

# **CONSOLIDATED HCI HOLDINGS CORPORATION**

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## **FIRST QUARTER REPORT**

**1**

**For The Three Months Ended  
December 31, 2013**

## **Consolidated HCI Holdings Corporation**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

The accompanying unaudited interim consolidated financial statements of Consolidated HCI Holdings Corporation (the "Company") for the three months ended December 31, 2013 have been prepared by and are the responsibility of the Company's management.

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

CONSOLIDATED HCI HOLDINGS CORPORATION  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(unaudited, in thousands of Canadian dollars)

	December 31 2013	September 30 2013
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment property (note 6)	\$ 11,012	\$ 10,705
Investment in syndicated mortgage loans (note 11(a))	373	968
Amounts receivable (note 9)	239	235
Tenant inducements (note 10)	371	377
	<b>11,995</b>	<b>12,285</b>
<b>Current assets</b>		
Cash and cash equivalents (note 8(a))	2,663	3,082
Restricted cash (note 8(b))	987	1,015
Amounts receivable (note 9)	255	255
Investment in syndicated mortgage loans (note 11(a))	1,162	341
Short-term investments (note 11(b))	37,336	37,417
Marketable securities (note 11(c))	3,156	2,766
Income tax recoverable	360	445
Tenant inducements (note 10)	22	22
Other	157	82
	<b>46,098</b>	<b>45,425</b>
<b>Total assets</b>	<b>\$ 58,093</b>	<b>\$ 57,710</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Loan payable (note 12)	\$ 3,519	\$ 3,579
Accounts payable and accrued liabilities (note 17)	59	70
Deferred income taxes (note 13)	1,385	1,329
	<b>4,963</b>	<b>4,978</b>
<b>Current liabilities</b>		
Loan payable (note 12)	237	236
Accounts payable and accrued liabilities (note 17)	744	1,020
	<b>981</b>	<b>1,256</b>
<b>Total liabilities</b>	<b>5,944</b>	<b>6,234</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	35,890	35,890
Retained earnings	15,195	14,860
Accumulated other comprehensive income	1,064	726
<b>Total shareholders' equity</b>	<b>52,149</b>	<b>51,476</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 58,093</b>	<b>\$ 57,710</b>
Contingencies and commitments (note 18)		

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

CONSOLIDATED HCI HOLDINGS CORPORATION  
**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(unaudited, in thousands of Canadian dollars)

	Capital stock	Retained earnings	Accumulated other comprehensive income	Total equity
<b>Balance – October 1, 2013</b>	<b>\$ 35,890</b>	<b>\$ 14,860</b>	<b>\$ 726</b>	<b>\$ 51,476</b>
Net earnings for the period	–	335	–	335
Other comprehensive income	–	–	338	338
<b>Balance – December 31, 2013</b>	<b>\$ 35,890</b>	<b>\$ 15,195</b>	<b>\$ 1,064</b>	<b>\$ 52,149</b>

	Capital stock	Retained earnings	Accumulated other comprehensive income	Total equity
Balance – October 1, 2012	\$ 35,890	\$ 7,943	\$ 274	\$ 44,107
Net earnings for the period	–	74	–	74
Other comprehensive income	–	–	133	133
Balance – December 31, 2012	\$ 35,890	\$ 8,017	\$ 407	\$ 44,314

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

CONSOLIDATED HCI HOLDINGS CORPORATION  
**INTERIM CONSOLIDATED STATEMENTS OF EARNINGS**

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

	Three months ended <b>December 31</b> <b>2013</b>	December 31 2012
Housing revenue	\$ –	\$ 202
Housing cost of sales (note 7)	<b>47</b>	210
<b>Gross loss on housing</b>	<b>(47)</b>	(8)
Investment property revenue (note 17)	<b>227</b>	175
Investment property operating expenses	<b>40</b>	104
<b>Net rental income</b>	<b>187</b>	71
<b>Other income (expenses)</b>		
General and administrative (note 17)	<b>(215)</b>	(201)
Interest and other income	<b>339</b>	306
Interest expense	<b>(36)</b>	(48)
Amortization of leasing costs	<b>(3)</b>	(3)
Fair value gain on investment property (note 6)	<b>199</b>	90
	<b>284</b>	144
<b>Earnings before income taxes</b>	<b>424</b>	207
Provision for income taxes (note 13)	<b>89</b>	133
<b>Net earnings for the period</b>	<b>\$ 335</b>	<b>\$ 74</b>
Basic and diluted earnings per share	<b>\$ 0.02</b>	\$ –
Weighted average number of shares outstanding	<b>20,575,866</b>	20,575,866

