

## **MANAGEMENT'S DISCUSSION and ANALYSIS**

As of August 7, 2013

The following Management's Discussion and Analysis ("MD&A") is intended to provide readers with an explanation of the performance of Consolidated HCI Holdings Corporation ("CHCI" or the "Company") for the three and nine-month periods ended June 30, 2013 and 2012, as well as updating CHCI's most recently issued MD&A, dated December 14, 2012. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of the Company, including the notes thereto, for the three and nine-month periods ended June 30, 2013 and 2012 and should also be read in conjunction with the audited consolidated financial statements and the MD&A for the fiscal years ended September 30, 2012 and 2011, as set out in the Company's 2012 Annual Report.

Additional information relating to the Company, including the Certification of Interim Filings for the quarter ended June 30, 2013 signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), is also available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### **RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS**

Management is responsible for the information disclosed in this MD&A and has in place 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 unaudited interim consolidated financial statements as at June 30, 2013 and 2012.

### **FORWARD-LOOKING STATEMENTS**

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

### **OVERVIEW**

The Company's activities in the real estate industry are conducted with others at varying participation rates in co-tenancies and joint ventures. The interim 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. The Company also conducts activities through various ventures in the building and selling of new homes on land purchased from others. The Company also invests in syndicated mortgage loans, which are secured by real property developments of other land developers and builders.

## REVIEW OF FINANCIAL RESULTS

### Results of Operations

#### Summary of operating results

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

	Three months ended		Nine months ended	
	June 30 2013	June 30 2012	June 30 2013	June 30 2012
Revenue	\$ 1,419	\$ 2,774	\$ 2,874	\$ 7,255
Earnings (loss) before income taxes	\$ 889	\$ (31)	\$ 1,349	\$ 299
Provision for (recovery of) income taxes	168	(6,204)	(5,507)	(6,245)
Net earnings for the period	\$ 721	\$ 6,173	\$ 6,856	\$ 6,544
Basic and diluted earnings per share	\$ 0.03	\$ 0.30	\$ 0.33	\$ 0.32

Revenue in the first nine months of fiscal 2013 decreased by \$4.38 million compared to the revenue recorded for the same period in fiscal 2012. This decrease is comprised of a decrease in housing sales of \$4.71 million, partially offset by an increase in rental revenue of \$0.11 million and an increase in interest and other income of \$0.23 million. As mentioned in previous years, the nature of real estate development does not allow for a consistent year-to-year volume of sales. Revenue is comprised of sales in specific projects as the marketplace dictates and buyers become available.

#### House building operations

(Unaudited, in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	June 30 2013	June 30 2012	June 30 2013	June 30 2012
Revenue from housing sales	\$ 764	\$ 2,448	\$ 1,293	\$ 6,010
Housing cost of sales	748	2,161	1,241	5,374
Gross profit from housing sales	\$ 16	\$ 287	\$ 52	\$ 636

The Company's share of joint venture revenue from housing sales decreased in the first nine months of 2013 by \$4.71 million compared to the corresponding period in the previous year. This revenue decrease is primarily the result of there being fewer units sold. The Company has acquired no new lots since the first quarter of 2011 and since that time has been building out and selling its remaining inventory.

The gross margin percentage on housing sales is a function of the project sold. Margins vary widely from project to project and are influenced by many factors, including market demand in the project's location, the proximity of competing product, the mix of product in the project, the cost of land, the stage in a project when construction cost increases hit the market and the length of time it takes for a project to sell out, resulting in higher than budgeted carrying costs. The average gross margin on the Company's share of the nine housing units closed in the first nine months of 2013 was 4.0%. Most of this gross margin decline was the result of adjustments in the first and third quarters of 2013 for cost estimates made in two projects which had sold out in 2012.

