CONSOLIDATED HCI HOLDINGS CORPORATION

ANNUAL REPORT • 2012

PRESIDENT'S REPORT

Net earnings for the year ended September 30, 2012 were $7,993,000 or $0.39 per share. Net earnings for fiscal 2011 were $4,043,000 or $0.20 per share.

Included in net earnings for the year ended September 30, 2012 is the reversal of a prior year income tax provision of $6,700,000, which is no longer considered necessary.

As the company continues to downsize its housing development and its syndicated mortgage loan portfolio, it is our intention to return cash to shareholders as the Board of Directors deems appropriate.

On your behalf I would like to thank our Board of Directors and our employees for their continued hard work and guidance they provide to management.

Stanley Goldfarb
President

OVERVIEW

Consolidated HCI Holdings Corporation ("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 following discussion and analysis of the financial condition of the Company and its financial performance for the two years ended September 30, 2012 and 2011 are the views of management and should be read in conjunction with the consolidated financial statements including related notes in the 2012 and 2011 audited consolidated financial statements. Amounts presented in this MD&A are in thousands of Canadian dollars, unless otherwise noted.

The information included in this MD&A, including 2011 comparative information, has been prepared in accordance with International Financial Reporting Standards ("IFRS") unless otherwise noted. The term Canadian generally accepted accounting principles ("GAAP") in this MD&A refers to Canadian GAAP before the adoption of IFRS. 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 Company has applied the following transitional exceptions and exemptions to full retrospective application of IFRS in its preparation of an opening IFRS consolidated balance sheet as at October 1, 2010, the Company's "Transition Date":

(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. No changes in historical estimates were made in the preparation of the Company's 2012 and 2011 audited consolidated financial statements.

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

(in thousands of dollars)		Year Ended September 30, 2011		
	Note (iii)	Cdn. GAAP	Adj.	IFRS
Revenue				
Real estate sales				
Housing		$ 10,611	$ —	$ 10,611
Land		750	—	750
		11,361	—	11,361
Rental	(c)	517	106	623
Interest and other income		1,965	—	1,965
		13,843	106	13,949
Expenses				
Real estate cost of sales				
Housing		9,410	—	9,410
Land		158	—	158
		9,568	—	9,568
Rental operating expenses	(c)	172	5	177
General and administrative		886	—	886
Interest		224	—	224
Amortization of leasing costs		7	—	7
Depreciation of investment properties	(a)	133	(133)	—
Fair value gain on investment properties	(a)	—	(901)	(901)
		10,990	(1,029)	9,961
Earnings before income taxes		2,853	1,135	3,988
Provision for (recovery of) income taxes	(c)	(198)	143	(55)
Net earnings for the year from continuing operations		3,051	992	4,043
Net earnings for the year from discontinued operations	(c)	2,446	(2,446)	—
Net earnings for the year		5,497	(1,454)	4,043
Other comprehensive income, net of income taxes		(215)	—	(215)
Comprehensive income		$ 5,282	$ (1,454)	$3,828

(iii) Explanatory notes

(a) Investment properties

The Company has elected to apply the fair value method of accounting for its investment properties with changes in fair value being recorded in the consolidated statement 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 fair value gain of $901 was recognized in the year ended September 30, 2011 and a decrease in depreciation expense of $133 was reflected for the year ended September 30, 2011.

(b) Leasing costs

Leasing costs of $18 and $20 have been reclassified as 'Investment Properties' as at September 30, 2011 and October 1, 2010, 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:

	September 30 2011	October 1 2010
Shareholders' equity, as reported under Canadian GAAP	$ 49,567	$ 59,717
Fair value adjustments to investment properties (note (iii)(a)), net of deferred income taxes:		
Properties still owned by the Company	1,752	964
Properties disposed of in February 2011	—	2,375
Reverse depreciation expense on investment properties (note (iii)(a))	133	—
Shareholders' equity, as reported under IFRS	$ 51,452	$ 63,056

(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.

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.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A, and has in place information systems, procedures and controls to ensure that 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 consolidated financial statements as at September 30, 2012 and 2011.

CONTROLS AND PROCEDURES

At September 30, 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. 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 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 September 30, 2012 and 2011 and for the years then ended relates to the Company's aggregate consolidated proportionate share of its joint venture and co-tenancy operations, comprising all its investments in its income-producing properties and residential construction segments:

	September 30	
	2012	2011
Assets	$ 14,853	$ 18,833
Liabilities	4,655	5,854
	$ 10,198	$ 12,979

	Year ended September 30	
	2012	2011
Revenue	$ 7,142	$ 11,177
Expenses	6,272	9,947
Earnings	$ 870	$ 1,230

	Year ended September 30	
	2012	2011
Cash provided by (used in)		
Operating activities	$ (1,027)	$ 637
Investing activities	(1,724)	22
Financing activities	(563)	19

The certifying officers have evaluated the design and operating effectiveness of the Company's DC&P and ICFR for the year ended September 30, 2012 and have concluded that such DC&P and ICFR were appropriately designed and were operating effectively.

The certifying officers have determined there were no changes in the Company's ICFR that occurred during the year ended September 30, 2012 that have significantly affected, or are reasonably likely to significantly affect, the Company's ICFR.

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 such as "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.

REVIEW OF FINANCIAL RESULTS

Financial data presented herein is expressed in thousands of Canadian dollars and is in accordance with IFRS.

Results of operations

Two-year summary of operating results
(in thousands of dollars, except per share amounts)

	2012	2011
Total revenue	$ 8,537	$ 14,850
Earnings before income taxes	$ 2,055	$ 3,988
Recovery of income taxes	(5,938)	(55)
Net earnings for the year	$ 7,993	$ 4,043
Basic and diluted earnings per share	$ 0.39	$ 0.20

Total revenue decreased in 2012 by $6.3 million compared to the revenue recorded for the same period in 2011, the result of decreases in housing sales of $4.1 million, land sales of $0.75 million, interest and other income of $0.69 million and the fair value gain on investment properties of $0.79 million, partially offset by an increase in investment properties revenue of $0.02 million.

As mentioned in previous years, the nature of the Company's business 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

(in thousands of dollars)

		2012		2011
Revenue from land sales	$	—	$	750
Cost of land sold		—		158
Gross profit from land sales	$	—	$	592

The Company had no land sales during 2012.

The Company's 2011 land sale represents the sale of its 25% interest in a 2.5 acre parcel of serviced vacant land in Mississauga, Ontario.

The rate of profit on land sales is a function of the projects sold, stage of the development and economic circumstances.

House building operations

(in thousands of dollars)

		2012		2011
Revenue from housing sales	$	6,475	$	10,611
Housing cost of sales		5,732		9,410
Gross profit from housing sales	$	743	$	1,201

The Company's share of revenue from housing sales as recorded by its joint ventures for 2012 decreased to $6.5 million from the $10.6 million recorded in 2011. This revenue decrease is primarily the result of there being fewer units sold as a result of the Company no longer acquiring any new lots and no new projects being started as existing inventory was being completed and sold.

The gross margin percentage on housing sales is a function of the projects 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 within 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 carrying costs.

The gross margin percentage on housing sales across all projects for 2012 remained, at 11.5%, consistent with that of 2011.