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

**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited, in thousands of Canadian dollars)

	Three months ended <b>December 31</b> <b>2013</b>	December 31 2012
<b>Net earnings for the period</b>	<b>\$ 335</b>	<b>\$ 74</b>
Other comprehensive income, net of income tax		
Unrealized gains arising during the period on available-for-sale financial assets	<b>338</b>	133
<b>Comprehensive income for the period</b>	<b>\$ 673</b>	<b>\$ 207</b>

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

**CONSOLIDATED HCI HOLDINGS CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited, in thousands of Canadian dollars)

	Three months ended	
	<b>December 31</b>	December 31
	<b>2013</b>	2012
Cash provided by (used in)		
<b>OPERATING ACTIVITIES</b>		
Net earnings for the period	\$ 335	\$ 74
Add (deduct): Non-cash items (note 16(a))	(206)	(24)
Costs recovered through sales of real estate	–	210
Expenditures on housing under development and land	–	(75)
Leasing costs incurred	–	(10)
Changes in non-cash operating balances (note 16(b))	(277)	(169)
	<b>(148)</b>	6
<b>INVESTING ACTIVITIES</b>		
Additions to investment property	(111)	–
Investment in syndicated mortgage loans		
Purchases	(230)	–
Maturities	102	2,339
Short-term investments		
Purchases	(33,400)	(6,500)
Sales or maturities	33,400	4,025
Restricted cash	28	11
	<b>(211)</b>	(125)
<b>FINANCING ACTIVITIES</b>		
Repayment of mortgage loan on investment property	(60)	(60)
<b>Decrease in cash and cash equivalents during the period</b>	<b>(419)</b>	(179)
<b>Cash and cash equivalents, beginning of the period (note 8(a))</b>	<b>3,082</b>	2,397
<b>Cash and cash equivalents, end of the period (note 8(a))</b>	<b>\$ 2,663</b>	\$ 2,218

**SUPPLEMENTARY INFORMATION** (note 16(c))

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

**Consolidated HCI Holdings Corporation**  
**Notes to Interim Consolidated Financial Statements**  
**December 31, 2013**  
**(unaudited, in thousands of Canadian of dollars, except share and per share amounts)**

**1. Description of Business**

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 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 joint operations 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 interim consolidated financial statements on February 10, 2014.

**2. Basis of Preparation and Change in Accounting Policies**

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim consolidated financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting.

The policies applied in these interim consolidated financial statements are based on IFRS policies effective as of December 31, 2013.

These interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended September 30, 2013.

The following changes in accounting policies were implemented by the Company during the three-month period ended December 31, 2013:

**(a) 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. The Company assessed its consolidation conclusions effective October 1, 2013 and determined that adoption of IFRS 10 did not result in any change in the consolidation status of any of its investees.

**(b) IFRS 11 – Joint Arrangements**

This standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. The Company recognizes its share of the assets, liabilities, revenues and expenses of its joint operations. The Company does not have any investments classified as a joint venture. The Company has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any change in the accounting policy for its joint arrangements.

**(c) IFRS 12 – Disclosure of Interests in Other Entities**

This standard establishes disclosure requirements for interests in other entities, such as 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. The Company adopted IFRS 12 effective October 1, 2013. The adoption of IFRS 12 results in the disclosures

of condensed financial information of joint arrangements in the Company's consolidated financial statements for the year ending September 30, 2014.

#### **(d) 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. The Company adopted IFRS 13 effective October 1, 2013, on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at October 1, 2013.

IFRS 13 measurement and disclosure requirements are applicable for the September 2014 year-end. The Company has included the disclosures required by IAS 34 para 16A(j) in note 14.

### **3. Critical Accounting Estimates**

The preparation of the interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue 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 interim consolidated financial statements 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 Property**

The Company's investment property is comprised of two components, a rental building and adjoining rental land. For the three months ended December 31, 2013, fair values were determined using the "Overall Capitalization Method." This method applies overall capitalization rates, as detailed in note 6, to stabilized net operating income and incorporates allowances for vacancy.

For the year ended September 30, 2013, the fair value of the investment property was determined by qualified external valuation professionals. The valuation of the building was done using the "Discounted Cash Flow Method" in which the revenue 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 stabilized net operating income is capitalized at the requisite overall capitalization rate. Capitalization rates employed are detailed in note 6.

#### **(c) 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.



#### **4. Accounting Standards Issued and yet to be Applied**

Unless otherwise noted, the following new standards and amendments to existing standards apply to annual periods beginning on or after January 1, 2014, unless otherwise noted, with earlier adoption permitted. The Company has not yet assessed the impact of these new standards and amendments on 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 was amended to remove the mandatory adoption date. 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) IFRIC 21 – Levies**

This is an interpretation of IAS 37, Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is applicable to annual reporting periods beginning on or after January 1, 2014.

