

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

As of August 11, 2015

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 nine-month periods ended June 30, 2015 and 2014, as well as updating CHCI's most recently issued annual MD&A, dated February 9, 2015. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of the Company, including the notes thereto, for the nine-month periods ended June 30, 2015 and 2014 and should also be read in conjunction with the audited consolidated financial statements and the MD&A for the fiscal years ended September 30, 2014 and 2013, as set out in the Company's 2014 Annual Report.

Additional information relating to the Company, including the Certification of Interim Filings for the quarter ended June 30, 2015 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, 2015 and 2014.

### **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. The consolidated financial statements include these co-tenancies on a proportionate consolidation basis. The activities of the Company include the leasing of two investment properties in Vaughan, Ontario, comprising a multi-unit, 50%-owned industrial/commercial building and a 50%-owned rental building leased as a fast food outlet. The Company has also conducted activities through various co-tenancies 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 Company's house building activities ended in 2013 with the closing of its last housing unit in inventory. The Company does not plan further investment in syndicated mortgage loans.

## 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 2015	June 30 2014	June 30 2015	June 30 2014
Revenue	\$ 378	\$ 424	\$ 1,296	\$ 1,392
Earnings before income taxes	\$ 254	\$ 114	\$ 671	\$ 589
Provision for income taxes	30	26	142	101
Net earnings for the period	\$ 224	\$ 88	\$ 529	\$ 488
Basic and diluted earnings per share	\$ 0.01	\$ –	\$ 0.03	\$ 0.02

Revenue in the first nine months of fiscal 2015 decreased by \$0.1 million compared to the revenue recorded for the same period in fiscal 2014. This decrease is comprised of a decrease in interest and other income of \$0.2 million, partially offset by an increase in rental revenue of \$0.1 million.

#### House building operations

(Unaudited, in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	June 30 2015	June 30 2014	June 30 2015	June 30 2014
Revenue from housing sales	\$ –	\$ –	\$ –	\$ –
Housing cost of sales	–	5	26	27
Gross loss from housing sales	\$ –	\$ 5	\$ 26	\$ 27

The Company completed and closed all housing inventory as at September 30, 2013. In the first nine months of both 2015 and 2014, adjustments for cost estimates made in four projects, which had previously sold out, resulted in the Company recording losses totaling \$26 thousand and \$27 thousand, respectively, in its house building segment.

## Rental operations

(Unaudited, in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	June 30 2015	June 30 2014	June 30 2015	June 30 2014
Rental revenues	\$ 277	\$ 230	\$ 776	\$ 659
Property operating expenses	69	47	225	164
Net operating income*	\$ 208	\$ 183	\$ 551	\$ 495

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

The increase of \$0.117 million in rental revenue in the first nine months of 2015 compared to the same period in 2014 is primarily the result of the commencement of a new fast food restaurant tenancy and three tenant renewals at increased lease rates in the fourth quarter of 2014.

Property operating expenses in the first nine months of 2015 increased by \$0.06 million compared to the corresponding period in 2014, the result of an increase in realty taxes and other period costs.

At June 30, 2015, the Company's investment properties comprise a multi-unit 50%-owned industrial/commercial building and a 50%-owned rental building leased as a fast food outlet in Vaughan, Ontario.

At June 30, 2015, the industrial/commercial building occupancy rate, unchanged since December 31, 2013, was 68%.

During the third quarter of 2015, the Company leased 6,660 square feet of vacant space in the building for a term of seven years with an option to renew for a further five years. The tenancy is expected to commence on July 1, 2015 on completion of the landlord's work and will bring the occupancy rate up to 71%.

## Interest and other income

Interest and other income decreased by \$0.21 million for the nine months ended June 30, 2015 compared to the corresponding period in the previous year. This decrease is comprised of a decrease in interest income of \$0.33 million, partially offset by \$0.12 of cost recoveries in the second quarter of 2015 related to a land development project completed in a previous year. Since October 1, 2013, the Company has been reducing its investment in higher rate syndicated mortgage loans and re-investing the proceeds in lower rate term deposits, the rates of return on which have been in decline over the past twenty-one months.

## General and administrative expenses

General and administrative expenses increased marginally for the first nine months of 2015 compared to the corresponding period in the previous year with no one expense category changing materially year over year.

## Income taxes

The income tax provision for the first nine months of 2015 of \$0.14 million (2014 – \$0.1 million) has been computed by applying the average statutory Canadian federal and provincial income tax rate of 26.5% (2014 – 26.5%) to earnings before income taxes.