Rental operations

(in thousands of dollars)

		2012		2011
Rental revenues	$	644	$	623
Rental operating expenses		219		177
Net operating income*	$	425	$	446

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

Rental revenue increased by $0.02 million from 2011 to 2012 primarily as a result of a full year's rental revenue received in 2012 from a roof lease for a solar power generating installation commencing in the second quarter of 2011 and the commencement of a lease to a national fitness chain commencing in the second quarter of 2012. These increases were, for the most part, offset as a result of a tenant vacating during 2012 due to bankruptcy, the rental decrease resulting from the sale of the Company's Mississauga investment properties in the second quarter of 2011 and a rent reduction given to a tenant in financial difficulty, who ultimately gave notice to vacate in the first quarter of 2013.

Property operating expenses increased during 2012 compared to 2011 due to realty tax recoveries received in 2011 resulting from building vacancies and increases in building repair and maintenance costs in 2012 related to putting a new tenant in place, moving short-term tenants in and out and other building period costs.

See "ASSETS – Income-producing properties" below for further information on the level of the property's occupancy.

General and administrative expenses

General and administrative expenses increased in 2012 by $0.014 million over those recorded in 2011. The Company recorded a favourable adjustment of $0.04 million to such expenses in 2011 for certain cost estimates of a prior year, which were ultimately lower than initially expected, resulting in the year-over-year increase.

As previously disclosed in the Company's Management Information Circular dated February 22, 2012, for the years ended September 30, 2012 and 2011, the terms of the Management Agreement provided for management fees of 3% of pre-tax earnings subject to a minimum of $0.3 million. For both years the management fee of $0.3 million, calculated in accordance with the agreement, was accrued at year-end and included in general and administrative expenses. See "TRANSACTIONS WITH RELATED PARTIES."

Interest and other income

The Company's interest and other income is primarily earned from investments in short-term bank issued securities and syndicated mortgage loans. Income from these investments decreased from $2.0 million in 2011 to $1.4 million in 2012. This decrease was primarily due to the Company having 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 2012 compared to 2011. After December 31, 2008, other than fulfilling funding commitments, participating in renewals or extensions on existing syndicated mortgage loans, and in one instance investing in a new syndicated mortgage loan to provide additional security on an existing syndicated mortgage loan with the same borrower, the Company ceased investing in new syndicated mortgage loans with a view to accumulating cash to pay future dividends, which were ultimately paid on March 4, 2011 and March 5, 2012.

Interest expense

The interest expense incurred by the Company to finance its house building operations is capitalized to land and housing under development and expensed through housing cost of sales as housing units are sold. The Company incurred interest expense in its rental operations in 2012 of $0.21 million compared to $0.22 million for 2011. This decrease is a result of reduced interest expense resulting from scheduled principal repayments made on the mortgage loan on its Vaughan, Ontario income-producing property.

Reversal of loss provision on syndicated mortgage loans

In 2012, the Company reversed a loan loss provision totaling $690, which in management's judgment is no longer required due to substantial principal reductions made by the borrower during the year and the borrower providing additional real property security for the outstanding loan balance.

Income taxes

The 2012 income tax provision of $0.6 million, computed by applying the average statutory Canadian federal and provincial income tax rate of 26.875% to earnings before income taxes was offset by the reversal of a $6.7 million provision for tax exposures recorded in a prior year and no longer considered necessary net of $0.2 million for other items.

The 2011 income tax provision of $0.1 million, computed by applying the average statutory Canadian federal and provincial income tax rate of 28.75% to earnings before income taxes was offset by the reversal of a $1.3 million provision for tax exposures recorded in a prior year and no longer considered necessary net of $0.3 million for other items. Management has determined that potential unrecorded future income tax benefits of approximately $4.5 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.

Selected quarterly consolidated financial information (unaudited)

(in thousands of dollars, except per share amounts)

	2012				2011			
	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Revenue	$ 1,282	$ 2,774	$ 1,909	$ 2,572	$ 3,347	$ 2,179	$ 4,785	$ 4,539
Net earnings	$ 1,449	$ 6,173	$ 188	$ 183	$ 899	$ 1,484	$ 884	$ 776
Basic and diluted earnings per share	$ 0.07	$ 0.30	$ 0.01	$ 0.01	$ 0.05	$ 0.07	$ 0.04	$ 0.04

Fluctuations in the quarterly results over the two-year period shown above are mainly due to the timing of land and housing sales, the timing of the recognition of adjustments to housing cost of sales as discussed earlier in this MD&A and the reversal of tax provisions no longer considered necessary in the third quarters of both 2012 and 2011.

Fluctuations in revenue by quarter comparing 2012 quarters to the corresponding quarters in 2011 are primarily the result of fluctuations in housing revenues for the reasons outlined above.

FINANCIAL CONDITION

(in thousands of dollars)	September 30 2012	September 30 2011	October 1 2010
Investment properties	$ 9,800	$ 9,351	$ 12,245
Land and housing under development	1,201	5,755	10,051
Cash and cash equivalents	2,397	8,456	7,175
Restricted cash	1,051	322	344
Amounts receivable	334	7,400	7,459
Investments in marketable securities	20,525	16,874	20,451
Investments in syndicated mortgage loans	6,481	11,022	17,126
Income tax recoverable	8,930	217	497
Tenant inducements	420	—	—
All other assets	168	228	173
Total assets	$ 51,307	$ 59,625	$ 75,521
Mortgage loans on:			
Income-producing properties	$ 4,050	$ 4,285	$ 4,520
Housing under development	—	510	1,483
Total long-term financial liabilities	$ 4,050	$ 4,795	$ 6,003

ASSETS

Investment properties

Investment properties, comprised of the Company's 50%-owned last remaining rental building and adjacent rental land in Vaughan, Ontario increased in 2012 by $0.45 million, the result of capital improvements of $0.48 million and leasing costs capitalized of $0.084 million reduced by of a fair value adjustment of $0.1 million and $0.01 million amortization of leasing costs.

As at September 30, 2011, excluding two short-term tenancies, which commenced in 2011 and terminated by December 31, 2011, the Company had achieved a 49% level of occupancy in its Vaughan, Ontario income-producing property. No new long-term leasing of interior building space commenced in 2011.

During the second quarter of 2011, the Company leased 42,000 square feet of roof surface to a company partly owned by a related party on which the lessee has installed solar panels to provide electricity to the Ontario Power Authority ("OPA") grid. The Company began to collect rent under the lease as of January 19, 2011, the date designated as the Term Commencement Date by the OPA. The lease term is for twenty years with three five-year renewal options.

During the fourth quarter of 2011, the Company entered into an agreement to lease the rental land component of its investment property 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 been expected to commence operations on the site by July 2012 on the 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 and regional approvals, the Company is expecting the tenancy to commence in the third quarter of 2013. 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.

During the third quarter of 2011, the Company leased a further 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 lease term commenced on

March 1, 2012 and brought 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 totaled $0.6 million and has been paid from the Company's own resources.

During 2012, the Company lost one tenant occupying 5,641 square feet due to bankruptcy reducing the occupancy level to 61% at September 30, 2012.

During the fourth quarter of 2012 the Company leased a further 8,000 square feet of space to an office furniture dealer for a term of five years and four months with a five-year renewal option commencing November 1, 2012.

Subsequent to September 30, 2012, a tenant occupying 11,405 square feet gave notice of intention to vacate on December 9, 2012 before the expiry of its lease and the Company entered into an agreement to lease 8,500 square feet of space to a retail outlet for a ten-year term to commence April 1, 2013 with a five-year renewal option. With the termination and new 2013 tenancies mentioned above, the building will have an occupancy level of 64%.

