CONSOLIDATED HCI HOLDINGS CORPORATION

ANNUAL REPORT • 2017

The Company's net earnings for the year ended September 30, 2017 of $670,000 or $0.03 per share was a result of a non-cash fair value gain on its investment properties of $567,000 and the gain on the sale of a marketable security of $1,814,000, which were offset by the writeoff of $415,000 of amounts receivable from the Company's house building joint ventures, the provision of $840,000 for severance payments to employees and $456,000 of other expenses net of income tax recoveries and investment property revenue.

The Company's net earnings for the year ended September 30, 2016 of $784,000 or $0.04 per share was a result of a non-cash fair value gain on its investment properties of $884,000, which was offset by $100,000 of expenses and income taxes net of investment property revenue.

On June 30, 2017, the Company sold its last two remaining investment properties for net proceeds of $11,466,000. With this sale, the Company no longer carries on any significant active business activities.

As the Company continues to downsize and reduce the scope of its activities it was able to pay a special dividend of $16,461,000 in the fourth quarter of 2017. Management is exploring the most efficient way to continue returning cash to our shareholders.

On your behalf, I would like to thank our Board of Directors for the guidance they provide to management and our employees for their continued hard work.

(Signed) Stanley Goldfarb

Stanley Goldfarb
President

MANAGEMENT'S DISCUSSION AND ANALYSIS

As of January 4, 2018

OVERVIEW

Consolidated HCI Holdings Corporation was an Ontario based, publicly traded real estate development and investment company trading on the Toronto Stock Exchange under the trading symbol CXA.B. The following management's discussion and analysis ("MD&A") of the financial condition of the Company and its financial performance for the two years ended September 30, 2017 and 2016 are the views of management and should be read in conjunction with the consolidated financial statements including the related notes in the 2017 and 2016 audited consolidated financial statements. Amounts presented in this MD&A are in thousands of Canadian dollars, unless otherwise noted.

The information included in this MD&A, including the 2016 comparative information, has been prepared in accordance with International Financial Reporting Standards ("IFRS") unless otherwise noted.

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, were settled subsequent to September 30, 2017.

On September 20, 2017, the Company announced that, as it had discontinued and divested a substantial portion of its operations, it had ceased to be actively engaged in ongoing business and no longer met the listing requirements of the Toronto Stock Exchange (the "Exchange") its Class B shares were delisted from trading on the Exchange at the close of business on that day. With this announcement, the Company also advised that, with the opening of trading on Thursday, September 21, 2017, its Class B shares would commence trading on the NEX board under the trading symbol CXA.H.

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 consolidated financial statements as at September 30, 2017 and 2016.

CONTROLS AND PROCEDURES

As at September 30, 2017, the Chief Executive Officer and the Chief Financial Officer ("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 have designed internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external purposes in accordance with IFRS. All internal controls over financial reporting are either completed or reviewed by the Chief Financial Officer. Other than the Chief Financial Officer, the Company has only one employee who is engaged in accounting and recordkeeping functions and who is directly supervised by the Chief Financial Officer.

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 joint operations. Management of the operations is distinct from that of the Company and, as such, the Company does not have sufficient access to the operations to design and evaluate controls, policies and procedures carried out by these entities. The Company is satisfied that, considering its own review and analysis of financial information provided by the joint operations and discussion with the joint operations' management, material errors or omissions in the operations' financial reporting for consolidation purposes would come to the attention of the Company's management and be corrected prior to consolidation.