## Rental operations

(Unaudited, in thousands of Canadian dollars)

	Three months ended June 30 2013		Nine months ended June 30 2013	
		June 30 2012		June 30 2012
Investment property revenues	\$	186	\$	551
Property operating expenses		82		304
Net operating income*	\$	104	\$	247

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

The increase in rental revenue in the first nine months of 2013 of \$0.11 million over that recorded in the corresponding period in 2012 is primarily the result of rental revenue from two new tenants whose tenancies commenced in the first nine months of 2013 and from a national fitness chain whose tenancy commenced in the second quarter of 2012.

Property operating expenses in the first nine months of 2013 increased by \$0.14 million compared to the corresponding period in 2012 primarily from increased repairs and maintenance costs related to moving a short-term tenant in and out and other increased building period costs.

At June 30, 2013, the Company's sole investment property consists of its 50% share of the 200,000 square foot industrial/commercial building and adjacent 1.25 acre restaurant site in Vaughan, Ontario.

With the commencement of two new tenancies during the first nine months of 2013 the building was 65% leased as at June 30, 2013, up from 61% at September 30, 2012. Subsequent to June 30, 2013 a further 5,000 square feet was leased which will raise the occupancy level to 67.5% as of the August 1, 2013 commencement date.

As previously reported, during the fourth quarter of 2011 the Company entered into an agreement to lease the rental land component of its investment property to an international chain for use as a fast food restaurant with drive-through for a 15-year term with two five-year renewals. The Company has continued to experience unforeseen delays involving the planning and design process and municipal and regional approvals. Subsequent to June 30, 2013 the Company obtained the variance required for the property's intended use and is now awaiting site plan approval. The Company expects that the tenancy will commence in the first quarter of 2014.

## Interest and other income

Interest and other income increased by \$0.23 million for the nine months ended June 30, 2013 compared to the corresponding period in the previous year. This increase was primarily due to the Company receiving interest of \$0.31 million, not previously accrued due to the uncertainty of its collectability, on the repayment of a syndicated mortgage loan. The increase was partially offset due to the Company having a substantially greater investment in low interest rate cash and short-term money market instruments and substantially reduced investment in higher interest rate syndicated mortgage loans during the first nine months of 2013 compared to the corresponding period in 2012. After December 31, 2008, other than fulfilling funding commitments and participating in renewals or extensions on, or in connection with existing syndicated mortgage loans, the Company ceased investing in syndicated mortgage loans with a view to accumulating cash to pay future dividends, which were ultimately paid on January 13, 2010, March 4, 2011 and March 5, 2012.

## General and administrative expenses

General and administrative expenses, incurred in the first nine months of 2013, in aggregate, are lower than those incurred during the corresponding period of 2012 by \$0.04 million, reflecting a reduction across the majority of cost categories as the scale of the Company's operations continue to reduce.

## Income taxes

The income tax recovery for the first nine months of 2013 of \$5.51million (2012 - \$6.25 million) has been computed by applying the average statutory Canadian federal and provincial income tax rate of 26.50% (2012 – 26.75%) to earnings before income taxes and by the Company recording a recovery of prior years' income taxes of \$5.78 million (2012 - \$6.70 million), the result of confirmation that certain prior year tax provisions were no longer considered necessary.

## FINANCIAL CONDITION

(Unaudited, in thousands of Canadian dollars)

	June 30 2013	September 30 2012
Investment property	\$ 10,695	\$ 9,800
Housing under construction	248	1,201
Cash and cash equivalents	4,614	2,397
Restricted cash	968	1,051
Amounts receivable	303	334
Investment in syndicated mortgage loans	1,477	6,481
Short-term investments	35,348	18,268
Marketable securities	2,749	2,257
Income tax recoverable	464	8,930
Tenant inducements	404	420
All other assets	65	168
Total assets	\$ 57,335	\$ 51,307
Long-term financial liability:		
Mortgage loan on investment property	\$ 3,642	\$ 3,817

## ASSETS AND LIABILITIES

During the first nine months of 2013, the Company realized cash from sales in two of its house building joint ventures, maturities and partial repayments of syndicated mortgage loans and marketable securities and interest earned on its investments in syndicated mortgage loans, cash and short-term investments. The majority of this cash was used to fund investment property operations, general and administrative costs, make income tax installments, and increase investment in short-term investments.