Land and housing under development

Land inventory is comprised of land under development and land and housing under development, which represents land that is being or has been serviced or developed and the inventory of housing under construction of our joint ventures. The Company's inventory of housing under construction decreased from $5.8 million to $1.2 million during 2012. This decrease is the result of the timing of projects in relation to the Company's year-end and the fact that no new land inventory was acquired during 2012 as 2011 housing inventory was being sold. The Company's share of the total units under development at September 30, 2012 amounted to 3 units compared to 16 units at the end of 2011.

Investment in syndicated mortgage loans

The Company's investment in syndicated mortgage loans decreased by $4.7 million during the year, as a result of the proceeds received on maturities net of further advances to satisfy funding commitments on existing loans and a new syndicated mortgage loan investment of $1.1 million where only $0.6 million was advanced and the balance of $0.51 million providing additional security for an existing syndicated mortgage loan. These funds received were, for the most part, reinvested in short-term bank issued securities. Refer to the section "RISK MANAGEMENT – Credit and operational risks" later in this MD&A for further comments regarding the Company's investment in syndicated mortgage loans and related risk and loan impairment considerations.

Cash resources

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, all held in the Company's house building joint ventures, includes deposits required to secure outstanding guarantees and letters of credit of $0.25 million and funds held in trust by the project manager of $0.8 million on the basis of $0.002 million per project dwelling unit. These trust funds are held pursuant to the project joint venture agreements and are meant to provide a contingency fund should any warranty or other claims be made with respect to the houses sold. The project manager, at its discretion, may call on joint venture members for additional contingency fund contributions if and when required, pay for additional project costs contemplated when establishing the fund or release remaining funds back to the joint venture for distribution to the members once they are no longer considered necessary to hold.

Amounts receivable

Amounts receivable decreased in 2012 by $7.1 million primarily as a result of the repayment of the vendor take-back mortgage assumed by the Company on the sale in 2008 of its land held for future development in the Collingwood, Ontario area. The vendor take-back mortgage bore interest at 6% per annum for all of 2011 and until maturity in 2012 and was payable as to interest only annually, together with $0.05 million of principal per quarter. The mortgage was secured by land and matured on October 10, 2011. On maturity, the mortgage was refinanced to mature on January 31, 2012. The extension agreement provided for interest at 6% per annum calculated and payable quarterly, an extension fee of $0.025 million payable on or before November 30, 2011, which was paid, and a principal payment of $0.25 million payable on January 10, 2012.

LIABILITIES

Loans payable

Loans payable decreased during 2012 by $0.75 million. With respect to mortgage loans, the Company paid $0.24 million of scheduled principal repayments on the mortgage loan on its Vaughan, Ontario income-producing property. With respect to loans from related parties, the Company repaid loans totaling $0.51 million from related parties as described below under "TRANSACTIONS WITH RELATED PARTIES."

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 September 30, 2012, this condition has been met.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities decreased in 2012 by $0.06 million due to a decrease of $0.25 million in the Company's share of accounts payable in its house building joint ventures offset by an increase in the Company's share of accounts payable of $0.21 million primarily in its investment properties joint ventures.

OUTSTANDING SHARE DATA

At September 30, 2012, the Company's authorized capital stock consists of an unlimited number of Class B, voting shares, without par value, of which 20,575,866 shares are issued and outstanding at a stated value of $35.9 million, unchanged since October 1, 2009.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

(in thousands of dollars)

	2012	2011
Cash provided by (used in)		
Operating activities	$ 9,703	$ 3,747
Investing activities	745	13,187
Financing activities	(16,507)	(15,653)
Increase (decrease) in cash and cash equivalents	(6,059)	1,281
Cash and cash equivalents, beginning of the year	8,456	7,175
Cash and cash equivalents, end of the year	$ 2,397	$ 8,456

Cash and cash equivalents decreased in 2012 by $6.1 million. This decrease resulted from a dividend payment of $15.4 million, $3.5 million of investment net of maturities of short-term money market instruments, income tax installments of $2.6 million, the repayment of bank advances and loans payable of $1.0 million and $0.4 million of other net cash outflows. These cash outflows were partially offset by $4.6 million of cash generated in the Company's house building segment, repayment of the vendor take-back mortgage on the Company's

Collingwood, Ontario land sale in a previous year of $6.8 million and $5.4 million of maturities net of advances in the syndicated mortgage loan segment.

The Company continues to use cash flows to fund commitments to additional funding of existing syndicated mortgage loans and to invest in cash equivalents and short-term money market investments and to fund 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.

On February 13, 2012, the Company declared a special dividend of $0.75 per Class B share payable to shareholders of record at the close of business on February 23, 2012. The dividend, totaling $15,432 was paid on March 5, 2012.

On February 1, 2011, the Company declared a special dividend of $0.75 per Class B share payable to shareholders of record at the close of business on February 11, 2011. The dividend, totaling $15,432 was paid on March 4, 2011.

Management expects to be able to fund the repayment of the Company's mortgage loans payable as payments fall due or to be able to refinance such loans on their maturity.

TRANSACTIONS WITH RELATED PARTIES

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 13(a) to the consolidated financial statements. 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 income-producing property, lease space in that property; and
- a company owned by a co-tenant of the Company's Vaughan, Ontario income-producing property acts as the manager of that property and is paid management fees.

Related party transactions are recorded at the amount of consideration agreed to by the parties.

Transactions with related parties during the year were as follows:

	2012	2011
Management fee expense	$ 300	$ 300
Rental operating expenses	20	21
Legal services	38	40
Rental income	164	186
Construction contracting services	1	167
Interest paid or payable on loans payable	36	27

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

	2012	2011
Accounts payable and accrued liabilities	$ 300	$ 302
Loans payable	—	510

RISK MANAGEMENT

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 investments in syndicated mortgage loans are repayable in full at the option of the borrower at any time, and 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, loans from related parties and a mortgage loan payable on an income-producing 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 consists of the carrying values of cash and cash equivalents, restricted cash, amounts receivable, investment in syndicated mortgage loans and marketable securities.

Other than certain of the Company's syndicated mortgage loans discussed below, none of the Company's financial assets are past due.

At September 30, 2011, a syndicated mortgage loan in the amount of $3,816 was past due but not impaired. This loan was paid in full in 2012.

The Company holds a 30% interest in a first charge syndicated mortgage loan and a 60% interest in a second charge syndicated mortgage loan on a townhouse development under construction in the Greater Toronto Area. The Company's investment in these two loans totals $1,447 at September 30, 2012 (September 30, 2011 - $2,530) and both loans are over 90 days past due. The mortgage syndicator has not renewed the loans and has issued a notice of sale to require the proceeds of sale on the closings of the units to be applied to mortgage repayment. Management believes the project's unsold units and unbuilt serviced lots together with other real property security pledged by the lender provides adequate security for the loan and that no loan loss provision is required. The estimated net realizable recovery to the Company from the sale of real property securing these loans is $1,447 (2011 - $2,530).

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 amounting to $47 (September 30, 2011 - $195).

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

(in thousands of dollars)

Contractual obligations are due as follows:	Total	Less than 1 year	1 - 3 years	4 - 5 years	Thereafter
Loans payable (1)	$ 5,836	$ 436	$ 836	$ 789	$ 3,775
Accounts payable and accrued liabilities	1,002	1,002	—	—	—
Further advances under syndicated mortgage loans (2)	47	47	—	—	—
Liabilities and other contractual obligations	$ 6,885	$ 1,485	$ 836	$ 789	$ 3,775

(1) A 5% interest rate has been used for the remaining term to maturity.

