adoption of the fair value method of accounting had no impact on the six-month period ended March 31, 2011 because there was no change to the fair value of the investment properties since the transition date.

(b) Leasing costs

Deferred leasing costs of $16 and $18 have been reclassified as 'investment properties' as at March 31, 2011 and September 30, 2011, respectively.

(c) Discontinued operations

Under IFRS, a component of an entity that has been sold or is held-for-sale is only presented as a discontinued operation if it represents a separate major line of business or geographical area of operations. The investment property disposed of in February 2011 does not constitute a major line of business. Consequently, the discontinued operations presented under Canadian GAAP have been reclassified as continuing operations. Assets held-for-sale have been reclassified to investment properties and land and housing under development.

(d) A summary of transition adjustments to the Company's shareholders' equity from Canadian GAAP to IFRS is as follows:

	March 31 2011
Shareholders' equity, as reported under Canadian GAAP	$ 48,450
Fair value adjustments to investment properties (notes 5(i) and 5(iii)(a)), net of deferred income taxes:	
Property still owned by the Company	965
Reverse depreciation expense on investment properties (note 5(iii)(a))	66
Shareholders' equity, as reported under IFRS	$ 49,481

(iv) Adjustments to the consolidated statements of cash flows

The transition from Canadian GAAP to IFRS had no impact on the consolidated statements of cash flows.

Additional information relating to the Company, including the Certification of Interim Filings for the six months ended March 31, 2012 signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), is also available on the SEDAR website at www.sedar.com.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company and have reviewed and approved this MD&A and the accompanying unaudited consolidated interim financial statements.

FORWARD-LOOKING STATEMENTS

In various places in the MD&A, there are forward-looking statements reflecting management's current expectations regarding future economic conditions, results of operations, financial performance and other matters affecting the Company. Forward-looking statements include information regarding possible or assumed future results or transactions, as well as statements preceded by, followed by or that include the words "believes," "expects," "anticipates," "estimates," "intends" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of the Company and could cause those results to differ materially from those expressed in any forward-looking statements.

OVERVIEW

The Company's activities in the real estate industry are conducted with others at varying participation rates in co-tenancies and joint ventures. The consolidated financial statements include these ventures on a proportionate consolidation basis. The activities of the Company include the redevelopment of an existing industrial property in Vaughan, Ontario for industrial and commercial uses to lease to others and until its sale on February 2, 2011, the ownership of land and another commercial building, both in Mississauga, Ontario, leased to other parties. The Company also conducts activities through various ventures in the building and selling of new homes on land purchased from others. The Company also invests in syndicated mortgage loans, which are secured by real property developments of other land developers and builders.

REVIEW OF FINANCIAL RESULTS

Results of Operations

Summary of operating results

(Unaudited, in thousands of Canadian dollars, except per share amounts)

	Three months ended		Six months ended	
	March 31 2012	March 31 2011	**March 31 2012**	March 31 2011
Revenue	**$ 1,909**	$ 4,785	**$ 4,481**	$ 9,324
Earnings (loss) before income taxes	**$ (43)**	$ 966	**$ 330**	$ 2,124
Provision for (recovery of) income taxes	**(231)**	82	**(41)**	464
Net earnings for the period	**$ 188**	$ 884	**$ 371**	$ 1,660
Basic and diluted earnings per share	**$ 0.01**	$ 0.04	**$ 0.02**	$ 0.08

Revenue in the first six months of 2012 decreased by $4.8 million compared to the revenue recorded for the same period in 2011. This decrease is comprised of a decrease in housing sales of $3.5 million, a decrease in land sales of $0.75 million, a decrease in rental revenue of $0.05 million and a decrease in interest and other income of $0.54 million. As mentioned in previous years, the nature of real estate development does not allow for a consistent year-to-year volume of sales. Revenue is comprised of sales in specific projects as the marketplace dictates and buyers become available.

Land development operations

The Company had no land sales in the first six months of 2012. In the comparative period of 2011, on February 2, 2011, the Company's last remaining parcel of development land was sold as previously reported.