## 5. Segmented Information

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

### Three months ended December 31

	Revenue		Earnings (loss)	
	2013	2012	2013	2012
Investment property	\$ 426	\$ 265	\$ 347	\$ 110
Residential construction	2	208	(45)	(2)
Syndicated mortgage loans	182	216	182	216
Unallocated amounts:				
Interest income	155	84	155	84
	<u>\$ 765</u>	<u>\$ 773</u>		
General and administrative expenses			(215)	(201)
Income tax provision			(89)	(133)
Net earnings for the period			<u>\$ 335</u>	<u>\$ 74</u>

### Identifiable Assets

	Investment property	Residential construction	Syndicated mortgage loans	Unallocated corporate assets	Total assets
<b>December 31, 2013</b>	<b>\$ 11,952</b>	<b>\$ 1,751</b>	<b>\$ 1,535</b>	<b>\$ 42,855</b>	<b>\$ 58,093</b>
September 30, 2013	\$ 11,716	\$ 1,677	\$ 1,309	\$ 43,008	\$ 57,710

### Identifiable Liabilities

	Investment property	Residential construction	Syndicated mortgage loans	Unallocated corporate liabilities	Total liabilities
<b>December 31, 2013</b>	<b>\$ 4,103</b>	<b>\$ 221</b>	<b>\$ –</b>	<b>\$ 1,620</b>	<b>\$ 5,944</b>
September 30, 2013	\$ 4,186	\$ 183	\$ –	\$ 1,865	\$ 6,234

Capital expenditures in the investment properties segment for the three months ended December 31, 2013 amounted to \$111 (2012 - \$10).

## 6. Investment Property

	December 31 2013	September 30 2013
Balance, beginning of the period	\$ 10,705	\$ 9,800
Amortization of leasing costs	(3)	(11)
Additions	111	192
Expropriation proceeds	–	(108)
Fair value gain	199	798
Leasing costs incurred	–	34
Balance, end of the period	\$ 11,012	\$ 10,705

The basis of valuation of the Company's investment property is set out in note 3(b). The capitalization rates used in valuing the investment property are as follows:

	December 31 2013	September 30 2013
Rental building	7.15%	8.00%
Adjoining land	5.75%	5.75%

Presented separately from investment property are tenant inducements (note 10) of \$393 (September 30, 2012 - \$399) and net straight-line rent receivable (note 9) of \$250 (September 30, 2013 - \$246) 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 the investment property has been reduced by these amounts presented separately.

The Company's investment property, exclusive of the adjoining land component referred to above, which is unencumbered, with a fair value of \$10,032 (September 30, 2013 - \$9,855) has been pledged as security for a mortgage loan payable (note 12).

## 7. Housing Under Construction

As at September 30, 2013, the Company had completed and closed all of its housing inventory. During the three months ended December 31, 2013, the Company recorded costs resulting from changes to September 30, 2013 estimates of costs to complete completed projects.

## 8. Cash and Cash Equivalents and Restricted Cash

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

	December 31 2013	September 30 2013
Cash	\$ 1,884	\$ 2,269
Term deposits	779	813
	<u>\$ 2,663</u>	<u>\$ 3,082</u>

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 entities of \$763 (September 30, 2013 - \$761).

- (b) Restricted cash is as follows:

	December 31 2013	September 30 2013
Total restricted cash	<u>\$ 987</u>	<u>\$ 1,015</u>

Restricted cash, all held in the Company's house building and investment property joint operations, includes deposits required to secure outstanding guarantees and letters of credit of \$156 (September 30, 2013 - \$184) and funds held in trust by the project manager of \$831 (September 30, 2013 - \$831) on the basis of \$2 per project dwelling unit. These trust funds are held pursuant to the project joint operations 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 may, at its discretion, call on joint operations 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 operation for distribution to the members once they are no longer considered necessary to hold.

## 9. Amounts Receivable

	December 31 2013	September 30 2013
Straight-line rent receivable	\$ 250	\$ 246
Other	244	244
	<u>\$ 494</u>	<u>\$ 490</u>
Non-current	\$ 239	\$ 235
Current	255	255
	<u>\$ 494</u>	<u>\$ 490</u>

## 10. Tenant Inducements

	December 31 2013	September 30 2013
Tenant inducements	\$ 432	\$ 432
Less: Accumulated amortization	(39)	(33)
	<u>\$ 393</u>	<u>\$ 399</u>
Non-current	\$ 371	\$ 377
Current	22	22
	<u>\$ 393</u>	<u>\$ 399</u>

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.