(2) 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.

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.

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 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 that 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 disclosures 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 – 13.

FINANCIAL INSTRUMENTS

(in thousands of dollars)

The three levels of the fair value hierarchy, that prioritize the inputs to fair value measurement, are as follows:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and;
Level 3 – inputs that are not based on observable market data.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as described above as at September 30, 2012 and September 30, 2011:

September 30, 2012	Level 1	Level 2	Level 3	Total
Marketable securities	$ 20,525	$ —	$ —	$ 20,525

September 30, 2011	Level 1	Level 2	Level 3	Total
Marketable securities	$ 16,874	$ —	$ —	$ 16,874

Fair value

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

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.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of the financial condition and financial performance of the Company is 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.

Fair value of investment properties

The fair value at October 1, 2010 and December 31, 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 October 1, 2010, September 30, 2011 and September 30, 2012. This property is comprised of two components, a rental building and adjoining rental land. The valuation of the building was done using the "Discounted Cash Flow Method" in which the income and expenses are projected over the anticipated term of the investment. The valuation of the rental land was done using the "Overall Capitalization Rate Method" whereby the net operating income is capitalized at the requisite overall capitalization rate.

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.

OFF-BALANCE SHEET ARRANGEMENTS

Financial guarantees

The Company has letters of credit available totaling $0.3 million (2011 - $0.3 million), of which $0.3 million (2010 – $0.3 million) 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 associates' share of the obligations in joint ventures and co-tenancy developments. At September 30, 2012, the Company's associates' share of the obligations of such entities comprises liabilities of $0.9 million (2011 - $4.3 million) and letters of credit of $0.7 million (2011 - $0.9 million) 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.

Commitments

The Company has commitments to make additional advances totaling $0.05 million under one of the syndicated mortgage loans described above.

OUTLOOK

As at September 30, 2012, the Company completed the purchase of all of the lots for which it had previously given deposits 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 2013 fiscal year-end at which time it expects to have completed and sold its two currently active house building projects. The total value of house sales in 2013 is expected to be lower than that of 2012 as the Company will have fewer lots available for sale in 2013 than it delivered to buyers in all of 2012 and the value of 2013 house sales will decline over that in 2012 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 all of its development land and all but one of its investment properties having been sold as of September 30, 2011, the Company's remaining real estate holdings consist of the investment property and adjoining rental land described above under "Financial Condition – Assets." The Company is continuing with its efforts to complete the leasing of its Vaughan, Ontario income-producing property. Management is continuing to receive expressions of interest to lease space in the building and has been working with prospective tenants with some success as discussed above.

Management continues to closely monitor the Company's investments in syndicated mortgage loans. Syndicated mortgage loans totaling $1.4 million are not performing to their terms and appropriate steps are being taken by the syndicator with regard to these non-compliant loans. No losses have been realized on any of the Company's investments and as management now believes the underlying real property security adequately secures these investments the previously recorded loan loss provision of $0.69 million has been reversed in 2012.

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

Additional information relating to the Company has been filed on SEDAR and can be found at www.sedar.com.

MANAGEMENT'S RESPONSIBILITIES

The consolidated financial statements of Consolidated HCI Holdings Corporation have been prepared by management of the Company in accordance with International Financial Reporting Standards.

Management maintains appropriate controls to provide reasonable assurance that the assets of the Company, its subsidiaries and joint ventures are safeguarded and that financial information is reliable and accurate. Where necessary, management uses judgment to make estimates based on informed knowledge of the facts.

The Board of Directors bears ultimate responsibility for the consolidated financial statements. An Audit Committee composed of independent directors has reviewed in detail these consolidated financial statements with management and also with the external auditor appointed by the shareholders. The Audit Committee has recommended its approval to the board. The Board of Directors has approved these consolidated financial statements.

All other financial and operating data included in the annual report are consistent with information contained in the consolidated financial statements and have been reviewed by the Board of Directors.

Stanley Goldfarb
President and Treasurer

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CONSOLIDATED HCI HOLDINGS CORPORATION

We have audited the accompanying consolidated financial statements of Consolidated HCI Holdings Corporation and its subsidiaries, which comprise the consolidated balance sheets as at September 30, 2012, September 30, 2011 and October 1, 2010 and the consolidated statements of earnings, changes in shareholders' equity, comprehensive income and cash flows for the years ended September 30, 2012 and September 30, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Consolidated HCI Holdings Corporation and its subsidiaries as at September 30, 2012, September 30, 2011 and October 1, 2010 and their financial performance and their cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

December 14, 2012

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)	September 30 2012	September 30 2011	October 1 2010
		(note 6)	(note 6)
ASSETS			
Non-current assets			
Investment properties (note 8)	$ 9,800	$ 9,351	$ 12,245
Investment in syndicated mortgage loans (note 13(a))	2,682	3,585	2,353
Amounts receivable (note 11)	167	50	6,838
Tenant inducements (note 12)	398	—	—
	13,047	12,986	21,436
Current assets			
Land and housing under development (note 9)	1,201	5,755	10,051
Cash and cash equivalents (note 10(a))	2,397	8,456	7,175
Restricted cash (note 10(b))	1,051	322	344
Amounts receivable (note 11)	167	7,350	621
Investment in syndicated mortgage loans (note 13(a))	3,799	7,437	14,773
Short-term investments (note 13(b))	18,268	14,719	18,028
Marketable securities (note 13(c))	2,257	2,155	2,423
Deposits on land purchases	—	—	30
Income tax recoverable	8,930	217	497
Tenant inducements (note 12)	22	—	—
Other	168	228	143
	38,260	46,639	54,085
	$ 51,307	$ 59,625	$ 75,521
LIABILITIES			
Non-current liabilities			
Loans payable (notes 15 and 23)	$ 3,817	$ 4,052	$ 4,287
Deferred income taxes and other tax liabilities (note 16)	2,148	1,929	4,651
	5,965	5,981	8,938
Current liabilities			
Bank advances (note 14)	—	328	71
Loans payable (notes 15 and 23)	233	743	1,716
Accounts payable and accrued liabilities (note 23)	1,002	1,057	1,390
Deposits on sales	—	64	350
	1,235	2,192	3,527
	7,200	8,173	12,465
SHAREHOLDERS' EQUITY			
Capital stock (note 17)	35,890	35,890	35,890
Retained earnings	7,943	15,382	26,771
Accumulated other comprehensive income	274	180	395
	44,107	51,452	63,056
	$ 51,307	$ 59,625	$ 75,521

Contingencies and commitments (note 25)

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

Approved by the Board of Directors

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended September 30 (in thousands of Canadian dollars, except share and per share amounts)	2012	2011
		(note 6)
Housing revenue	$ 6,475	$ 10,611
Housing cost of sales	5,732	9,410
Gross margin on housing	743	1,201
Land sales	—	750
Land cost of sales	—	158
Gross margin on land sales	—	592
Investment properties revenue (note 23)	644	623
Investment properties operating expenses	219	177
Net rental income	425	446
Other income and (expenses)		
General and administrative (notes 23 and 24)	(900)	(886)
Interest and other income	1,418	1,965
Interest expense	(208)	(224)
Reversal of loss provision on syndicated mortgage loans (note 13(a))	690	—
Amortization of leasing costs	(10)	(7)
Fair value gain (loss) on investment properties (note 6)	(103)	901
	887	1,749
Earnings before income taxes	2,055	3,988
Recovery of income taxes (note 16)	(5,938)	(55)
Net earnings for the year	$ 7,993	$ 4,043
Basic and diluted earnings per share	$ 0.39	$ 0.20
Weighted average number of shares outstanding	20,575,866	20,575,866