House building operations

(Unaudited, in thousands of Canadian dollars)

	Three months ended		Six months ended	
	March 31 2012	March 31 2011	**March 31 2012**	March 31 2011
Revenue from housing sales	**$ 1,483**	$ 3,451	**$ 3,562**	$ 7,055
Housing cost of sales	**1,381**	3,372	**3,213**	6,406
Gross margin from housing sales	**$ 102**	$ 79	**$ 349**	$ 649

The Company's share of joint venture revenue from housing sales decreased in the first six months of 2012 by $3.5 million compared to the corresponding period in the previous year. This revenue decrease is primarily the result of there being fewer units sold. Other than the purchase of 5 lots (share - 1.5 lots) in an existing project, which the vendor was unable to deliver until the first quarter of 2011, the Company has acquired no new lots since the first quarter of 2010 as it builds out and sells its existing inventory.

The gross margin percentage on housing sales is a function of the project sold. Margins vary widely from project to project and are influenced by many factors, including market demand in the project's location, the proximity of competing product, the mix of product in the project, the cost of land, the stage in a project when construction cost increases hit the market and the length of time it takes for a project to sell out, resulting in higher than budgeted carrying costs. The overall gross margin on housing sales for the first six months of 2012 were 9.8% compared to 9.2% for the corresponding period in 2011. The overall gross margin on housing sales for the first three months of 2012 was 11.9% compared to 15.8% for the corresponding period in 2011 primarily as a result of there being more higher margin product sold in the first quarter of 2011 than in the first quarter of 2012. The overall gross margin on housing sales for the second quarter of 2012 was 6.8% compared to 2.3% for the corresponding period in 2011 primarily as a result of there being more lower margin product sold in the second quarter. The second quarter of 2011 was adversely impacted by the results in one of the Company's house building projects. Houses closed in that quarter had been sold to home buyers in 2008 at prices set in that year but as a result of delays in construction resulting from a fire on the site and delays in condominium registration, construction and carrying costs incurred were greater than budgeted when setting the selling prices, resulting in a loss on these 2011 second quarter sales.

Rental operations

(Unaudited, in thousands of Canadian dollars)

	Three months ended		Six months ended	
	March 31 2012	March 31 2011	**March 31 2012**	March 31 2011
Rental revenues	**$ 167**	$ 150	**$ 292**	$ 348
Rental operating expenses	**64**	39	**118**	87
Net rental income*	**$ 103**	$ 111	**$ 174**	$ 261

* Net rental income is an important measure used by management to evaluate the operating performance of the investment properties. However, it is not defined under IFRS, does not have a standard meaning and may not be comparable with other companies.

The decrease in net earnings from rental operations for the six months ended March 31, 2012 compared to the corresponding period in the previous year results primarily from loss of rental revenue resulting from the sale of the Company's Mississauga investment properties in the second quarter of 2011 partially offset by rental revenue, commencing in the second quarter of 2012, from the fitness club tenancy discussed below, rental revenue from a short-term tenancy which commenced in the third quarter of 2011 and terminated on January 31, 2012, and rental revenue from the long-term lease of 42,000 square feet of roof surface for a solar panel installation, which commenced in the second quarter of 2011.

At March 31, 2012, the Company's sole investment property consists of its 50% share of the 200,000 square foot industrial/commercial building and adjacent 1.25 acre restaurant site in Vaughan, Ontario.

As previously reported, during the third quarter of 2011, the Company leased 30,903 square feet of space to a national chain of fitness clubs for a twenty-year term with a ten-year renewal option. The premises were handed over to the tenant in the second quarter of 2012 and the tenant commenced its fixturing. This new tenancy brings the building to a 65% occupancy level. The Company's share of the cost of landlord's base building work and a cash fixturing allowance to the tenant is expected to total approximately $0.6 million, and will be paid from the Company's own resources. As at March 31, 2012, the Company has paid $0.25 million toward its share of base building work.

Subsequent to March 31, 2012, the result of a tenant vacating due to bankruptcy proceedings, 5,641 square feet of previously occupied space became vacant leaving the building 61% leased.

As previously reported, during the fourth quarter of 2011, the Company entered into an agreement to lease the 50%-owned, 1.25 acre Vaughan, Ontario site referred to above to an international chain for use as a fast food restaurant with drive-through for a fifteen-year term with two five-year renewal options. The tenant had originally expected to commence operations on the site by July 2012 on completion of the landlord's site work and the tenant's fixturing period, but due to unforeseen delays involving the planning and design process and municipal approvals, a fall 2012 commencement date is more likely. The Company's share of the landlord's site preparation costs is expected to be approximately $0.15 million and will be paid from the Company's own resources.