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

	December 31 2013	September 30 2013
(a) Syndicated mortgage loans secured by real property, for remaining terms from 9 to 32 months (September 30, 2013 – 1 to 35 months), bearing interest at a period-end weighted average rate of 9.59% (September 30, 2013 – 9.69%) per annum.		
Non-current	\$ 373	\$ 968
Current	1,162	341
	<u>\$ 1,535</u>	<u>\$ 1,309</u>

At December 31, 2013, the Company has a commitment to make additional advances totaling \$472 to fund its 30% share of a syndicated mortgage loan in the amount of \$800 to complete the construction of 12 townhouse units.

The syndicated mortgage loans can be repaid by the borrowers prior to maturity and are due as follows: \$241 in 2014, \$994 in 2015 and \$300 in 2016.

Syndicated mortgage loans to two different borrowers in amounts totaling \$475 and \$800 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 94% of the syndicated mortgage loans relate to projects in the Greater Toronto Area.

	December 31 2013	September 30 2013
(b) Short-term investments consist of the following:		
Canadian chartered bank term deposits issued for periods of 90 days or greater, bearing interest at a period-end weighted average rate of 1.5% (2013 – 1.5%).	\$ 37,336	\$ 37,417

	December 31 2013	September 30 2013
(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)	\$ 402	\$ 400
12,000 TD Bank Class A first preferred shares, Series O, to yield 4.85% per annum (cost – \$300)	305	305
1,937 Faircourt Split Seven Trust, preferred securities, due December 31, 2014, to yield 6.25% (cost – \$19)	20	20
52,840.03 B/1 shares York Select Unit Trust (cost – US\$1,000; fair value – US\$2,284; September 30, 2013 – fair value – US\$1,985)	2,429	2,041
	<b>\$ 3,156</b>	<b>\$ 2,766</b>

## 12. Loan Payable

The loan payable is as follows:

	December 31 2013	September 30 2013
Secured by an investment property, net of deferred financing fees of \$24 (September 30, 2013 – \$26)	<b>\$ 3,756</b>	<b>\$ 3,815</b>

Principal repayments of the loan payable are due as follows:

Years ending September 30, 2014	\$ 177
2015	237
2016	237
2017	237
2018	237
Thereafter	2,655
	3,780
Less: Deferred financing fees	(24)
	<b>\$ 3,756</b>

The estimated fair value of the loan payable at December 31, 2013 and September 30, 2013 approximates the carrying value because this loan payable bears 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. Until February 27, 2013 the loan bore interest at 5% per annum, the Business Development Bank of Canada's base rate for commercial and industrial loans ("Base rate"). On February 28, 2013 the interest rate was reduced to Base rate minus 1%, or 4% per annum. The loan matures in 2029. The Company has provided the lender with a guarantee of 50% of amounts due under the loan.

### 13. Income Taxes

- (a) Significant components of the income tax expense for the three months ended December 31 are as follows:

	Three months ended December 31 2013	December 31 2012
Current	\$ 85	\$ 103
Deferred	4	30
	<b>89</b>	<b>133</b>
Income tax provision on other comprehensive income included in deferred income taxes	52	21
	<b>\$ 141</b>	<b>\$ 154</b>

- (b) The income tax 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:

	Three months ended December 31 2013	December 31 2012
Expected income tax at 26.5% (2012 – 26.5%)	\$ 112	\$ 55
Other	(23)	78
	<b>89</b>	<b>133</b>
Income tax provision in interim consolidated statements of earnings		
Income tax provision in interim consolidated statements of comprehensive income	52	21
	<b>\$ 141</b>	<b>\$ 154</b>

- (c) Deferred income taxes relate to:

	December 31 2013	September 30 2013
Temporary differences:		
Capital cost allowance in excess of accounting amortization booked	\$ 356	\$ 346
Costs capitalized for accounting, deducted for income tax	259	296
Unrealized gain on investment property	541	511
Mortgage reserves	66	65
Other comprehensive income	163	111
	<b>\$ 1,385</b>	<b>\$ 1,329</b>
Comprised of:		
Deferred income tax liabilities reversing after more than 12 months	\$ 1,342	\$ 1,286
Deferred income tax liabilities reversing within 12 months	43	43
	<b>\$ 1,385</b>	<b>\$ 1,329</b>

## 14. 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 interim consolidated balance sheet dates.

The fair values of cash and cash equivalents, restricted cash, amounts receivable, short-term investments and accounts payable and accrued liabilities 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 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 December 31, 2013 and September 30, 2013:

#### December 31, 2013

	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 37,336	\$ –	\$ –	\$ 37,336
Marketable securities	3,156	–	–	3,156
	<b>\$ 40,492</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 40,492</b>

#### September 30, 2013

	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 37,417	\$ –	\$ –	\$ 37,417
Marketable securities	2,766	–	–	2,766
	<b>\$ 40,183</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 40,183</b>



## 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.

The following interest sensitivity table outlines the potential impact of a 1% change in interest rates on variable rate assets and liabilities for the three months ended December 31, 2013:

Increase (decrease)	Carrying Value	Interest Rate Risk			
		-1% Net Earnings	Equity	+1% Net Earnings	Equity
Financial Assets					
Cash and cash equivalents	\$ 2,663	\$ (5)	\$ (5)	\$ 5	\$ 5
Investment in preferred shares	727	–	150	–	(101)
Financial Liabilities					
Loan payable	3,756	8	8	(8)	(8)
Total increase (decrease)		\$ 3	\$ 153	\$ (3)	\$ (104)

## 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.

Until the closing of the last of its housing inventory in the fourth quarter of 2013, the Company's operational risk related 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 operations.

