

MANAGEMENT'S DISCUSSION and ANALYSIS

As of August 9, 2017

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, 2017 and 2016, as well as updating CHCI's most recently issued annual MD&A, dated December 13, 2016. 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, 2017 and 2016 and should also be read in conjunction with the audited consolidated financial statements and the MD&A for the fiscal years ended September 30, 2016 and 2015, as set out in the Company's 2016 Annual Report. Amounts presented in this MD&A are in thousands of Canadian dollars, unless otherwise indicated.

Additional information relating to the Company, including the Certification of Interim Filings for the quarter ended June 30, 2017 signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") is also available on the SEDAR website at 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 June 30, 2017 and 2016.

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. Until June 30, 2017, the activities of the Company included 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.

On March 24, 2017, the Company accepted an offer to sell its 50% interest in each of its two remaining investment properties referred to above which constitute substantially all of its real property assets. At a special meeting of shareholders of the Company held on April 28, 2017, shareholders voted to pass a resolution to approve the sale. The purchaser is a company controlled by certain Directors of the Company, each holding more than 10% of the outstanding Class B Shares. The sale closed on June 30, 2017.

The purchase price for the Company's 50% interest in the properties was \$14,250 and was satisfied by the assumption of the Company's 50% share of the outstanding principal obligation at closing on the mortgaged property, amounting to \$2,749, with the balance paid in cash. Typical investment property adjustments, calculated to June 30, 2017, will be settled within 60 days of closing.

The Company has been advised by the Toronto Stock Exchange that, as a result of the sale of its investment properties, it no longer meets the continued listing requirements of the Exchange and its Class B Shares will be delisted from trading which is expected to occur in August 2017. The Company is considering applying for listing on an alternative exchange.

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 2017	June 30 2016	June 30 2017	June 30 2016
Revenue	\$ 264	\$ 335	\$ 943	\$ 910
Earnings before income taxes	\$ 1,672	\$ 47	\$ 2,113	\$ 371
Recovery of (provision for) income taxes	33	(10)	68	(92)
Net earnings for the period	\$ 1,705	\$ 37	\$ 2,181	\$ 279
Basic and diluted earnings per share	\$ 0.09	\$ –	\$ 0.11	\$ 0.01

The increase of \$33 in revenue in the first nine months of 2017, compared to the same period in 2016, is the result of the commencement of new tenancies in the industrial/commercial building in the second half of 2016 and the first three quarters of 2017, increasing rental revenue by \$57 offset by a reduction in interest income of \$24.

Rental operations

(Unaudited, in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	June 30 2017	June 30 2016	June 30 2017	June 30 2016
Rental revenue	\$ 235	\$ 281	\$ 864	\$ 807
Property operating expenses	63	85	287	253
Net operating income*	\$ 172	\$ 196	\$ 577	\$ 554

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

Until June 30, 2017, when they were sold as described above, the Company's investment properties comprised a multi-unit 50%-owned industrial/commercial building and a 50%-owned rental building leased as a fast food outlet in Vaughan, Ontario.

At September 30, 2016, the industrial/commercial building occupancy rate was 89%.

During the first quarter of 2017, the Company leased the remaining vacant space to two new tenants, with the tenancies commencing in the third quarter of 2017 on completion of the landlord's work, bringing the occupancy rate to 100%.

The other single-tenant investment property was leased to an international chain for use as a fast food restaurant with drive-through. The lease, with an original term of 15 years ending in 2029, contained two five-year renewal options.

Investment property operating expenses increased by \$34 in the first nine months of fiscal 2017 compared to the corresponding period in 2016, primarily the result of period costs resulting from increased occupancy, including realty taxes and costs, not considered capital in nature, associated with preparing the property for new tenants.

Interest and other income

Interest and other income for the first three quarters of fiscal of 2017 decreased by \$24 compared to the same period in 2016, the result of the Company reducing its level of investment in term deposits in the first and second quarters of 2017.

General and administrative expenses

General and administrative expenses increased for the first nine months of fiscal 2017 by \$414 over those of the comparative 2016 period. This increase is comprised of \$346 of costs related to the asset sale described under "Overview" above, and an increase in other administrative expenses of \$68.