Interest and other income

Interest and other income decreased by $0.54 million for the six months ended March 31, 2012 compared to the corresponding period in the previous year. This decrease was primarily due to the Company having a substantially greater investment in low interest rate cash and short-term money market instruments and substantially reduced investment in higher interest rate syndicated mortgage loans during the first six months of 2012 compared to the corresponding period in 2011. As well, the Company's vendor take-back mortgage on a prior year land sale was repaid on January 24, 2012 and the proceeds invested at a lower rate of interest. After December 31, 2008, other than fulfilling funding commitments and participating in renewals or extensions on existing syndicated mortgage loans, the Company ceased investing in syndicated mortgage loans with a view to accumulating cash to pay future dividends, which were ultimately paid on January 13, 2010, March 4, 2011 and March 5, 2012.

General and administrative expenses

Variable general and administrative expenses continue to decrease across the majority of cost categories as the scale of the Company's operations continue to reduce. This decrease was partially offset in the first six months of 2012 by costs incurred to obtain independent appraisals for the Company's investment property for IFRS purposes. The increase in the total of such expenses in both the first six months of 2012 and the second quarter of 2012 compared to the corresponding periods in 2011 was the result of a downward expense adjustment in the second quarter of 2011 for an overestimate of provincial capital tax, eliminated effective July 1, 2010, at September 30, 2010.

Income taxes

The income tax recovery for the first six months of 2012 of $0.04 million (2011 – provision of $0.5 million) has been computed by applying the average statutory Canadian federal and provincial income tax rate of 26.75% (2011 – 28.75) to earnings before income taxes.

Management has determined that potential unrecorded future income tax benefits of approximately $10.9 million may be available to the Company under certain circumstances. Due to the uncertainty as to whether these benefits will be realized, such benefits will be recognized in the accounts of the Company only as and when the realization of the benefits is confirmed.

FINANCIAL CONDITION

(Unaudited, in thousands of Canadian dollars)

	March 31 2012	September 30 2011
Investment properties	**$ 9,414**	$ 9,351
Housing under development	**3,467**	5,755
Cash and cash equivalents	**6,651**	8,456
Restricted cash	**251**	322
Amounts receivable	**2,127**	7,400
Investments in syndicated mortgage loans	**6,617**	11,022
Investments in marketable securities and short-term investments	**14,173**	16,874
Income tax recoverable	**2,208**	217
All other assets	**168**	228
Total assets	**$ 45,076**	$ 59,625
Long-term financial liability:		
Mortgage loan on investment property	**$ 4,168**	$ 4,285

ASSETS AND LIABILITIES

During the first six months of 2012, the Company realized cash from sales in its house building joint ventures, maturities of syndicated mortgage loans and marketable securities and interest earned on its investments in syndicated mortgage loans, cash and short-term investments. The majority of this cash was used to pay a special dividend on its Class B shares totaling $15.4 million on March 5, 2012, fund the operations of the Company's house building joint ventures, make income tax installments and re-invest in marketable securities.

The Company's housing under development decreased by $2.3 million during the first six months of 2012, resulting from the cost of houses sold exceeding the expenditures on housing construction and carrying costs.

A condition of the mortgage loan on the Company's Vaughan, Ontario investment property is that the co-tenancy maintain a long-term debt to tangible equity ratio of 3:1. As at March 31, 2012, with a ratio at that date of 2.69:1, this condition has been met.

At March 31, 2012, the Company's real estate holdings consist of its 50% share of the investment property in Vaughan, Ontario referred to above and one residential lot in Mississauga, Ontario.

OUTSTANDING SHARE DATA

Authorized capital stock consists of an unlimited number of Class B voting shares without par value. Issued and outstanding as at March 31, 2012 are 20,575,866 shares, unchanged from October 1, 2010.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

(Unaudited, in thousands of Canadian dollars)

	Six months ended **March 31 2012**	Six months ended March 31 2011
Cash provided by (used in):		
Operating activities	**$ 6,014**	$ 2,939
Investing activities	**7,280**	15,289
Financing activities	**(15,099)**	(15,954)
Increase (decrease) in cash and cash equivalents during the period	**(1,805)**	2,274
Cash and cash equivalents, beginning of the period	**8,456**	7,175
Cash and cash equivalents, end of the period	**$ 6,651**	$ 9,449

Cash and cash equivalents decreased in the first six months of 2012 by $2.8 million primarily the result of the payment of the special dividend referred to above and the payment of income tax installments, net of the cash generated from full and partial repayments of syndicated mortgage loans, the maturity of marketable securities, house building activities and the repayment of a vendor-take-back mortgage on a prior year land sale.