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.

## Liquidity Risk

Liquidity risk is managed by maintaining cash and cash equivalents in excess of projected needs, which includes the funding of commitments under certain of the Company's syndicated mortgage loan investments, as indicated in note 11(a). The Company expects to be able to repay or, if required, obtain an extension 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 December 31, 2013 on an undiscounted basis:

Contractual obligations are due as follows:	Total	Less than 1 year	1 - 3 years	4 - 5 years	Thereafter
Loan payable (1)	\$ 4,990	\$ 384	\$ 741	\$ 702	\$ 3,163
Accounts payable and accrued liabilities	803	744	59	—	—
Further advances under a syndicated mortgage loan (2)	472	472	—	—	—
Liabilities and other contractual obligations	\$ 6,265	\$ 1,600	\$ 800	\$ 702	\$ 3,163

(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.

## Capital Risk Management

The Company's objectives when managing capital are:

- 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
- 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 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 December 31, 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.

## 15. Financial Guarantees

At December 31, 2013, the Company has available letters of credit totaling \$79 (September 30, 2013 - \$185) of which \$79 (September 30, 2013 - \$185) has been utilized in support of its obligation to complete servicing requirements in connection with various completed house building projects.

The Company is contingently liable for its co-investors' share of the obligations in joint operations. At December 31, 2013, the Company's co-investors' share of obligations of such entities comprises liabilities of \$1,074 (September 30, 2013 - \$915) and letters of credit of \$185 (September 30, 2013 - \$440) in support of obligations to complete servicing requirements in connection with its investment property and various completed house building projects. In each case, assets of the joint operation, consisting primarily of cash and cash equivalents, are available to satisfy such obligations.

## 16. Consolidated Statements of Cash Flows

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

	Three months ended December 31 2013	December 31 2012
Deferred income taxes	\$ 4	\$ 30
Amortization of leasing costs	3	3
Amortization of deferred financing costs	2	2
Amortization of tenant inducements	6	5
Accrued interest receivable	(18)	81
Straight-line rent receivable	(4)	(55)
Fair value gain on investment property	(199)	(90)
	<b>\$ (206)</b>	<b>\$ (24)</b>

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

	Three months ended December 31 2013	December 31 2012
Amounts receivable	\$ –	\$ 122
Accounts payable and accrued liabilities	(287)	(125)
Income tax recoverable	85	(197)
Other	(75)	31
	<b>\$ (277)</b>	<b>\$ (169)</b>

(c) Supplementary information consists of the following:

	Three months ended December 31 2013	December 31 2012
Interest paid	\$ 36	\$ 48
Income taxes paid	\$ –	\$ 300

## 17. Related Party Transactions

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

- certain shareholders, and certain shareholders who are officers and directors or parties related to them, are also participants in all of the house building joint operations;
- the Company is managed by two shareholders who are also officers and directors under a management agreement;
- a shareholder who is also a director is associated with a law firm that provides legal services to the Company and its joint operations;
- a shareholder who is also an officer and a director of the Company serves as a director of a Toronto Stock Exchange listed mortgage loan investment corporation. This corporation is a co-investor with the Company in the syndicated mortgage loans described in note 11(a). Two shareholders who are also officers and directors participate as investors in some of the syndicated mortgage loans in which the Company has invested;
- 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:

	Three months ended <b>December 31</b> <b>2013</b>	December 31 2012
Management fee expense	<b>\$ 70</b>	\$ 80
Legal services	–	1
Rental income	<b>41</b>	39

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

	<b>December 31</b> <b>2013</b>	September 30 2013
Accounts payable and accrued liabilities	<b>\$ 62</b>	\$ 375

## 18. Contingencies and Commitments

As security for the Company's letter of credit facilities of \$79 (September 30, 2013 - \$185), 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 brought against it and its subsidiaries. Management does not believe these proceedings in aggregate will have a material adverse effect on the Company's interim 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 11(a).

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

As of February 10, 2014

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-month periods ended December 31, 2013 and 2012, as well as updating CHCI's most recently issued MD&A, dated December 19, 2013. 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-month periods ended December 31, 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, 2013 and 2012, as set out in the Company's 2013 Annual Report.

