

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

As of May 9, 2016

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 six-month periods ended March 31, 2016 and 2015, as well as updating CHCI's most recently issued annual MD&A, dated December 15, 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 six-month periods ended March 31, 2016 and 2015 and should also be read in conjunction with the audited consolidated financial statements and the MD&A for the fiscal years ended September 30, 2015 and 2014, as set out in the Company's 2015 Annual Report.

Additional information relating to the Company, including the Certification of Interim Filings for the quarter ended March 31, 2016 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 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 March 31, 2016 and 2015.

### **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. Until November 25, 2015 the Company invested in syndicated mortgage loans, which were secured by real property developments of other land developers and builders and, until September 30, 2013, conducted activities through co-tenancies in the building and selling of new homes on land purchased from others.

## REVIEW OF FINANCIAL RESULTS

### Results of Operations

#### Summary of operating results

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

	Three months ended March 31 2016		Six months ended March 31 2016	
		March 31 2015		March 31 2015
Revenue	\$	275	\$	575
Earnings before income taxes	\$	342	\$	324
Provision for income taxes		86		82
Net earnings for the period	\$	256	\$	242
Basic and diluted earnings per share	\$	0.01	\$	0.01

Revenue in the first six months of fiscal 2016 decreased by \$343 compared to the revenue recorded for the same period in fiscal 2015. This decrease is comprised of a decrease in interest and other income of \$370, partially offset by an increase in rental revenue of \$27.

#### Rental operations

(Unaudited, in thousands of Canadian dollars)

	Three months ended March 31 2016		Six months ended March 31 2016	
		March 31 2015		March 31 2015
Rental revenue	\$	255	\$	526
Property operating expenses		90		168
Net operating income*	\$	165	\$	358

\* 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 \$27 in rental revenue in the first six months of 2016 compared to the same period in 2015, is primarily the result of the commencement of a new tenancy in the industrial/commercial building in the fourth quarter of 2015.

At March 31, 2016, 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 March 31, 2016, the industrial/commercial building occupancy rate was 71%, an increase of 3% since March 31, 2015.

During the quarter, the Company leased 15,949 square feet of vacant space in the building for a term of five years with two five-year renewal options. The tenancy is expected to commence on June 1, 2016 on completion of the landlord's work and will bring the building occupancy rate up to 79%.

#### Interest and other income

Interest and other income decreased by \$370 for the six months ended March 31, 2016 compared to the corresponding period in the previous year. This decrease is comprised of a decrease in interest income of \$370. Since October 1, 2014, the Company has been reducing its investment in higher rate syndicated mortgage loans and reinvesting the proceeds in lower rate term deposits, the rates of return on which have been in decline over the past fifteen months. As well, the Company paid a cash dividend of \$30,864 on June 28, 2015, which substantially reduced the amount invested in short-term investments.

## General and administrative expenses

General and administrative expenses decreased by \$82 for the first six months of fiscal 2016 compared to the corresponding period in the previous year, primarily the result of lower professional fees in fiscal 2016. The Company incurred such fees in fiscal 2015 relating to the resolution of certain corporate and income tax issues.

## Income taxes

The income tax provision for the first six months of 2016 of \$82 (2015 – \$112), computed by applying the average statutory Canadian federal and provincial income tax rate of 26.5% (2015 – 26.5%) to earnings before income taxes, was offset primarily by \$51, the result of the fair value gain on investment properties being taxed at lower than statutory rates, net of a \$42 income tax reassessment of prior years.

## FINANCIAL CONDITION

(Unaudited, in thousands of Canadian dollars)

	March 31 2016	September 30 2015
Investment properties	\$ 11,976	\$ 11,578
Cash and cash equivalents	501	1,649
Restricted cash	16	16
Amounts receivable	1,203	1,187
Investment in syndicated mortgage loan	–	22
Short-term investments	10,591	9,891
Marketable securities	2,293	2,729
Income taxes recoverable	44	49
Tenant inducements	344	355
All other assets	53	39
Total assets	\$ 27,021	\$ 27,515
Long-term financial liability:		
Mortgage loan on investment property	\$ 3,027	\$ 3,145

## ASSETS AND LIABILITIES

During the first six months of fiscal 2016, the Company realized cash from interest earned on its investments in syndicated mortgage loans, cash and short-term investments, net of 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 maintain a long-term debt to tangible equity ratio of 3:1. As at March 31, 2016, 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 March 31, 2016, 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 value, 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 storm water 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 March 31, 2016 are 20,575,866 shares, unchanged from October 1, 2014.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flows

(Unaudited, in thousands of Canadian dollars)