The following table summarizes joint operations in which the Company participates and for which it recognizes its proportionate interest in the underlying assets, liabilities, revenues, expenses and cash flows:

Name of joint operation	Ownership interest % 2017	2016
7700 Keele Street – to June 30, 2017	50.00	50.00
Seven- Keele – to June 30, 2017	50.00	50.00
Purple Stone Homes	30.00	30.00
Kewanee Holdings	30.00	30.00
Honeysuckle Homes	10.00	10.00
Jenrette Construction	28.75	28.75

The following summary of financial information as at September 30, 2017 and 2016 and for the years then ended relates to the Company's aggregate consolidated proportionate share of its joint operations, comprising all its investments in its investment properties and residential construction:

	September 30 2017	2016
Assets	$ 464	$ 14,264
Liabilities	157	3,174
	$ 307	$ 11,090

	Year ended September 30 2017	2016
Revenue	$ 864	$ 1,109
Expenses	(819)	(427)
Fair value gain on investment properties	567	884
Earnings	$ 612	$ 1,566

	Year ended September 30 2017	2016
Cash provided by (used in)		
Operating activities	$ (178)	$ (375)
Investing activities	11,208	120
Financing activities	(179)	(237)

The certifying officers have evaluated the design and operating effectiveness of the Company's DC&P and ICFR for the year ended September 30, 2017 and have concluded that such DC&P and ICFR were appropriately designed and were operating effectively.

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

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 such as "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.

REVIEW OF FINANCIAL RESULTS

Financial data presented herein is expressed in thousands of Canadian dollars and is in accordance with IFRS.

Results of operations

Two-year summary of operating results
(in thousands of dollars, except per share amounts)

	2017	2016
Total revenue	$ 986	$ 1,243
Earnings before income taxes	$ 309	$ 862
Recovery of (provision for) income taxes	361	(78)
Net earnings for the year	$ 670	$ 784
Basic and diluted earnings per share	$ 0.03	$ 0.04

Total revenue decreased in 2017 by $257 compared to the revenue recorded for the same period in 2016, the result of a decrease in investment property revenue of $230 and a decrease in interest income of $27.

House building operations

The Company completed and closed all housing inventory by September 30, 2013.

During both 2017 and 2016, adjustments for cost estimates made in four projects, which had previously sold out, resulted in the Company recording completion costs totalling $7 and cost recoveries totalling $45, respectively, in its house building operations.

As at September 30, 2016, amounts receivable included $831 owing from the house building co-tenancies' project manager. These amounts, held pursuant to the project co-tenancy agreements, were meant to provide contingency funds should any warranty or other claims be made with respect to the houses sold. The project manager, at its discretion, may call on co-tenants 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 co-tenancy for distribution to the co-tenants once they are no longer considered necessary to hold.

During the fourth quarter of fiscal 2017, the Company and the project manager reached an agreement in principle under which the project manager would indefinitely retain 50% of such contingency funds and release the balance back to the Company in exchange for releasing the Company from any future project-related costs. Accordingly, the Company has expensed $415 of the amount receivable from the project manager in the consolidated financial statements.

Rental operations

(in thousands of dollars)

	2017	2016
Rental revenues	$ 864	$ 1,094
Rental operating expenses	287	346
Net operating income*	$ 577	$ 748

* 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.

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.

In 2017, up to June 30, net operating income was reduced by interest expense and amortization of $110 (2016 – $126) and increased by a gain in fair value of investment properties of $567 (2016 – $884) and interest income of $nil (2016 – $15), resulting in net earnings from rental operations of $1,034 (2016 – $1,521).

See "ASSETS – Investment properties" below for further information on the changes in the level of the properties' occupancy up to June 30, 2017.

General and administrative expenses

General and administrative expenses in 2017, in aggregate, increased by $1,278 over those of 2016 the result of $840 of accrued employee severance costs, $346 of costs related to the asset sale described under "Overview" above and an increase in other administrative expenses of $92.

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.

As previously disclosed in the Company's Management Information Circular dated February 9, 2017 for the year ended September 30, 2016, the terms of the Management Agreement provided for management fees of 3% of pre-tax earnings subject to a minimum of $250. For the year ended September 30, 2017, the terms of the Management Agreement remained unchanged. For both years ended September 30, 2017 and 2016, these minimum management fees, calculated in accordance with the agreement, were recorded in accounts payable and accrued liabilities and were included in general and administrative expenses. See "TRANSACTIONS WITH RELATED PARTIES."

Interest and other income

Interest and other income decreased by $27 from 2016 to 2017 caused by an increase in interest income of $5, offset by the one-time sale of Company works of art and the reversal of a prior year writedown of a residential lot as required under IFRS totalling $32, both in the fourth quarter of 2016.