Additional information relating to the Company 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 December 31, 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 joint operations. 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 has also conducted 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 <b>December 31</b> <b>2013</b>	December 31 2012
Revenue	\$ 765	\$ 773
Earnings before income taxes	\$ 424	\$ 207
Provision for income taxes	89	133
Net earnings for the period	\$ 335	\$ 74
Basic and diluted earnings per share	\$ 0.02	\$ –

Revenue in the first three months of fiscal 2014 decreased by \$0.01 million compared to the revenue recorded for the same period in fiscal 2013. This decrease is comprised of a decrease in housing sales of \$0.2 million partially offset by an increase in rental revenue of \$0.052 million, an increase in interest and other income of \$0.033 million and an increase of \$0.11 million in the fair value gain on the investment property. The Company had no house sales in the first quarter of 2014.

#### House building operations

(Unaudited, in thousands of Canadian dollars)

	Three months ended <b>December 31</b> <b>2013</b>	December 31 2012
Revenue from housing sales	\$ –	\$ 202
Housing cost of sales	47	210
Gross loss from housing sales	\$ 47	\$ 8

The Company's share of joint operations revenue from housing sales decreased in the first quarter of 2014 by \$0.2 million compared to the corresponding period in the previous year. There were no house sales in the first quarter of 2014 as the Company had completed and closed all housing inventory as at September 30, 2013.

In the first quarters of both 2014 and 2013, adjustments for cost estimates made in three projects, which had previously sold out, resulted in the Company recording losses totaling \$47 thousand in its house building segment.

## Rental operations

(Unaudited, in thousands of Canadian dollars)

	Three months ended	
	December 31 2013	December 31 2012
Rental revenues	\$ 227	\$ 175
Property operating expenses	40	104
Net operating income*	\$ 187	\$ 71

\* Net operating income is an important measure used by management to evaluate the operating performance of the 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 of \$0.052 million is primarily the result of the commencement of two new tenancies in fiscal 2013, one in the third quarter and one in the fourth quarter, and increased temporary rental of vacant space.

Property operating expenses in the first quarter of 2014 decreased by \$0.064 million compared to the corresponding period in 2013, resulting from the receipt of a property tax vacancy rebate of \$0.018 million for 2012, a reduction of \$0.02 million on 2012 property taxes on the successful appeal of the property assessment and a reduction in other period costs of \$0.026 million.

At December 31, 2013, the Company's investment property consists of its 50% share of a 200,000 square foot industrial/commercial building and adjacent 1.25 acre restaurant site in Vaughan, Ontario.

At December 31, 2013, the building occupancy rate was 68%, unchanged from September 30, 2013. At December 31, 2012, the occupancy rate was 60%.

## Interest and other income

Interest and other income increased by \$0.033 million for the three months ended December 31, 2013 compared to the corresponding period in the previous year. Throughout the last three quarters of fiscal 2013, the Company substantially increased its investment in term deposits using cash generated from the repayment of syndicated mortgage loans, cash distributions from its joint operations and a refund of overpaid income tax installments. These term deposits generated increased income in the first quarter of 2014 compared to 2013 which was partially offset by the interest reduction due to the reduced investment in higher rate syndicated mortgage loans.

## General and administrative expenses

General and administrative expenses increased by \$0.014 million for the first quarter of 2014 compared to the corresponding period in the previous year. Professional fees increased by \$0.031 million as a result of the Company consulting on certain tax related matters while other expense categories experienced a reduction, in aggregate, of \$0.017 million.

## Income taxes

The income tax provision for the first three months of 2014 of \$0.089 million (2013 - \$0.133 million) has been computed by applying the average statutory Canadian federal and provincial income tax rate of 26.5% (2013 – 26.5%) to earnings before income taxes.

## FINANCIAL CONDITION

(Unaudited, in thousands of Canadian dollars)

	December 31 2013	September 30 2013
Investment property	\$ 11,012	\$ 10,705
Cash and cash equivalents	2,663	3,082
Restricted cash	987	1,015
Amounts receivable	494	490
Investment in syndicated mortgage loans	1,535	1,309
Short-term investments	37,336	37,417
Marketable securities	3,156	2,766
Income tax recoverable	360	445
Tenant inducements	393	399
Other assets	157	82
Total assets	\$ 58,093	\$ 57,710
Long-term financial liability:		
Loan payable on investment property	\$ 3,756	\$ 3,815

## ASSETS AND LIABILITIES

During the first three months of fiscal 2014, the Company realized cash from interest earned on its investments in syndicated mortgage loans and cash and short-term investments, principal repayments on syndicated mortgage loans and its investment property operation. The majority of this cash was used to fund investment property operations and general and administrative costs.