## FINANCIAL CONDITION

(Unaudited, in thousands of Canadian dollars)

	June 30 2015	September 30 2014
Investment properties	\$ 10,773	\$ 10,488
Cash and cash equivalents	1,703	1,709
Restricted cash	82	98
Amounts receivable	1,182	1,153
Investment in syndicated mortgage loans	22	527
Short-term investments	9,892	39,828
Marketable securities	2,991	3,465
Tenant inducements	361	377
Other assets	43	94
Total assets	\$ 27,049	\$ 57,739
Long-term financial liability:		
Mortgage loan on investment property	\$ 3,204	\$ 3,580

## ASSETS AND LIABILITIES

During the first nine months of fiscal 2015, the Company realized cash from interest earned on its investments in syndicated mortgage loans, cash and short-term investments, principal repayments on syndicated mortgage loans and its investment property operations. The majority of this cash was used to fund investment property operations and general and administrative costs.

A condition of the mortgage loan on one of the Company's Vaughan, Ontario investment properties is that the co-tenancy maintains a long-term debt to tangible equity ratio of 3:1. As at June 30, 2015, this condition has been met.

Effective January 29, 2015, the interest rate on the loan payable on the Company's 50%-owned investment property was reduced from 4.00% to 3.85% per annum. Effective July 20, 2015, the rate was further reduced to 3.7%.

At June 30, 2015, the Company's real estate holdings consist of its 50% share of the investment properties in Vaughan, Ontario referred to above and one serviced residential lot in Mississauga, Ontario. The residential lot was written down in a previous year to a nominal amount, as it had been deeded to the City of Mississauga and will only be returned to the Company and be available to sell on the resolution of certain stormwater management issues affecting the lot and non-owned adjoining lands, which resolution is not assured. The Company will reverse the provision of approximately \$23 if the above matters are rectified.

As previously reported, on June 13, 2013, in connection with its redevelopment along the Highway 7 corridor, The Regional Municipality of York ("the Region") expropriated two parcels of land forming part of the Company's investment properties. The Company received guaranteed amounts based on the Region's valuation and launched appeals of these amounts during 2014. With respect to one of the parcels, the Company accepted the Region's valuation and the refund of a soil remediation offset of \$390 (at the Company's share – \$195) deducted from that valuation. The settlement was approved by The York Regional Council and the refund was received by the Company during the third quarter of 2015. With respect to the other parcel, the appeal remains in process.

## 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, 2015 are 20,575,866 shares, unchanged from October 1, 2013.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flows

(Unaudited, in thousands of Canadian dollars)

	Nine months ended	
	June 30 2015	June 30 2014
Cash provided by (used in):		
Operating activities	\$ (33)	\$ 634
Investing activities	31,269	(1,817)
Financing activities	(31,242)	(178)
Decrease in cash and cash equivalents during the period	(6)	(1,361)
Cash and cash equivalents, beginning of the period	1,709	3,082
Cash and cash equivalents, end of the period	\$ 1,703	\$ 1,721

Cash and cash equivalents at the end of the nine months ended June 30, 2015 were marginally less than at the beginning of the period. The Company's cash flow, derived primarily from the reduction of its investments in term deposits, syndicated mortgage loans and preferred shares, and cash flow from interest and other income and investment property operations, enabled it to fund its administrative costs and the payment of a dividend. On May 12, 2015, the Company declared a special dividend of \$1.50 per Class B share payable to shareholders of record at the close of business on May 28, 2015. The dividend, totaling \$30.9 million was paid on June 28, 2015.

The Company continues to use cash flows to invest in money market investments, to fund its investment property 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, 2015 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)	\$ 4,039	\$ 353	\$ 679	\$ 644	\$ 2,363
Accounts payable and accrued liabilities	560	536	24	—	—
Liabilities and other contractual obligations	\$ 4,599	\$ 889	\$ 703	\$ 644	\$ 2,363

(1) As the loan payable is at a variable rate, a 3.7% interest rate has been used for the remaining term to maturity.

## 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:

(Unaudited, in thousands of Canadian dollars)

<b>June 30 , 2015</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)	<b>\$ 94</b>			
Stanley Goldfarb	(2)	<b>\$ 94</b>			
Dani Cohen	(3)			<b>\$ 24</b>	<b>\$ 116</b>
Mark Kornhaber	(4)				<b>\$ 11</b>

March 31, 2014	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)	\$ 94			
Stanley Goldfarb	(2)	\$ 94			
Dani Cohen	(3)			\$ 24	\$ 116
Mark Kornhaber	(4)				\$ 7

- (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) Dani Cohen is a co-tenant in the Company's investment properties. He is paid management fees for management services to the properties and pays rent for space leased in one of the properties as noted in the tables above.
- (4) Marc Kornhaber is a co-tenant in the Company's investment properties. He pays rent for space leased in one of the properties 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.

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

As at June 30, 2015 and September 30, 2014, none of the Company's financial assets are past due.