Costs related to the asset sale include the cost of meetings with the Company's real estate consultants regarding the sale and marketing of the investment properties, their preparation of a fairness opinion on the offer from certain Directors and professional fees and other costs incurred in communicating the valuation and sales process to shareholders.

Income taxes

The income tax recovery for the first nine months of 2017 of \$68 (June 30, 2016 – provision of \$92) computed by applying the average statutory Canadian federal and provincial income tax rate of 26.5% (2016 – 26.5%) to earnings before income taxes was offset primarily by \$105 and \$240, the result of the fair value gain on investment properties and the gain on sale of an investment, respectively, being taxed at lower than statutory rates, \$31 of income tax recovery resulting from the prior year's loss for income tax purposes carried back to a previous year and \$251 of other items.

FINANCIAL CONDITION

(Unaudited, in thousands of Canadian dollars)

	June 30 2017	September 30 2016
Investment properties	\$ –	\$ 12,436
Cash and cash equivalents	11,957	548
Restricted cash	–	5
Amounts receivable	4,062	1,306
Short-term investments	9,592	10,592
Marketable securities	–	2,609
Income taxes recoverable	–	47
Tenant inducements	–	333
Other assets	173	47
Total assets	<u>\$ 25,784</u>	<u>\$ 27,923</u>
Long-term financial liability:		
Mortgage loan on investment property (See "Overview" above)	<u>\$ –</u>	<u>\$ 2,911</u>

ASSETS AND LIABILITIES

During the first nine months of fiscal 2017, the Company realized cash from the sale of its investment properties, maturity of short-term investments, interest earned on cash and short-term investments and, until their sale at the end of the third quarter, its investment property operations. The majority of this cash was used to reinvest in short-term investments, fund investment property operations and general and administrative costs.

Until its assumption by the purchaser on the Company's investment properties, the loan payable bore interest at the rate of 3.7% per annum, unchanged from September 30, 2016.

Investment properties, described under "Overview" above, increased in the first nine months of 2017 by \$1,090, the result of a fair value increase of \$793, capital improvements of \$258 and leasing commissions incurred of \$54, reduced by leasing costs amortization of \$15. The fair value increase was primarily the result of increased rental income resulting from the lease of vacant space to two tenants in the first quarter of 2017 and the reduction of the estimated time period to lease the building's remaining vacant space. As discussed above under "Overview", the sale of these properties closed on June 30, 2017.

The Company's real estate holdings also include one serviced residential lot in Mississauga, Ontario, the last remaining lot in a subdivision developed by the Company in a previous year. This lot was written down in a previous year to a nominal value, as it was deeded to the City of Mississauga in accordance with the subdivision agreement and would 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. Management has determined that a builder has purchased the non-owned adjoining lands for development and expects that these aforementioned issues will be resolved and the residential lot returned to the Company and be available to sell, either to the builder or on the open market. Accordingly, at September 30, 2016, the Company reversed the provision previously taken and wrote the lot up to its original cost of \$23, included in other assets.

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, 2016 are 20,575,866 shares, unchanged from October 1, 2015.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

(Unaudited, in thousands of Canadian dollars)

	Nine months ended	
	June 30 2017	June 30 2016
Cash provided by (used in):		
Operating activities	\$ (620)	\$ (132)
Investing activities	12,208	(748)
Financing activities	(179)	(178)
Increase (decrease) in cash and cash equivalents during the period	11,409	(1,058)
Cash and cash equivalents, beginning of the period	548	1,649
Cash and cash equivalents, end of the period	\$ 11,957	\$ 591

The Company continues to use cash flows to invest in money market investments, to fund its investment property operations until their sale on June 30, 2017 and to fund general and administrative costs. Cash flows from investing activities in 2017 include net proceeds of \$11,466 from the sale of investment properties referred to above. The Company's cash and cash equivalents serve to provide the Company with sufficient liquidity to carry on its business activities.

CONTRACTUAL OBLIGATIONS

The Company's contractual obligations, comprising its accounts payable and accrued liabilities totalling \$555, mature in less than one year.