A condition of the mortgage loan on the Company's Vaughan, Ontario income-producing property is that the co-tenancy maintains a long-term debt to tangible equity ratio of 3:1. As at December 31, 2013, this condition has been met.

At December 31, 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 December 31, 2013 are 20,575,866 shares, unchanged from October 1, 2012.



## LIQUIDITY AND CAPITAL RESOURCES

### Cash flows

(Unaudited, in thousands of Canadian dollars)

	Three months ended	
	December 31 2013	December 31 2012
Cash provided by (used in):		
Operating activities	\$ (148)	\$ 6
Investing activities	(211)	(125)
Financing activities	(60)	(60)
Decrease in cash and cash equivalents during the period	(419)	(179)
Cash and cash equivalents, beginning of the period	3,082	2,397
Cash and cash equivalents, end of the period	\$ 2,663	\$ 2,218

Cash and cash equivalents decreased in the first quarter of 2014 by \$0.4 million primarily as a result of further advances on an existing syndicated mortgage loan, additions to and principal payments on the mortgage loan on the Company's investment property, partially offset by proceeds of repayments of investments in syndicated mortgage loans.

The Company continues to use cash flows to invest in money market investments, to fund its investment property 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 December 31, 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
Loan payable (1)	\$ 4,990	\$ 384	\$ 741	\$ 702	\$ 3,163
Accounts payable and accrued liabilities	803	744	59	—	—
Further advances under a syndicated mortgage loan (2)	472	472	—	—	—
Liabilities and other contractual obligations	\$ 6,265	\$ 1,600	\$ 800	\$ 702	\$ 3,163

(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

The Company has entered into transactions with other entities in which the following individuals hold management positions as noted in the following tables:

(in thousands of dollars)

<b>December 31, 2013</b>	Note	Receives management fees from the Company	Receives fees for legal services provided to the Company	Receives property management fees to manage the investment property	Pays rent to the Company for space leased in the Company's investment property
Marc Muzzo	(1)	31			
Stanley Goldfarb	(2)	31			
Rudolph P. Bratty	(3)		—		
Dani Cohen	(4)			8	39
Mark Kornhaber	(5)				2

December 31, 2012	Note	Receives management fees from the Company	Receives fees for legal services provided to the Company	Receives property management fees to manage the investment property	Pays rent to the Company for space leased in the Company's investment property
Marc Muzzo	(1)	75			
Stanley Goldfarb	(2)	75			
Rudolph P. Bratty	(3)		1		
Dani Cohen	(4)			5	39
Mark Kornhaber	(5)				—

- (1) Marc Muzzo is a shareholder, director and officer of the Company who holds management positions in entities that have provided management services to the Company as noted in the tables above. He is also a co-investor with the Company in some of its syndicated mortgage loans.
- (2) Stanley Goldfarb is a shareholder, director and officer of the Company who holds a management position in an entity that has provided management services to the Company as noted in the tables above. He is also a co-investor with the Company in some of its syndicated mortgage loans and a director of a Toronto Stock Exchange listed company that is a co-investor in all of the Company's syndicated mortgage loans.
- (3) Rudolph P. Bratty is a shareholder and director of the Company who exerts significant influence on a law firm that is paid legal fees for legal services to the Company as noted in the tables above.
- (4) Dani Cohen is a joint operations partner in the Company's investment property. He is paid management fees for management services to the property and pays rent for space leased in the property as noted in the tables above.
- (5) Marc Kornhaber is a joint operations partner in the Company's investment property. He pays rent for space leased in the property as noted in the tables above.

## **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.

Until the closing of the last of its housing inventory in the last quarter of 2013, the Company's operational risk related 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 operations.

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.

### **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 unaudited interim consolidated financial statements for the three-month period ended December 31, 2013. 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 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 December 31, 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 properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect the Company's ability to sell such real property or to borrow using such real property as collateral and, potentially, could result in claims against the Company. The Company is not aware of any material environmental liabilities at the present time.

## CONTROLS AND PROCEDURES

At December 31, 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 ICFR 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 December 31, 2013 and September 30, 2013 and for the three-month periods ended December 31, 2013 and December 31, 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)

	December 31 2013	September 30 2013
Assets	\$ 13,703	\$ 13,393
Liabilities	4,369	4,369
	<b>\$ 9,334</b>	<b>\$ 9,024</b>
	Three months ended December 31 2013	December 31 2012
Revenue	\$ 428	\$ 473
Expenses	126	365
Earnings	<b>\$ 302</b>	<b>\$ 108</b>

	Three months ended	
	December 31 2013	December 31 2012
Cash provided by (used in)		
Operating activities	\$ 165	\$ 203
Investing activities	\$ (71)	\$ –
Financing activities	\$ (60)	\$ (60)

The certifying officers have determined there were no changes in the Company's ICFR that occurred during the three months ended December 31, 2013 that have significantly affected, or are reasonably likely to significantly affect, the Company's ICFR.