### **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 nine-month period ended June 30, 2015. 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 one of its investment properties 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 June 30, 2015, 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 June 30, 2015, 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 June 30, 2015 and September 30, 2014 and for the nine-month periods ended June 30, 2015 and 2014 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)

	<b>June 30 2015</b>		September 30 2014	
Assets	<b>\$ 13,325</b>		\$ 13,073	
Liabilities	<b>3,529</b>		4,111	
	<b>\$ 9,796</b>		\$ 8,962	

  

	Three months ended <b>June 30 2015</b>		Nine months ended <b>June 30 2015</b>	
		June 30 2014		June 30 2014
Revenue	<b>\$ 297</b>	\$ 232	<b>\$ 800</b>	\$ 665
Expenses	<b>(105)</b>	(92)	<b>(361)</b>	(311)
Fair value gain on investment properties	<b>168</b>	20	<b>438</b>	200
Earnings	<b>\$ 360</b>	\$ 160	<b>\$ 877</b>	\$ 554



	Nine months ended	
	June 30 2015	June 30 2014
Cash provided by (used in)		
Operating activities	\$ 285	\$ 532
Investing activities	159	(74)
Financing activities	(376)	(178)

The certifying officers have determined there were no changes in the Company's ICFR that occurred during the nine months ended June 30, 2015 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 nine-month period ended June 30, 2015:

### IAS 32 – Financial Instruments: Presentation (“IAS 32”)

IAS 32 has been amended to clarify the requirements for offsetting of financial assets and liabilities. The amendments are effective for annual periods beginning on or after January 1, 2014.

### IAS 36 – Impairment of Assets (“IAS 36”)

IAS 36 has been amended to reduce the disclosure requirements for the recoverable amount for non-financial assets. The amendments are effective for annual periods beginning on or after January 1, 2014.

### IFRS 10, IFRS 12, and IAS 27

These standards have been amended to define an investment entity and to introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 on its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27. The amendments are effective for annual periods beginning on or after January 1, 2014.

### 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 giving 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 effective for annual reporting periods beginning on or after January 1, 2014.

The foregoing changes in accounting policy did not have an impact on the Company's consolidated financial statements.

## **FUTURE ACCOUNTING CHANGES**

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

The following new standards and amendments to existing standards apply to annual periods beginning on or after January 1, 2015, 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.

#### **IFRS 7 – Financial Instruments: Disclosures**

This standard has been amended to enhance disclosures relating to the transition from IAS 39 to IFRS 9, Financial Instruments (“IFRS 9”). These amendments will be effective on the adoption of IFRS 9 described below.

#### **IFRS 9**

The complete version of IFRS 9 was issued in July 2014 and is effective for accounting periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

## 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 June 30, 2015 and September 30, 2014:

#### June 30, 2015

	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 9,892	\$ –	\$ –	\$ 9,892
Marketable securities	–	2,991	–	2,991
	<b>\$ 9,892</b>	<b>\$ 2,991</b>	<b>\$ –</b>	<b>\$ 12,883</b>

#### September 30, 2014

	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 39,828	\$ –	\$ –	\$ 39,828
Marketable securities	719	2,746	–	3,465
	<b>\$ 40,547</b>	<b>\$ 2,746</b>	<b>\$ –</b>	<b>\$ 43,293</b>

## **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 Properties**

The fair values of the Company's 50%-owned investment properties, comprising an industrial/commercial rental building and a rental building leased to a fast food outlet, were determined internally using the "Overall Capitalization Rate Method." This method applies overall capitalization rates, as detailed in note 6, to stabilized net operating income and incorporates allowances for vacancy. Fair value at September 30, 2014 was determined by qualified external valuation professionals. The valuation of the former property 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 latter property was done using the "Overall Capitalization Rate Method" whereby the net operating income is capitalized at the requisite overall capitalization rate. Any changes in estimates related to the inputs used in the valuations could impact the fair value of the investment properties materially. The valuations have been reviewed and approved by management.

### **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 June 30, 2015, the Company has available letters of credit totaling \$82 (September 30, 2014 – \$98) of which \$82 (September 30, 2014 – \$98) has been utilized in support of its obligation to complete servicing requirements in connection with various house building projects and an investment property.

The Company is contingently liable for its co-investors' share of the obligations in co-tenancy developments. At June 30, 2015, the Company's co-investors' share of obligations of such entities comprises liabilities of \$847 (September 30, 2014 – \$987) and letters of credit of \$90 (September 30, 2014 – \$129) in support of obligations to complete servicing requirements in connection with various house building projects and an investment property. In each case, assets of the co-tenancy developments, consisting primarily of cash and cash equivalents, are available to satisfy such obligations.

## **OUTLOOK**

The Company's remaining real estate holdings consist of the investment properties and residential lot described above under "ASSETS AND LIABILITIES." The Company is continuing with its efforts to complete the leasing of its Vaughan, Ontario industrial/commercial building. Management is continuing to receive expressions of interest to lease space in the building and has been working with prospective tenants.

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