Interest expense

Interest incurred in the Company's rental operations decreased by $18 as a result of the sale of its investment properties described under "Overview" above. Until its assumption by the purchasers of the investment properties, the mortgage on the Company's industrial/commercial building bore interest at the rate of 3.7% per annum.

Income taxes

The 2017 income tax provision of $82 computed by applying the average statutory Canadian federal and provincial income tax rate of 26.5% to earnings before income taxes, was offset by $443, primarily the result of the fair value gain on investment properties and the gain on the sale of a marketable security being taxed at lower than statutory rates.

The 2016 income tax provision of $228, computed by applying the average statutory Canadian federal and provincial income tax rate of 26.5% to earnings before income taxes, was offset by $150, primarily the result of the fair value gain on investment properties being taxed at lower than statutory rates.

Selected quarterly consolidated financial information (unaudited)

(in thousands of dollars, except per share amounts)

	2017				2016			
	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Revenue	$ 43	$ 264	$ 365	$ 314	$ 333	$ 335	$ 275	$ 300
Net earnings (loss)	$(1,511)	$ 1,705	$ (368)	$ 844	$ 505	$ 37	$ 256	$ (14)
Basic and diluted earnings (loss) per share	$(0.073)	$ 0.083	$(0.018)	$ 0.041	$ 0.025	$ 0.002	$ 0.013	$ —

Fluctuations in the quarterly results over the two-year period shown above are primarily due to the timing of changes in the fair value of the Company's investment properties, declining interest income due to a reduction in short-term investments and the gain on the sale of a marketable security in the third quarter of 2017.

FINANCIAL CONDITION

(in thousands of dollars)

	2017	2016
Investment properties	$ —	$ 12,436
Cash and cash equivalents	7,744	548
Restricted cash	—	5
Amounts receivable	415	1,306
Short-term investments	—	10,592
Marketable securities	—	2,609
Income taxes recoverable	—	47
Tenant inducements	—	333
Other assets	37	47
Total assets	$ 8,196	$ 27,923
Long-term financial liability		
Mortgage loan on an investment property	$ —	$ 2,911

ASSETS

Investment properties

Investment properties, described under "Overview" above, increased in the first nine months of 2017 by $864, the result of a fair value increase of $567, 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.

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

Cash resources

Cash and cash equivalents include unrestricted cash and term deposits with a maturity of three months or less from the date of acquisition. Restricted cash, all held in the Company's house building co-tenancies, includes deposits required to secure outstanding guarantees and letters of credit of $nil (2016 – $5). Unrestricted cash and term deposits held in these co-tenancies amounting to $47 (2016 – $170) are not available for corporate use.

Amounts receivable

Amounts receivable decreased in 2017 by $891. This decrease is comprised of the writeoff of the balance of non-collectible straight-line rent receivable of $362 from the investment properties sold on June 30, 2017 and the writeoff of $415, as explained above under "House building operations" and a decrease of $114 of other amounts receivable.

Subsequent to September 30, 2017, the Company and the project manager reached an agreement under which the project manager would indefinitely retain 50% of such contingency funds and release the balance back to the Company in exchange for releasing the Company from any future project-related costs or claims by third parties. Accordingly, the Company has expensed $415 of the amount receivable.

Other

The Company's real estate holdings 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 previously 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 these aforementioned issues will be resolved and the residential lot returned to the Company and be available for sale, either to the builder or on the open market.

LIABILITIES

Loan payable

The loan payable decreased by $2,911 during fiscal 2017, as a result of scheduled principal repayments of $179 net of the writeoff of the balance of unamortized financing fees of $17 on the mortgage loan on one of its Vaughan, Ontario investment properties and the assumption by the purchaser on the June 30, 2017 sale of the property of the $2,749 loan balance at the date of sale. Until its assumption, the loan bore interest at the rate of 3.7% per annum, unchanged from September 30, 2016.