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)	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 year	—	4,043	—	4,043
Other comprehensive loss	—	—	(215)	(215)
Dividends paid (note 18)	—	(15,432)	—	(15,432)
Balance – September 30, 2011	35,890	15,382	180	51,452
Net earnings for the year	—	7,993	—	7,993
Other comprehensive income	—	—	94	94
Dividends paid (note 18)	—	(15,432)	—	(15,432)
Balance – September 30, 2012	$ 35,890	$ 7,943	$ 274	$ 44,107

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended September 30 (in thousands of Canadian dollars)	2012	2011
Net earnings for the year	$ 7,993	$ 4,043
Other comprehensive income (loss), net of income taxes		
Unrealized gains (losses) arising during the year on available-for-sale financial assets	94	(215)
Comprehensive income for the year	$ 8,087	$ 3,828

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended September 30 (in thousands of Canadian dollars)	2012	2011
Cash provided by (used in)		
OPERATING ACTIVITIES		
Net earnings for the year	$ 7,993	$ 4,043
Add (deduct) non-cash items (note 22(a))	(326)	(3,510)
Costs recovered through sales of real estate	5,732	9,568
Expenditures on housing under development and land	(1,178)	(5,271)
Repayment of mortgage loans on housing under development	—	(733)
Leasing costs incurred	(84)	—
Tenant inducements incurred	(432)	—
Changes in non-cash operating balances (note 22(b))	(2,002)	(350)
	9,703	3,747
INVESTING ACTIVITIES		
Proceeds on sale of investment properties	—	3,788
Additions to investment properties	(478)	—
Investment in syndicated mortgage loans		
Advances	(749)	(2,575)
Sales or maturities	6,197	8,643
Marketable securities		
Purchases	(57,100)	(56,100)
Sales or maturities	53,604	59,409
Restricted cash	(729)	22
	745	13,187
FINANCING ACTIVITIES		
Bank advances – net	(328)	257
Repayments of mortgage loan on investment property	(237)	(238)
Repayment of loans from related parties	(510)	(240)
Dividends paid	(15,432)	(15,432)
	(16,507)	(15,653)
Increase (decrease) in cash and cash equivalents during the year	(6,059)	1,281
Cash and cash equivalents, beginning of the year (note 10)	8,456	7,175
Cash and cash equivalents, end of the year (note 10)	$ 2,397	$ 8,456

SUPPLEMENTARY INFORMATION (note 22(c))

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

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.

The Board of Directors approved the consolidated financial statements on December 14, 2012.

2. BASIS OF PREPARATION AND ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Company prepares its 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 period ended December 31, 2011. In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of consolidated annual financial statements, including IFRS 1 – First-time Adoption of International Financial Reporting Standards. Subject to certain transition elections disclosed in note 6, the Company has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at October 1, 2010, the Company's "Transition Date," and throughout all periods presented, as if these policies had always been in effect. Note 6 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 prepared under Canadian GAAP.

The policies applied in these consolidated financial statements are based on IFRS policies effective as of September 30, 2012.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company together with the Company's proportionate share of the assets, liabilities, revenue and expenses of joint ventures and co-tenancies.

Investment Properties

Investment properties include commercial properties held to earn rental income and capital appreciation but not for sale in the ordinary course of business. Investment properties are recorded initially at cost and subsequently at fair value as determined by qualified external valuation professionals at the consolidated balance sheet dates. Changes in fair value are recognized in the consolidated statements of earnings. Subsequent expenditures are capitalized to the asset carrying amount only when it is probable that future economic benefit associated with the expenditure will flow to the Company and the cost of the item can be reliably measured. All other repair and maintenance costs are expensed when incurred.

Financial Instruments

The Company's designations and measurement of the basis of its financial instruments are as follows:

Cash and cash equivalents and restricted cash, amounts receivable, investment in syndicated mortgage loans, marketable securities consisting of term deposits and deposits on land purchases are classified as "Loans and Receivables." After their initial recognition at fair value, these instruments are recorded at amortized cost using the effective interest rate method. The carrying value of these items approximates fair value due to their short-term nature, with the exception of the investments in syndicated mortgage loans (see note 19).

When in management's opinion, collection of the principal and interest on syndicated mortgage loans is no longer reasonably assured and the loans are not fully secured, allowances are made to reduce the carrying value of the loans to their estimated net realizable amount determined by the fair value of the collateral underlying the loans net of expected costs.

Marketable securities, consisting of equity investments, are classified as "Available-for-sale Securities." These financial assets are recorded at fair value through other comprehensive income at each period-end using quoted market prices.

Bank advances, loans payable, accounts payable and accrued liabilities and deposits on sales are classified as "Other Liabilities." After their initial recognition at fair value less directly attributable transaction costs, these instruments are recorded at amortized cost using the effective interest rate method. Transaction costs are recognized in comprehensive income over the expected life of the debt.

The Company expenses transaction costs related to amounts receivable, investment in syndicated mortgage loans and marketable securities that are available-for-sale.

Tenant Inducements

Cash inducements paid to tenants to enter into leases are amortized as a reduction in rental revenue over the term of the lease on a straight-line basis.

Land and Housing Under Development

Land held for resale and housing under development for sale are carried at the lower of cost and net realizable value. Net realizable value represents the amount of estimated net sales proceeds, taking into account management's assumptions and projections for the development of the property and market conditions.

Capitalization of Costs

The Company capitalizes certain costs applicable to land and housing under development. These costs include costs incurred during the development period, such as specific interest, realty taxes and that portion of general and administrative expenses directly attributable to the development project. For land projects, the development period is considered to have ended when the project is available-for-sale or lease.

Revenue Recognition

Rental Revenue

Rental revenue is recognized using the straight-line method whereby any contractual rent increases over the term of a lease are recognized as revenue on a straight-line basis.

The recovery of property operating expenses from tenants is recognized as revenue in the period in which the applicable expense is incurred.

Interest Income

Interest income is recognized using the effective interest rate method.

Land and Housing Sales Revenue

Land sales under agreements of purchase and sale are recognized as income once all material conditions have been fulfilled and the Company has received a down payment that is appropriate in the circumstances, but not less than 15% of the purchase price, having regard to the financial resources of the purchaser. Land sales are reported net of the imputed discounts arising from interest-free periods granted on balances due under agreements of purchase and sale.

Revenue from housing sales is recognized at the time of closing, which is the point where all material conditions of the transactions have been fulfilled and title has passed to the purchaser. Revenue from low-rise condominium projects is recognized when interim closing occurs. The cost of sales of houses is based on total costs incurred as well as a provision for costs to complete.

Costing Land Sales

Costs are allocated to the saleable acreage of each project or subdivision as follows:

(a) undeveloped land costs are pro-rated on an acreage basis to each phase of a subdivision; for commercial and industrial projects, costs are allocated on a net acreage basis; and

(b) servicing costs are allocated to individual lots on a front footage basis in each phase of a subdivision under development and on a net acreage basis for commercial and industrial projects.