The Company's housing under construction decreased by \$0.95 million during the first nine months of 2013, resulting from the cost of houses sold exceeding the expenditures on housing construction and carrying costs.

At June 30, 2013, the Company's real estate holdings consist of its 50% share of the investment property in Vaughan, Ontario referred to above and one residential lot in Mississauga, Ontario.

## OUTSTANDING SHARE DATA

Authorized capital stock consists of an unlimited number of Class B voting shares without par value. Issued and outstanding as at June 30, 2013 are 20,575,866 shares, unchanged from October 1, 2011.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flows

(Unaudited, in thousands of Canadian dollars)

	Nine months ended	
	June 30 2013	June 30 2012
Cash provided by (used in):		
Operating activities	\$ 15,407	\$ 9,743
Investing activities	(13,011)	3,453
Financing activities	(179)	(15,158)
Increase (decrease) in cash and cash equivalents during the period	2,217	(1,962)
Cash and cash equivalents, beginning of the period	2,397	8,456
Cash and cash equivalents, end of the period	\$ 4,614	\$ 6,494

Cash and cash equivalents increased in the first nine months of 2013 by \$2.2 million, primarily the result of proceeds of maturities of investments in syndicated mortgage loans partially offset by net increased investment in short-term investments and principal payments on the mortgage loan on the Company's investment property.

The Company continues to use cash flows to invest in money market investments, to fund its investment property and house building operations and to fund general and administrative costs. The Company's cash and cash equivalents serve to provide the Company with sufficient liquidity to carry on its business activities.

### CONTRACTUAL OBLIGATIONS

The following table summarizes the contractual amounts and maturity periods of the Company's financial liabilities at June 30, 2013 on an undiscounted basis:

(Unaudited, in thousands of Canadian dollars)

Contractual obligations are due as follows:	Total	Less than 1 year	1 - 3 years	4 - 5 years	Thereafter
Loans payable (1)	\$ 5,186	\$ 389	\$ 750	\$ 712	\$ 3,335
Accounts payable and accrued liabilities	724	724	—	—	—
Syndicated mortgage loan funding commitment (2)	1,272	1,272	—	—	—
Liabilities and other contractual obligations	\$ 7,182	\$ 2,385	\$ 750	\$ 712	\$ 3,335

(1) A 4% 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.

## TRANSACTIONS WITH RELATED PARTIES

### Related Party Transactions

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

- some lots within the house building joint ventures were acquired from companies partly owned by or related to certain shareholders who are directors and/or officers of the Company;
- certain shareholders, and certain shareholders who are directors and officers or parties related to them, are also participants in all of the house building joint ventures;
- the Company is managed by two shareholders who are also officers and directors under a management agreement;
- a company controlled by an officer and a director provides certain construction contracting services to the Company;
- a director who is also an officer is a partner in a law firm that provides legal services to the Company;
- a director is associated with a law firm that provides legal services to the Company and its joint ventures;
- a director who is also an officer of the Company serves as a director of a Toronto Stock Exchange listed mortgage loan investment corporation. This corporation is a co-investor with the Company in the syndicated mortgage loans described in note 11(a) to the interim 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 period were as follows:

(Unaudited, in thousands of Canadian dollars)

	Nine months ended	
	June 30 2013	June 30 2012
Management fee expense	\$ 234	\$ 238
Legal services	19	30
Rental income	116	129
Interest paid or payable on loans payable	–	36

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

	June 30 2013	September 30 2012
Accounts payable and accrued liabilities	\$ 225	\$ 300

## **RISK MANAGEMENT**

### **Market Risk – Interest Rate Risk**

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

### **Credit and Operational Risks**

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

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

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

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

### **Liquidity Risk**

Liquidity risk is managed by maintaining cash and cash equivalents in excess of projected needs, which includes the funding of commitments under certain of the Company's syndicated mortgage loan investments, as indicated in note 11(a) to the June 30, 2013 interim consolidated financial statements. The Company expects to be able to repay or, if required, obtain an extension on the loan payable on the investment property, if required, on demand.