OUTSTANDING SHARE DATA

As at September 30, 2017, the Company's authorized capital stock consists of an unlimited number of Class B, voting shares, without par value, of which 20,575,866 shares are issued and outstanding at a stated value of $35,890, unchanged since October 1, 2015.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

(in thousands of dollars)

	2017	2016
Cash provided by (used in)		
Operating activities	$ (1,060)	$ (171)
Investing activities	24,896	(693)
Financing activities	(16,640)	(237)
Increase (decrease) in cash and cash equivalents	7,196	(1,101)
Cash and cash equivalents, beginning of the year	548	1,649
Cash and cash equivalents, end of the year	$ 7,744	$ 548

Cash and cash equivalents increased in 2017 by $7,196. This increase resulted from $10,592 of maturities net of reinvestments in short-term money market instruments, $11,466 net proceeds from the sale of the investment properties referred to above, offset by the payment of a dividend of $16,461, the details of which are set out in note 20 to the consolidated financial statements for September 30, 2017 and $1,599 of other net cash inflows.

Cash and cash equivalents decreased in 2016 by $1,101. This decrease resulted from a $700 investment net of maturities of short-term money market instruments, additions to one of the Company's investment properties of $109, principal repayments of $237 on the mortgage on one of the Company's investment properties and other net cash outflows of $205. These cash outflows were partially offset by the receipt of proceeds of land expropriation compensation of $150.

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. The Company's cash and cash equivalents serve to provide the Company with sufficient liquidity to carry on its activities.

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)

September 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 one of the Company's investment properties
Marc Muzzo	(1)	$ 125	—	—
Stanley Goldfarb	(2)	$ 125	—	—
Dani Cohen	(3)	—	$ 29	$ 118

September 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 one of the Company's investment properties
Marc Muzzo	(1)	$ 125	—	—
Stanley Goldfarb	(2)	$ 125	—	—
Dani Cohen	(3)	—	$ 34	$ 155
Mark Kornhaber	(4)	—	—	$ 7

(1) Marc Muzzo 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.

(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 on June 30, 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. In fiscal 2016, he paid rent for space leased in one of the properties as noted in the tables above.

RISK MANAGEMENT

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 cash and cash equivalents.

Credit risk

The Company's maximum exposure to credit risk is the fair value of cash and cash equivalents and amounts receivable.

As at September 30, 2017 and 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.

The Company's contractual obligations, which are its accounts payable and accrued liabilities, are expected to be repaid within twelve months.

FUTURE ACCOUNTING CHANGES

Details of accounting standards issued and yet to be applied are included in note 5 of the consolidated financial statements for September 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 14 of the consolidated financial statements for September 30, 2017.

CRITICAL ACCOUNTING ESTIMATES

Information pertaining to critical accounting estimates as they relate to the Company's investment properties is included in note 4 of the consolidated financial statements for September 30, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

Financial guarantees

The Company has letters of credit available totalling $nil (2016 – $5), of which $nil (2016 – $5) has been utilized in support of its obligation to complete servicing requirements in connection with various house building projects.

The Company is contingently liable for its associates' share of the obligations in co-tenancy developments. As at September 30, 2017, the Company's associates' share of the obligations of such co-tenancies comprises liabilities of $637 (2016 – $802) and letters of credit of $nil (2016 – $11) in support of obligations to complete servicing requirements in connection with various house building projects. 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 consists of the residential lot described above under "Assets – other," which the Company expects to sell in the second quarter of 2018.

As explained above under "Overview," the Company sold its 50% interest in each of its two remaining investment properties. The remaining material asset of the Company now consists of cash and cash equivalents. With the payment of the dividend described in note 20 to the consolidated financial statements, the Company distributed as much of its cash, including the proceeds from the sale transaction and proceeds of the redemption of the term deposits and marketable security as was prudent, taking into account the Company's ongoing expenses and liabilities.

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

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

MANAGEMENT'S RESPONSIBILITIES

The consolidated financial statements of Consolidated HCI Holdings Corporation have been prepared by management of the Company in accordance with International Financial Reporting Standards.