Income Taxes

Income tax expense consists of current and deferred income tax expense. Current income taxes are the expected taxes payable on the taxable income for the period using income tax rates enacted or substantively enacted at the end of the reporting period and any adjustments to income taxes payable in respect of previous years.

Deferred income taxes are the amount of income taxes expected to be paid or recovered in future periods in respect of temporary differences and unutilized tax losses. Deferred income taxes are determined based on differences between financial statement values and income tax values of assets and liabilities using substantively enacted income tax rates and laws expected to be in effect when the deferred income tax asset or liability is settled. Deferred income taxes relating to fair value adjustments to investment properties reflect the tax consequences of recovering the carrying amount through sale.

Operating Segments

A reportable segment is a distinguishable component of the Company that is engaged in providing related products or services which is subject to the risks and rewards that are different from those of other reportable segments. The Company's operating segments are the construction and operation of investment properties, the construction and sale of residential units and the investment in syndicated mortgage loans and are reported in a manner consistent with the internal reporting provided to the chief operating decision makers, determined to be the Chief Executive Officer and the Vice-president.

4. CRITICAL ACCOUNTING ESTIMATES

The preparation of the 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 income and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates and judgments that could have a material impact on the consolidated financial statements within the next fiscal year are addressed below.

(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.

(b) Fair Value of Investment Properties

The fair value at October 1, 2010 and December 31, 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 October 1, 2010, September 30, 2011 and September 30, 2012. This property is comprised of two components, a rental building and adjoining rental land. The valuation of the building was done using the "Discounted Cash Flow Method" in which the income and expenses are projected over the anticipated term of the investment. The valuation of the rental land was done using the "Overall Capitalization Rate Method" whereby the net operating income is capitalized at the requisite overall capitalization rate.

(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 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.

5. 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 disclosures 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 – 13.

6. 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 Company has applied the following transitional exceptions and exemptions to full retrospective application of IFRS in its preparation of an opening IFRS consolidated balance sheet as at the Company's Transition Date:

(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. No changes in historical estimates were made in the preparation of these consolidated financial statements.

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

(in thousands of dollars)		Year Ended September 30, 2011		
	Note 6 (iii)	Cdn. GAAP	Adj.	IFRS
Revenue				
Real estate sales				
Housing		$ 10,611	$ —	$ 10,611
Land		750	—	750
		11,361	—	11,361
Rental	(c)	517	106	623
Interest and other income		1,965	—	1,965
		13,843	106	13,949
Expenses				
Real estate cost of sales				
Housing		9,410	—	9,410
Land		158	—	158
		9,568	—	9,568
Rental operating expenses	(c)	172	5	177
General and administrative		886	—	886
Interest		224	—	224
Amortization of leasing costs		7	—	7
Depreciation of investment properties	(a)	133	(133)	—
Fair value gain on investment properties	(a)	—	(901)	(901)
		10,990	(1,029)	9,961
Earnings before income taxes		2,853	1,135	3,988
Provision for (recovery of) income taxes	(c)	(198)	143	(55)
Net earnings for the year from continuing operations		3,051	992	4,043
Net earnings for the year from discontinued operations	(c)	2,446	(2,446)	—
Net earnings for the year		5,497	(1,454)	4,043
Other comprehensive income, net of income taxes		(215)	—	(215)
Comprehensive income		$ 5,282	$ (1,454)	$3,828

(iii) Explanatory notes

(a) Investment properties

The Company has elected to apply the fair value method of accounting for its investment properties 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 fair value gain of $901 was recognized in the year ended September 30, 2011 and a decrease in depreciation expense of $133 reflected for the year ended September 30, 2011.

(b) Leasing costs

Leasing costs of $18 and $20 have been reclassified as "Investment Properties" as at September 30, 2011 and October 1, 2010, 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:

	September 30 2011	October 1 2010
Shareholders' equity, as reported under Canadian GAAP	$ 49,567	$ 59,717
Fair value adjustments to investment properties (notes 6 (i) (a) and 6 (iii) (a)), net of deferred income taxes:		
Properties still owned by the Company	1,752	964
Properties disposed of in February 2011	—	2,375
Reverse depreciation expense on investment properties (note 6 (iii) (a))	133	—
Shareholders' equity, as reported under IFRS	$ 51,452	$ 63,056

(iv) Adjustments to consolidated statements of cash flows

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

7. 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:

	Revenue		Earnings	
	2012	2011	2012	2011
Investment properties	$ 644	$ 623	$ 104	$ 1,000
Residential construction	6,498	10,661	766	1,251
Syndicated mortgage loans	1,041	1,169	1,731	1,169
Unallocated amounts				
Interest income	354	746	354	746
Land sales	—	750	—	592
	$ 8,537	$ 13,949		
General and administrative expenses			(900)	(886)
Income taxes			5,938	171
Net earnings for the year			$ 7,993	$ 4,043

Identifiable assets	Investment properties	Residential construction	Syndicated mortgage loans	Unallocated corporate assets	Total assets
September 30, 2012	$ 10,566	$ 4,287	$ 6,481	$ 29,973	$ 51,307
September 30, 2011	$ 9,541	$ 11,523	$ 11,022	$ 27,539	$ 59,625
October 1, 2010	$ 12,480	$ 14,416	$ 17,126	$ 31,499	$ 75,521

Identifiable liabilities	Investment properties	Residential construction	Syndicated mortgage loans	Unallocated corporate assets	Total assets
September 30, 2012	$ 4,403	$ 252	$ —	$ 2,545	$ 7,200
September 30, 2011	$ 4,447	$ 1,406	$ —	$ 2,320	$ 8,173
October 1, 2010	$ 4,594	$ 2,737	$ —	$ 5,134	$ 12,465

Capital expenditures in the investment properties segment for the year ended September 30, 2012 amounted to $994 (2011 - $nil).

8. INVESTMENT PROPERTIES

	2012	2011
Balance, beginning of the year	$ 9,351	$ 12,245
Amortization of leasing costs	(10)	(7)
Additions (disposals)	478	(3,788)
Fair value adjustment (note 6 (iii) (a))	(103)	901
Leasing costs incurred	84	—
Balance, end of the year	$ 9,800	$ 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 investment properties, including the two investment properties sold in 2011, as explained above, is set out in note 4(b). The key valuation metrics for the sole remaining investment property are set out in the following table:

	September 30, 2012			September 30, 2011			October 1, 2010		
Capitalization rate	Minimum	Maximum	Applied	Minimum	Maximum	Applied	Minimum	Maximum	Applied
Rental building	8.0%	8.5%	8.25%	6.7%	8.2%	8.0%	7.0%	9.5%	8.3%
Adjoining land	4.85%	6.0%	6.0%	6.0%	6.7%	6.25%	n/a	n/a	*

*Valued as vacant, serviced land prior to the Company leasing to a fast food drive-through restaurant tenant, using the Direct Comparison Approach.

Presented separately from investment properties is $171 (September 30, 2011 - $61; October 1, 2010 - $62) of net straight-line rent receivable (included in note 11) 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 $8,900 (September 30, 2011 - $8,600), has been pledged as security for a mortgage loan payable (note 15).

