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.