The Company continues to use cash flows to fund existing commitments in the syndicated mortgage loan segment of its operations, to invest in money market investments and to invest in its house building segment. The Company's cash and cash equivalents serve to provide the Company with sufficient liquidity to carry on its business activities.

CONTRACTUAL OBLIGATIONS

The following table summarizes the contractual amounts and maturity periods of the Company's financial liabilities at March 31, 2012 on an undiscounted basis:

Contractual obligations are due as follows:	**Total**	Less than 1 year	1 - 3 years	4 - 5 years	Thereafter
Loans payable	$ **6,059**	$ 442	$ 848	$ 801	$ 3,968
Accounts payable and accrued liabilities	**962**	962	–	–	–
Deposits on sales	**55**	55	–	–	–
Further advances under syndicated mortgage loans*	**75**	75	–	–	–
Liabilities and other contractual obligations	**$ 7,151**	$ 1,534	$ 848	$ 801	$ 3,968

* Based on management's estimate of the timing of borrowers requesting additional funding as per the terms of the original lending agreement. Any such additional funding will form part of the Company's investment in syndicated mortgage loans.

TRANSACTIONS WITH RELATED PARTY

Related Party Transactions

The following is a summary of the Company's related party relationships:

- some lots within the house building joint ventures were acquired from companies partly owned by or related to certain shareholders who are directors and/or officers of the Company;
- certain shareholders, and certain shareholders who are directors and officers or parties related to them, are also participants in all of the house building joint ventures;
- the Company is managed by two shareholders who are also officers and directors under a management agreement;
- a company controlled by an officer and a director provides certain construction contracting services to the Company;
- a director who is also an officer is a partner in a law firm that provides legal services to the Company;
- a director is associated with a law firm that provides legal services to the Company and its joint ventures;
- a director who is also an officer of the Company serves as a director of a Toronto Stock Exchange listed mortgage loan investment corporation. This corporation is a co-investor with the Company in the syndicated mortgage loans described in note 11(a). Two directors who are also officers participate as investors in some of the syndicated mortgage loans in which the Company has invested;
- a director who is also an officer partly owns a company that has made loans to a house building joint venture in which the Company is a participant;
- three companies, one owned by one co-tenant and the other two owned by another co-tenant of the Company's Vaughan, Ontario investment property, lease space in that property; and
- a company owned by a co-tenant of the Company's Vaughan, Ontario investment property acts as the manager of that property and is paid management fees.

Related party transactions are recorded at their exchange amounts, which is the consideration agreed to by the parties.

Transactions with related parties during the period were as follows:

	Six months ended March 31 2012	March 31 2011
Management fee expense	**$ 159**	$ 160
Legal services	**12**	23
Rental income	**89**	83
Construction contracting services	**–**	125
Interest paid or payable on loans payable	**33**	8

The consolidated balance sheets include the following balances with related parties:

	March 31 2012	September 30 2011
Accounts payable and accrued liabilities	**$ 150**	$ 302
Loans payable	**1,290**	510

RISK MANAGEMENT

Market Risk - Interest Rate Risk

The Company is subject to interest rate fluctuations; however, current low and stable interest rates have lessened the risk associated with such fluctuations. The syndicated mortgage loans are repayable in full at the option of the borrower at any time and, for the most part, are subject to a minimum specified rate of interest or prime plus a specified interest spread if such exceeds the minimum specified rate. The Company's debt comprises project specific house building joint ventures' prime based bank debt and a mortgage loan payable on an investment property.

Credit and Operational Risks

The Company's credit risk relates to the potential of financial loss resulting from the failure of a borrower or counterparty to fully honour its financial or contractual obligations, such as to repay principal and/or interest on a syndicated mortgage loan. Fluctuations in real property values may increase the risk of default and may also reduce the net realizable value of the collateral real property to the Company. Credit losses occur when the counterparty fails to meet its obligations to the Company and the value realized on sale of the underlying security deteriorates below the carrying amount of the exposure. Credit risk is mitigated through credit enhancement, which is comprised of excess spread and obtaining sufficient real property collateral, as well as monitoring the level of concentration of credit risk from individual borrowers. Furthermore, the Company leverages the credit risk management objectives, policies and procedures of the mortgage syndicator to help mitigate the credit risk. These policies and procedures govern credit administration and arrears management.