### **Capital Risk Management**

The Company's objectives when managing capital are:

- a) to safeguard the Company'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 a mortgage loan payable on its investment property and shareholders' equity and, other than the capital requirement with respect to the mortgage loan, to maintain a long-term debt to tangible equity ratio of 3:1, which condition has been met at June 30, 2013, it is not subject to any externally imposed capital requirements.

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

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

## **ENVIRONMENTAL RISKS**

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



## CONTROLS AND PROCEDURES

At June 30, 2013, the CEO and the CFO (“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 they have designed internal controls over financial reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its interim consolidated financial statements for external purposes in accordance with IFRS. All internal controls over financial reporting are either completed or reviewed by the CFO with involvement from the CEO and Vice-President as deemed necessary. Other than the CFO, the Company has only one employee who is engaged in accounting and recordkeeping functions and who is directly supervised by the CFO.

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

The following summary of financial information as at June 30, 2013 and September 30, 2012 and for the three and nine-month periods ended June 30, 2013 and 2012 relates to the Company’s proportionately consolidated entities, comprising all its investments in its investment property and residential construction segments:

(Unaudited, in thousands of Canadian dollars)

	June 30 2013	September 30 2012
Assets	\$ 15,667	\$ 14,853
Liabilities	4,316	4,655
	<b>\$ 19,983</b>	<b>\$ 10,198</b>

	Three months ended June 30 2013		Nine months ended June 30 2013	
		June 30 2012		June 30 2012
Revenue	\$ 956	\$ 2,601	\$ 1,870	\$ 6,486
Expenses	322	2,577	888	6,284
Earnings	<b>\$ 634</b>	<b>\$ 24</b>	<b>\$ 982</b>	<b>\$ 202</b>

	Nine months ended June 30 2013		June 30 2012	
Cash provided by (used in)				
Operating activities	\$ 484	\$ 1,693		
Investing activities	\$ (95)	\$ (357)		
Financing activities	\$ (178)	\$ (503)		

The certifying officers have determined there were no changes in the Company’s ICFR that occurred during the nine months ended June 30, 2013 that have significantly affected, or are reasonably likely to significantly affect, the Company’s ICFR.

## **FUTURE ACCOUNTING CHANGES**

### **Accounting Standards Issued and Yet to be Applied**

Unless otherwise noted, the following new standards and amendments to existing standards apply to annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of these new standards and amendments to its interim 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 with 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 unconsolidated 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 to 13.

#### **CRITICAL ACCOUNTING ESTIMATES**

The discussion and analysis of the financial condition and results of operations of the Company are based on the interim consolidated financial statements, which are prepared in accordance with IFRS. The preparation of interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts in the interim 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 Property**

The fair value of the Company's last remaining investment property was determined by qualified external valuation professionals at September 30, 2012 and June 30, 2013. 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 their 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 interim consolidated balance sheet dates requires management to make estimates and assumptions regarding the timing of when temporary differences are expected to reverse. Actual results could differ from those estimates.

## OUTLOOK

As at June 30, 2013, the Company's housing inventory consisted of its proportionate share of one residential dwelling unit in the Company's last remaining project. 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 closed the remaining unit. 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 total revenue from house sales is expected to decline in 2013 over that in 2012 for the same reason.

The Company's remaining real estate holdings consist of the investment property described above under "Results of Operations – Rental Operations." Management is continuing with its efforts to complete the leasing of this investment property, has been receiving expressions of interest to lease remaining vacant space in the building and has been working with prospective tenants but, beyond the completed leasing activity described above, no new space has been leased.

Management continues to closely monitor the Company's investments in syndicated mortgage loans. One of the syndicated mortgage loans in the Company's portfolio is not performing to its terms and appropriate steps are being taken by the syndicator with regard to this non-compliant loan.

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