9. LAND AND HOUSING UNDER DEVELOPMENT

	September 30 2012	September 30 2011	October 1 2010
Housing under construction	$ 1,201	$ 5,755	$ 9,898
Land under development	—	—	153
	$ 1,201	$ 5,755	$ 10,051

10. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

(a) Cash and cash equivalents consist of the following:

	September 30 2012	September 30 2011	October 1 2010
Cash	$ 678	$ 3,538	$ 2,832
Term deposits	1,719	4,918	4,343
Total cash and cash equivalents	$ 2,397	$ 8,456	$ 7,175

Cash and cash equivalents include unrestricted cash and term deposits with a maturity of three months or less from the date of acquisition.

Included in cash and cash equivalents is the Company's proportionate share of cash and cash equivalents of the Company's proportionately consolidated home building and investment property operations of $1,913 (September 30, 2011 - $5,228; October 1, 2010 - $4,206).

(b) Restricted cash is as follows:

	September 30 2012	September 30 2011	October 1 2010
Total restricted cash	$ 1,051	$ 322	$ 344

Restricted cash, all held in the Company's house building joint ventures, includes deposits required to secure outstanding guarantees and letters of credit of $251 and funds held in trust by the project manager of $800 on the basis of $2 per project dwelling unit. These trust funds are held pursuant to the project joint venture agreements and are meant to provide a contingency fund should any warranty or other claims be made with respect to the houses sold. The project manager, at its discretion, may call on joint venture members for additional contingency fund contributions if and when required, pay for additional project costs contemplated when establishing the fund or release remaining funds back to the joint venture for distribution to the members once they are no longer considered necessary to hold.

11. AMOUNTS RECEIVABLE

	September 30 2012	September 30 2011	October 1 2010
Receivable on land sale	$ —	$ 7,182	$ 7,395
Straight-line rent receivable	171	61	62
Other	163	157	2
	$ 334	$ 7,400	$ 7,459
Non-current	$ 167	$ 50	$ 6,838
Current	167	7,350	621
	$ 334	$ 7,400	$ 7,459

The receivable on land sale constitutes the vendor take-back mortgage, including accrued interest receivable of $406 at September 30, 2011 and $419 at October 1, 2010, 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 approximated its carrying value due to its short term to maturity.

12. TENANT INDUCEMENTS

	2012	2011
Tenant inducements	$ 432	$ —
Less: Accumulated amortization	(12)	—
	$ 420	$ —
Non-current	$ 398	$ —
Current	22	—
	$ 420	$ —

Cash inducements paid to tenants to enter into leases are amortized as a reduction in rental revenue over the term of the lease on a straight-line basis.

13. INVESTMENTS IN SYNDICATED MORTGAGE LOANS, SHORT-TERM INVESTMENTS AND MARKETABLE SECURITIES

	September 30 2012	September 30 2011	October 1 2010
(a) Syndicated mortgage loans are secured by real property, for remaining terms from 1 to 48 months (September 30, 2011 – 1 to 38 months, October 1, 2010 – 1 to 26 months), bearing interest at a period-end weighted average rate of 8.44% (September 30, 2011 – 9.2%, October 1, 2010 – 9.5%) per annum.			
Non-current	$ 2,682	$ 3,585	$ 2,353
Current	3,799	7,437	14,773
	$ 6,481	$ 11,022	$ 17,126

The Company has commitments to make additional advances totaling $47 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: $3,752 in 2013, $2,131 in 2015 and $598 in 2016.

Syndicated mortgage loans to three different borrowers in amounts totaling $2,131, $1,617 and $1,447, individually account for more than 10% of the Company's total syndicated mortgage loan portfolio. In addition, the Company is exposed to concentration of credit risk, whereby approximately 57% of the syndicated mortgage loans relate to projects in the Greater Toronto Area.

At September 30, 2012, the Company had provisions for loan losses totaling $nil (September 30, 2011 - $690). The September 30, 2011 loan loss provision of $690 was reversed as management determined that a provision was no longer required.

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

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	2012 Total
Syndicated mortgage loans	$ —	$ —	$ —	$ 1,447	$ 1,447

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	2011 Total
Syndicated mortgage loans	$ 3,816	$ —	$ —	$ —	$ 3,816

The Company holds a 30% interest in a first charge syndicated mortgage loan and a 60% interest in a second charge syndicated mortgage loan on a townhouse development under construction in the Greater Toronto Area. The Company's investment in these two loans totals $1,447 at September 30, 2012 (September 30, 2011 – $2,530) and both loans are over 90 days past due. The mortgage syndicator has not renewed the loans and has issued a notice of sale to require the proceeds of sale on the closings of the units to be applied to mortgage repayment. Management believes the project's unsold units and unbuilt serviced lots together with other real property security pledged by the lender provides adequate security for the loan and that no loan loss provision is required. The estimated net realizable recovery to the Company from the sale of real property securing these loans is $1,447 (2011 - $2,530).

(b)	September 30 2012	September 30 2011	October 1 2010
Short-term investments consist of the following:			
Canadian chartered bank issued term deposits issued for periods of 90 days or greater, bearing interest at a period-end weighted average rate of 1.57%.	$ 18,268	$ 14,719	$ 18,028

(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)	$ 411	$ 401	$ 396
12,000 TD Bank Class A first preferred shares, Series O, to yield 4.85% per annum (cost – $300)	313	310	287
3,130 (2011 – 3,466) Faircourt Split Seven Trust, preferred securities, due December 31, 2014, to yield 6.25% (cost – $31; 2011 – $35)	32	36	44
52,840.03 B/1 shares York Select Unit Trust (cost – US$1,000; fair value US$1,527; September 30, 2011 – fair value – US$1,348; October 1, 2010 – fair value – US$1,645).	1,501	1,408	1,696
	$ 2,257	$ 2,155	$ 2,423

14. BANK ADVANCES

Bank advances 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.

15. LOANS PAYABLE

	September 30 2012	September 30 2011	October 1 2010
Secured by housing under development	$ —	$ —	$ 733
Secured by an investment property, net of deferred financing fees of $28 (September 30, 2011 – $29)	4,050	4,285	4,520
Loans from related parties	—	510	750
Total loans payable	$ 4,050	$ 4,795	$ 6,003

Principal repayments of the loans are due as follows:

Years ending September 30, 2013	$ 237
2014	237
2015	237
2016	237
2017	237
Thereafter	2,893
	4,078
Less: Financing fee	28
	$ 4,050

The estimated fair value of loans payable at September 30, 2012 is $4,050 (September 30, 2011- $4,795; October 1, 2010 - $6,003) because these loans payable bear interest at a variable rate.

The loan payable secured by an 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 September 30, 2012, the base rate was 5%. 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 September 30, 2012, this condition has been met.

Loans from related parties comprise loans payable, held within the Company's house building joint ventures, 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 (note 23). There are no outstanding loans from related parties as at September 30, 2012.