The Company's operational risk relates to the potential of losses on housing under construction resulting from any instability in the real estate sector in the Greater Toronto Area and any reduction in the level of activity in the Company's house building joint ventures.

The Company's maximum exposure to credit risk is the fair values of cash and cash equivalents, amounts receivable, mortgage receivable, investments in syndicated mortgage loans and marketable securities.

At the present time, management is satisfied that the Company's receivables will be collected in full and that land and housing inventories are valued at the lower of cost and net realizable value.

Liquidity Risk

Liquidity risk is managed by maintaining cash and cash equivalents in excess of projected needs, which includes the funding of commitments under certain of the Company's syndicated mortgage loan investments, as indicated in note 11(a). The Company expects to be able to repay or, if required, obtain extensions on the loans payable in a house building joint venture on maturity of the loans, and on the mortgage loan payable on the investment property, if required, on demand.

Capital Risk Management

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by obtaining an appropriate amount of debt, commensurate with the level of risk, to reduce the after-tax cost of capital.

The Company's capital consists of loans payable and shareholders' equity and, other than the capital requirement with respect to a mortgage loan on its investment property as discussed above, it is not subject to any externally imposed capital requirements.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase shares, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company's objective is met by retaining adequate liquidity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements.

ENVIRONMENTAL RISKS

As an owner of real property, the Company is subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that the Company could be liable for costs of removal and remediation of certain hazardous toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect the Company's ability to sell such real property or to borrow using such real property as collateral and potentially could result in claims against the Company. The Company is not aware of any material environmental liabilities at the present time.

CONTROLS AND PROCEDURES

At March 31, 2012, the Chief Executive Officer and the Chief Financial Officer ("certifying officers") of the Company have designed disclosure controls and procedures ("DC&P") to provide reasonable assurance that information required to be disclosed in its various reports is recorded, processed, summarized and reported accurately and have designed internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external purposes in accordance with IFRS. All internal controls over financial reporting are either completed or reviewed by the Chief Financial Officer with involvement from the CEO and Vice-President as deemed necessary. Other than the Chief Financial Officer, the Company has only one employee who is engaged in accounting and recordkeeping functions and who is directly supervised by the Chief Financial Officer.

The certifying officers have limited the scope of the design of DC&P and ICFR to exclude controls, policies and procedures of the Company's non-publicly accountable, proportionately consolidated entities ("the entities"). Management of the entities is distinct from that of the Company and, as such, the Company does not have sufficient access to the entities to design and evaluate controls, policies and procedures carried out by these entities. The Company is satisfied that, considering its own quarterly review and analysis of financial information provided by the entities and discussion with the entities' management, material errors or omissions in the entities' financial reporting for consolidation purposes would come to the attention of the Company's management and be corrected prior to consolidation.

The following summary of financial information as at March 31, 2012 and September 30, 2011 and for the three and six-month periods ended March 31, 2012 and 2011 relates to the Company's proportionately consolidated entities, comprising all its investments in its investment property and residential construction segments:

	March 31 2012	September 30 2011
Assets	**$ 16,842**	$ 21,064
Liabilities	**6,252**	5,854
	$ 10,590	$ 15,210

	Three months ended		Six months ended	
	March 31 2012	March 31 2011	**March 31 2012**	March 31 2011
Revenue	**$ 1,658**	$ 4,360	**$ 3,885**	$ 8,170
Expenses	**1,722**	3,627	**3,707**	6,768
Earnings (loss)	**$ (64)**	$ 733	**$ 178**	$ 1,402

	Six months ended	
	March 31 2012	March 31 2011
Cash provided by (used in)		
Operating activities	**$ 1,094**	$ 690
Investing activities	**$ (162)**	$ –
Financing activities	**$ (386)**	$ (131)

The certifying officers have determined that there were no changes in the Company's ICFR that occurred during the six months ended March 31, 2012 that have significantly affected, or are reasonably likely to significantly affect, the Company's ICFR.

FUTURE ACCOUNTING CHANGES

Accounting Standards Issued and Yet to Be Applied

Unless otherwise noted, the following new standards and amendments to existing standards apply to annual periods beginning on or after January 1, 2013 with earlier adoption permitted. The Company has not yet assessed the impact of these new standards and amendments to its consolidated financial statements.