	Six months ended	
	March 31 2016	March 31 2015
Cash provided by (used in):		
Operating activities	\$ (328)	\$ (144)
Investing activities	(701)	118
Financing activities	(119)	(119)
Decrease in cash and cash equivalents during the period	(1,148)	(145)
Cash and cash equivalents, beginning of the period	1,649	1,709
Cash and cash equivalents, end of the period	\$ 501	\$ 1,564

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 March 31, 2016 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)	\$ 3,774	\$ 346	\$ 666	\$ 632	\$ 2,130
Accounts payable and accrued liabilities	410	406	4	–	–
Liabilities and other contractual obligations	\$ 4,184	\$ 752	\$ 670	\$ 632	\$ 2,130

(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>March 31 , 2016</b>	Note	Receives management fees from 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>\$ 63</b>		
Stanley Goldfarb	(2)	<b>\$ 63</b>		
Dani Cohen	(3)		<b>\$ 17</b>	<b>\$ 78</b>
Mark Kornhaber	(4)			<b>\$ 4</b>

March 31, 2015	Note	Receives management fees from 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)	\$ 63		
Stanley Goldfarb	(2)	\$ 63		
Dani Cohen	(3)		\$ 15	\$ 78
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 was also a co-investor with the Company in its syndicated mortgage loan.
- (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 was also a co-investor with the Company in its syndicated mortgage loan and a director of a Toronto Stock Exchange listed company that was a co-investor in the Company's syndicated mortgage loan.
- (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 Company's debt comprises a mortgage loan payable on an investment property.

### **Credit and Operational Risks**

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

As at March 31, 2016 and September 30, 2015, 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. 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 as at March 31, 2016, 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 March 31, 2016, 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 March 31, 2016 and September 30, 2015 and for the six-month periods ended March 31, 2016 and 2015 relates to the Company’s proportionately consolidated entities, comprising all its investments in its investment property and residential construction operations:

(Unaudited, in thousands of Canadian dollars)

	<b>March 31 2016</b>	September 30 2015
Assets	<b>\$ 13,652</b>	\$ 14,066
Liabilities	<b>3,400</b>	3,457
	<b>\$ 10,252</b>	\$ 10,609

	Three months ended <b>March 31</b> <b>2016</b>		Six months ended <b>March 31</b> <b>2016</b>	
		March 31 2015		March 31 2015
Revenue	<b>\$ 252</b>	\$ 246	<b>\$ 526</b>	\$ 503
Expenses	<b>(91)</b>	(131)	<b>(199)</b>	(256)
Fair value gain on investment properties	<b>381</b>	270	<b>381</b>	270
Earnings	<b>\$ 542</b>	\$ 385	<b>\$ 708</b>	\$ 517

	Six months ended <b>March 31</b> <b>2016</b>		March 31 2015
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Cash provided by (used in)

Operating activities	<b>\$ (670)</b>	\$ 78
Investing activities	<b>(23)</b>	(7)
Financing activities	<b>(120)</b>	(97)

The certifying officers have determined there were no changes in the Company’s ICFR that occurred during the six months ended March 31, 2016 that have significantly affected, or are reasonably likely to significantly affect, the Company’s ICFR.

## **NEW ACCOUNTING STANDARDS**

There were no new standards implemented by the Company during the six-month period ended March 31, 2016.

## **FUTURE ACCOUNTING CHANGES**

Details of accounting standards issued and yet to be applied are included in Note 4 to the interim consolidated financial statements for March 31, 2016.

## **FINANCIAL INSTRUMENTS**

Information pertaining to the Company's financial instruments and the fair value hierarchy that prioritizes the inputs to fair value measurement is included in Note 12 to the interim consolidated financial statements for March 31, 2016.

## **CRITICAL ACCOUNTING ESTIMATES**

Information pertaining to critical accounting estimates as they relate to the Company's investment properties is included in Note 3 of the consolidated financial statements for March 31, 2016.

## **OFF-BALANCE SHEET ARRANGEMENTS**

### **Financial Guarantees**

At March 31, 2016, the Company has available and utilized letters of credit totaling \$16 (September 30, 2015 – \$16) 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 March 31, 2016, the Company's co-investors' share of obligations of such entities comprises liabilities of \$777 (September 30, 2015 – \$808) and letters of credit of \$24 (September 30, 2015 – \$24) 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**

As at March 31, 2016 the Company had received repayment of its last remaining syndicated mortgage loan investment and management does not intend to invest further in syndicated mortgage loans.

The Company's last remaining real estate holdings consist of the investment properties and residential lot described above under "Financial Condition – 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 with some success as discussed above. No new space has been leased subsequent to March 31, 2016.

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

Additional information relating to the Company has been filed on SEDAR and can be found at [www.sedar.com](http://www.sedar.com).