16. INCOME TAXES

a) Significant components of the income tax provision (recovery) for the year ended September 30 are:

	2012	2011
Current	$ (6,145)	$ 2,623
Deferred	207	(2,678)
Recovery of income taxes	(5,938)	(55)
Income tax provision on other comprehensive income included in deferred income taxes	12	(44)
	$ (5,926)	$ (99)

b) The income tax provision (recovery) 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:

	2012	2011
Expected income tax at 26.875% (2011 – 28.75%)	$ 552	$ 1,147
Reversal of provision no longer considered necessary	(6,700)	(1,263)
Other	210	61
Income tax recovery in consolidated statements of earnings	(5,938)	(55)
Income tax provision (recovery) in consolidated statements of comprehensive income	12	(44)
	$ (5,926)	$ (99)

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

	September 30 2012	September 30 2011	October 1 2110
Temporary differences:			
Capital cost allowance in excess of accounting amortization booked	$ 309	$ 269	$ 301
Costs capitalized for accounting, deducted for income tax	350	237	247
Unrealized gain on investment properties (notes 6 (i)(a) and 6 (iii)(a))	371	346	676
Mortgage reserves and discounts on amounts receivable	46	16	1,592
Reserve not currently deductible	—	(45)	(88)
Other comprehensive income	42	30	74
	1,118	853	2,802
Other reserves and provisions	1,030	1,076	1,849
	$ 2,148	$ 1,929	$ 4,651
Comprised of:			
Deferred income tax liabilities reversing after more than 12 months	$ 1,052	$ 1,806	$ 2,089
Deferred income tax liabilities reversing within 12 months	1,096	123	$ 2,562
	$ 2,148	$ 1,929	$ 4,651

17. CAPITAL STOCK

AUTHORIZED

Unlimited Class B, voting shares, without par value

Details of issued capital stock, unchanged since October 1, 2009, are as follows:

	Number of shares	Amount
Balance, September 30, 2012 and September 30, 2011	20,575,866	$ 35,890

18. DIVIDENDS PAID

On February 13, 2012, the Company declared a special dividend of $0.75 per Class B share payable to shareholders of record at the close of business on February 23, 2012. The dividend, totaling $15,432, was paid on March 5, 2012.

On February 1, 2011, the Company declared a special dividend of $0.75 per Class B share payable to shareholders of record at the close of business on February 21, 2011. The dividend, totaling $15,432, was paid on March 4, 2011.

19. 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, deposits on land purchases, 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.

The three levels of the fair value hierarchy, that prioritize the inputs to fair value measurement, are as follows:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and;
Level 3 – inputs that are not based on observable market data.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as described above as at September 30, 2012 and September 30, 2011:

September 30, 2012	Level 1	Level 2	Level 3	Total
Marketable securities	$ 20,525	$ —	$ —	$ 20,525

September 30, 2011	Level 1	Level 2	Level 3	Total
Marketable securities	$ 16,874	$ —	$ —	$ 16,874

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 year ended September 30, 2012:

		Interest rate risk			
		-1%		+1%	
Increase (decrease)	Carrying value	Net earnings	Equity	Net earnings	Equity
Financial assets					
Cash	$ 2,397	$ (18)	$ (18)	$ 18	$ 18
Investment in preferred shares	756	—	159	—	(107)
Financial liabilities					
Mortgage payable	4,050	31	31	(31)	(31)
Total increase (decrease)		$ 13	$ 172	$ (13)	$ (120)

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, short-term investments, investments in syndicated mortgage loans, marketable securities and deposits on land purchases.

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 13(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 September 30, 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 (1)	$ 5,836	$ 436	$ 836	$ 789	$ 3,775
Accounts payable and accrued liabilities	1,002	1,002	—	—	—
Further advances under syndicated mortgage loans (2)	47	47	—	—	—
Liabilities and other contractual obligations	$ 6,885	$ 1,485	$ 836	$ 789	$ 3,775

(1) A 5% interest rate has been used for the remaining term to maturity.

(2) 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:

a) 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

b) 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 one of if its investment properties as discussed in note 15, 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.

20. FINANCIAL GUARANTEES

At September 30, 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 September 30, 2012, the Company's co-investors' share of obligations of such entities comprises liabilities of $930 (September 30, 2011 - $4,339) 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

21. JOINT VENTURES AND CO-TENANCIES

The Company's aggregate proportionate share of joint venture and co-tenancy operations is reflected in these consolidated financial statements as shown below. This reflects ownership percentages ranging from 10% to 50%.

	2012	2011
Assets	$ 14,853	$ 18,833
Liabilities	4,655	5,854
	$ 10,198	$ 12,979
Revenue	$ 7,142	$ 11,177
Expenses	6,272	9,947
Earnings	$ 870	$ 1,230
Cash provided by (used in)		
Operating activities	$ (1,027)	$ 637
Investing activities	(1,724)	22
Financing activities	(563)	19

22. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2012	2011
Deferred income taxes	$ 207	$ (2,678)
Amortization of leasing costs	10	7
Amortization of deferred financing costs	2	3
Amortization of tenant inducements	12	—
Accrued interest receivable	140	58
Reversal of loss provision on syndicated mortgage loans	(690)	—
Straight-line rent receivable	(110)	1
Fair value loss (gain) on investment property	103	(901)
	$ 326	$ (3,510)

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

	2012	2011
Amounts receivable	$ 6,770	$ 45
Deposits on land purchases	—	30
Accounts payable and accrued liabilities	(55)	(333)
Deposits on sales	(64)	(286)
Income tax recoverable	(8,713)	280
Other	60	(86)
	$ (2,002)	$ (350)

(c) Supplementary information consists of the following:

	2012	2011
Interest paid	$ 246	$ 246
Income taxes paid	$ 2,567	$ 2,311

23. 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 13(a) to the consolidated financial statements. 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 the amount of consideration agreed to by the parties.

Transactions with related parties during the year were as follows:

	2012	2011
Management fee expense	$ 300	$ 300
Rental operating expenses	20	21
Legal services	38	40
Rental income	164	186
Construction contracting services	1	167
Interest paid or payable on loans payable	36	27

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

	2012	2011
Accounts payable and accrued liabilities	$ 300	$ 302
Loans payable	—	510

Key Management Compensation

Key management includes the Chief Executive Officer, the Chief Financial Officer and the Vice-president and they have been compensated as follows:

	2012	2011
Salaries and employee benefits	$ 171	$ 180
Management fees	300	300
Directors' fees	56	68
Total	$ 527	$ 548

24. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

Expenses incurred by nature are as follows:

	2012	2011
Salaries, employee benefits and directors' fees	$ 310	$ 322
Management fees	300	300
Professional fees	145	172
Other	145	92
	$ 900	$ 886

25. CONTINGENCIES AND COMMITMENTS

As security for the Company's letter of credit facilities of $251 (September 30, 2011 - $322; October 1, 2010 - $344), 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.

The Company, from time to time, is subject to legal proceedings being 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 financial performance.

The Company has commitments to make additional advances in connection with its syndicated mortgage loan investments as explained in note 13(a).

CORPORATE DIRECTORY

DIRECTORS

Rudolph Bratty**
President
Ruland Reality Limited

John H. Craig
Solicitor and Partner
Cassels Brock & Blackwell LLP
Barristers and Solicitors

John H. Daniels*
President
The Daniels Group Inc.

Richard Gambin*
President
Ricgam Investments Ltd.

Stanley Goldfarb
President
Logpin Investments Limited

Marc Muzzo
Director
Marel Contractors

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

OFFICERS

Stanley Goldfarb
President, Chief Executive Officer
& Treasurer

Marc Muzzo
Vice-President

John H. Craig
Secretary

Arnold J. Resnick
Chief Financial Officer

AUDITOR

PricewaterhouseCoopers LLP

TRANSFER AGENT

Computershare Investor
Services Inc.

SOLICITORS

Cassels Brock & Blackwell LLP

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbol: CXA.B

ANNUAL MEETING

Consolidated HCI Holdings Corporation Annual Meeting will be held on Thursday, March 21, 2013
at 11:00 A.M. in the Shepard Room, Novotel Hotel
3 Park Home Avenue, Toronto, Ontario

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