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)

June 30, 2017	Note	Receives management fees from the Company	Receives property management fees to manage the investment properties	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)		\$ 29	\$ 115
June 30, 2016	Note	Receives management fees from the Company	Receives property management fees to manage the investment properties	Pays rent to the Company for space leased in a Company investment property
Marc Muzzo	(1)	\$ 94		
Stanley Goldfarb	(2)	\$ 94		
Dani Cohen	(3)		\$ 26	\$ 116
Marc 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.
- (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.
- (3) Dani Cohen was a co-tenant in the Company's investment properties until their sale in the third quarter of 2017. He was paid management fees for management services to the properties and paid rent for space leased in one of the properties as noted in the tables above.
- (4) Marc Kornhaber was a co-tenant in the Company's investment properties until their sale in the third quarter of 2017. He paid rent for space leased in one of the properties in 2016 as noted in the table 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 comprised a mortgage loan payable on an investment property before it was assumed by the purchaser on the sale of that property as described above.

Foreign Currency Risk

Foreign currency risk is the financial exposure to unanticipated changes in the exchange rate between two currencies. The Company is exposed to foreign currency risk with respect to US \$2,381 included in amounts receivable.

Credit and Operational Risks

The Company's maximum exposure to credit risk is the fair values of cash and cash equivalents, amounts receivable and short-term investments.

As at June 30, 2017 and September 30, 2016, 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. At June 30, 2017, the Company is not subject to any liquidity risk.

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 its shareholders' equity and 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 until June 30, 2017, the Company was 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 during its period of ownership.

CONTROLS AND PROCEDURES

At June 30, 2017, 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, 2017 and September 30, 2016 and for the three and nine-month periods ended June 30, 2017 and 2016 relates to the Company’s aggregate proportionate share of its proportionately-consolidated entities, comprising all its investments in its residential construction operations and, until its sale on June 30, 2017, its investment operations:

(Unaudited, in thousands of Canadian dollars)

	June 30 2017	September 30 2016
Assets	\$ 849	\$ 14,264
Liabilities	155	3,174
	\$ 694	\$ 11,090

	Three months ended		Nine months ended	
	June 30 2017	June 30 2016	June 30 2017	June 30 2016
Revenue	\$ 235	\$ 282	\$ 864	\$ 808
Expenses	(92)	(105)	(397)	(304)
Fair value gain (loss) on investment properties	(116)	5	793	386
Earnings	\$ 27	\$ 182	\$ 1,260	\$ 890

	Nine months ended	
	June 30 2017	June 30 2016
Cash provided by (used in)		
Operating activities	\$ (849)	\$ (579)
Investing activities	11,208	(78)
Financing activities	(179)	(181)

The certifying officers have determined there were no changes in the Company’s ICFR that occurred during the nine months ended June 30, 2017 that have significantly affected, or are reasonably likely to significantly affect, the Company’s ICFR.

NEW ACCOUNTING STANDARDS

Details of new accounting standards are included in note 4 to the interim consolidated financial statements for June 30, 2017.

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 June 30, 2017.

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 June 30, 2017.

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 interim consolidated financial statements for June 30, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

Financial Guarantees

At June 30, 2017, the Company has available and utilized letters of credit totalling \$nil (September 30, 2016 – \$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 June 30, 2017, the Company's co-investors' share of obligations of such entities comprises liabilities of \$634 (September 30, 2016 – \$802) and letters of credit of \$nil (September 30, 2016 – \$11) 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 last remaining real estate holding consist of the residential lot described above under "Overview" which the Company expects to sell in the current year.

As explained above under "Overview", the Company sold its 50% interest in each of its two remaining investment properties. The material assets of the Company now consist of cash, term deposits and current amounts receivable. It is the intention of the Company to distribute as much of the cash, including the proceeds from the sale transaction and proceeds of the redemption of the term deposits and marketable security as is prudent, having regard to the Company's ongoing expenses and liabilities.

Management and the Board of Directors will be considering options as to the Company's future given that the Company will have no ongoing active business operations after the completion of the sale of investment properties.

Additional information relating to the Company has been filed on SEDAR and can be found at www.sedar.com.