(a) IFRS 9 – Financial Instruments

This standard was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

(b) IFRS 10 – Consolidated Financial Statements

This standard requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

(c) IFRS 11 – Joint Arrangements

This standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers.*

(d) IFRS 12 – Disclosure of Interests in Other Entities

This standard establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and non-consolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

(e) IFRS 13 – Fair Value Measurement

This standard is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurement and does not always reflect a clear measurement basis or consistent disclosures.

(f) Amendments to existing standards not yet effective

There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of the financial condition and results of operations of the Company are based on the consolidated financial statements, which are prepared in accordance with IFRS. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements. Estimates and assumptions are evaluated on an ongoing basis. Estimates are based on historical experience and other assumptions that management believes are reasonable and appropriate in the circumstances. Actual results could differ from those estimates.

Management believes the most critical accounting estimates are as follows:

Impairment of Investments in Syndicated Mortgage Loans

The Company reviews its investments in individual syndicated mortgage loans on a regular basis to evaluate the risk of default on any outstanding loan, which would result in the ultimate realization of less than the balance owing. Factors such as the prospect for completion of the development and sale of the underlying real property security and the present value of estimated future cash flows from the project are taken into consideration when estimating impairment. When a syndicated mortgage loan is impaired its carrying value is reduced to its recoverable amount.

Fair Value of Investment Properties

The fair value at October 1, 2010 attributed to the Company's two investment properties sold on February 2, 2011 was, in management's judgment, equal to the net proceeds of their sale. The fair value of the Company's last remaining investment property was determined by qualified external valuation professionals at September 30, 2011 and March 31, 2012. The valuations of this investment property were done using the "Direct Capitalization Approach" in which the fair value is estimated by capitalizing the net rental income the property can reasonably be expected to produce over its remaining life.

Estimated Costs to Complete Housing Under Development

The Company incurs soft costs, such as interest and realty taxes, in its house building operations. Such costs are estimated over the life of a project and allocated on a pro rata basis to each unit sold. These estimates are regularly revisited and adjusted up or down in light of changing circumstances. The Company accounts for such changes in estimates using the cumulative catch-up method whereby estimated cost increases or decreases are applied to all house sales in the project (past, current and future). Using this method results in a cumulative adjustment in a current period to account for the estimated cost increase or decrease on a pro rata basis to homes sold in prior periods.

Income Taxes

The Company is subject to income taxes in one jurisdiction. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax provisions of future periods. The measurement of deferred income tax liabilities at the consolidated balance sheet dates requires management to make estimates and assumptions regarding the timing of when temporary differences are expected to reverse. Actual results could differ from those estimates.

OUTLOOK

As at September 30, 2011, the Company had completed the purchase of all of the lots for which it had contracted to acquire in its house building operations and management does not expect to acquire additional lots or continue its house building operations beyond the end of its 2012 fiscal year-end at which time it expects to have completed and sold its three currently active house building projects. The total value of house sales in 2012 is expected to be lower than that of 2011 as the Company will have fewer lots available for sale in 2012 than it delivered to buyers in all of 2011 and the total revenue from house sales will likely decline in 2012 over that in 2011 for the same reason. As well, profit margins on house sales could be adversely affected by increased costs resulting from unforeseen factors in the construction industry or in the economy.

With substantially all of its development land and investment properties having been sold as of September 30, 2011, the Company's remaining real estate holdings consist of the investment property described above under "Results of Operations – Rental Operations." Management is continuing with its efforts to complete the leasing of this investment property, has been receiving expressions of interest from prospective tenants and one existing tenant to lease remaining vacant space in the building and has been working with prospective tenants but, since the last year-end, no new space has been let.

Management continues to closely monitor the Company's investments in syndicated mortgage loans. Two of the syndicated mortgage loans in the Company's portfolio are not performing to their terms and appropriate steps are being taken by the syndicator with regard to these non-compliant loans. While no actual losses have been realized on any of the Company's investments, management has recorded a provision for potential loss on one of these syndicated mortgage loans, which it believes to be adequate to deal with current exposures.

Management and the Board of Directors continue to assess the basis for the Company's ongoing operations with a view to maximizing shareholder value.

CORPORATE DIRECTORY

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Cassels Brock & Blackwell LLP
Barristers and Solicitors

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The Daniels Group Inc.

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President
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Stanley Goldfarb
President
Logpin Investments Limited

Marc Muzzo
Director
Marel Contractors

* Audit Committee
** Chairman of the Board and
the Audit Committee

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& Treasurer

Marc Muzzo
Vice-President

John H. Craig
Secretary

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Chief Financial Officer

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