## NEW ACCOUNTING POLICIES

The following changes in accounting policies were implemented by the Company during the three-month period ended December 31, 2013:

### (a) 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. The Company assessed its consolidation conclusions effective October 1, 2013 and determined that adoption of IFRS 10 did not result in any change in the consolidation status of any of its investees.

### (b) IFRS 11 – Joint Arrangements

This standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. The Company recognizes its share of the assets, liabilities, revenues and expenses of its joint operations. The Company does not have any investments classified as a joint venture. The Company has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any change in the accounting policy for its joint arrangements.

### (c) IFRS 12 – Disclosure of Interests in Other Entities

This standard establishes disclosure requirements for interests in other entities, such as 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. The Company adopted IFRS 12 effective October 1, 2013. The adoption of IFRS 12 results in the disclosures of condensed financial information of joint arrangements in the Company's consolidated financial statements for the year ending September 30, 2014.

### (d) 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. The Company adopted IFRS 13 effective October 1, 2013, on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at October 1, 2013.

IFRS 13 measurement and disclosure requirements are applicable for the September 2014 year-end. The Company has included the disclosures required by IAS 34 para 16A(j) in note 14.

## **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, 2015 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 was amended to remove the mandatory adoption date. 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) IFRIC 21 – Levies**

This is an interpretation of IAS 37, Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is applicable to annual reporting periods beginning on or after January 1, 2014.

## FINANCIAL INSTRUMENTS

### Fair Value

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 interim consolidated balance sheet dates.

The fair values of cash and cash equivalents, restricted cash, amounts receivable, short-term investments and accounts payable and accrued liabilities 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 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 December 31, 2013 and September 30, 2013:

#### December 31, 2013

	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 37,336	\$ –	\$ –	\$ 37,336
Marketable securities	3,156	–	–	3,156
	<u>\$ 40,492</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 40,492</u>

#### September 30, 2013

	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 37,417	\$ –	\$ –	\$ 37,417
Marketable securities	2,766	–	–	2,766
	<u>\$ 40,183</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 40,183</u>

## 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 Company's investment property is comprised of two components, a rental building and adjoining rental land. For the three months ended December 31, 2013, fair values were determined using the "Overall Capitalization Method." This method applies overall capitalization rates, as detailed in note 6 to the accompanying interim unaudited consolidated financial statements, to stabilized net operating income and incorporates allowances for vacancy.

For the year ended September 30, 2013, the fair value of the investment property was determined by qualified external valuation professionals. The valuation of the building was done using the "Discounted Cash Flow Method" in which the revenue 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 stabilized net operating income is capitalized at the requisite overall capitalization rate. Capitalization rates employed are detailed in note 6.

### **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.

## **OFF-BALANCE SHEET ARRANGEMENTS**

### **Financial Guarantees**

At December 31, 2013, the Company has available letters of credit totaling \$79 (September 30, 2013 - \$185) of which \$79 (September 30, 2013 - \$185) has been utilized in support of its obligation to complete servicing requirements in connection with various completed house building projects.

The Company is contingently liable for its co-investors' share of the obligations in joint operations. At December 31, 2013, the Company's co-investors' share of obligations of such entities comprises liabilities of \$1,074 (September 30, 2013 - \$915) and letters of credit of \$185 (September 30, 2013 - \$440) in support of obligations to complete servicing requirements in connection with its investment property and various completed house building projects. In each case, assets of the joint operation, consisting primarily of cash and cash equivalents, are available to satisfy such obligations.

### **Commitment**

At December 31, 2013, the Company has a commitment to make additional advances totaling \$472 to fund its 30% share of a syndicated mortgage loan in the amount of \$800 to complete the construction of 12 townhouse units.



## OUTLOOK

As at September 30, 2013, the Company had completed and closed its remaining housing inventory and management does not intend to invest further in housing construction.

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 in the MD&A for the years ended September 30, 2013 and 2012 that brought the occupancy rate to 68% at September 30, 2013, no new space has been let.

Management continues to closely monitor the Company's investments in syndicated mortgage loans. No losses have been realized on any of the Company's investments and management believes they are adequately secured by the underlying real property security.

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

## CORPORATE DIRECTORY

### DIRECTORS

Rudolph Bratty\*\*  
President  
Ruland Realty 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

### REGISTERED OFFICES

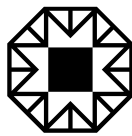
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### STOCK EXCHANGE LISTING

The Toronto Stock Exchange  
Symbol: CXA.B



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