Management maintains appropriate controls to provide reasonable assurance that the assets of the Company, its subsidiaries and joint ventures are safeguarded and that financial information is reliable and accurate. Where necessary, management uses judgment to make estimates based on informed knowledge of the facts.

The Board of Directors bears ultimate responsibility for the consolidated financial statements. An Audit Committee composed of independent directors has reviewed in detail these consolidated financial statements with management and also with the external auditor appointed by the shareholders. The Audit Committee has recommended its approval to the Board. The Board of Directors has approved these consolidated financial statements.

All other financial and operating data included in the annual report are consistent with information contained in the consolidated financial statements and have been reviewed by the Board of Directors.

(Signed) Stanley Goldfarb

Stanley Goldfarb
President and Treasurer

January 4, 2018

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CONSOLIDATED HCI HOLDINGS CORPORATION

We have audited the accompanying consolidated financial statements of Consolidated HCI Holdings Corporation and its subsidiaries, which comprise the consolidated balance sheets as at September 30, 2017 and September 30, 2016 and the consolidated statements of operations, changes in shareholders' equity, comprehensive income (loss) and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Consolidated HCI Holdings Corporation and its subsidiaries as at September 30, 2017 and September 30, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)	September 30 2017	September 30 2016
ASSETS		
Non-current assets		
Investment properties (note 6)	$ —	$ 12,436
Amounts receivable (note 8)	—	1,172
Tenant inducements (note 9)	—	311
	—	13,919
Current assets		
Cash and cash equivalents (note 7(a))	7,744	548
Restricted cash (note 7(b))	—	5
Amounts receivable (note 8)	415	134
Short-term investments (note 10)	—	10,592
Marketable securities (note 10)	—	2,609
Income taxes recoverable	—	47
Tenant inducements (note 9)	—	22
Other	37	47
	8,196	14,004
	$ 8,196	$ 27,923
LIABILITIES		
Non-current liabilities		
Loan payable (note 11)	$ —	$ 2,674
Accounts payable and accrued liabilities	—	—
Deferred income taxes (note 12)	—	1,395
	—	4,069
Current liabilities		
Loan payable (note 11)	—	237
Accounts payable and accrued liabilities (note 18)	1,232	573
Income taxes payable	890	—
	2,122	810
	2,122	4,879
SHAREHOLDERS' EQUITY		
Capital stock (note 13)	35,890	35,890
Deficit	(29,816)	(14,025)
Accumulated other comprehensive income	—	1,179
	6,074	23,044
	$ 8,196	$ 27,923

Contingencies and commitments (note 21)

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

Approved by the Board of Directors

(Signed) Stanley Goldfarb — Director

(Signed) Rudolph Bratty — Director

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended September 30 (in thousands of Canadian dollars, except share and per share amounts)	2017	2016
Investment property revenue (note 18)	$ 864	$ 1,094
Investment property operating expenses (note 18)	287	346
Net rental income	577	748
Other income (expenses)		
General and administrative (notes 18 and 19)	(2,116)	(838)
Interest and other income	122	149
Interest expense	(95)	(113)
Amortization of leasing costs	(15)	(13)
Housing project recoveries (completion costs) (note 8)	(423)	45
Fair value gain on investment properties (note 6)	567	884
Gain on sale of marketable security	1,814	—
Foreign exchange loss	(122)	—
	(268)	114
Earnings before income taxes	309	862
Recovery of (provision for) income taxes (note 12)	361	(78)
Net earnings for the year	$ 670	$ 784
Basic and diluted earnings per share	$ 0.03	$ 0.04
Weighted average number of shares outstanding	20,575,866	20,575,866

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)	Capital stock	Deficit	Accumulated other comprehensive income	Total equity
Balance – October 1,2016	$ 35,890	$ (14,809)	$ 1,318	$ 22,399
Net earnings for the year	—	784	—	784
Other comprehensive loss	—	—	(139)	(139)
Balance – September 30, 2016	35,890	(14,025)	1,179	23,044
Net earnings for the year	—	670	—	670
Other comprehensive income	—	—	418	418
Dividends paid (note 20)	—	(16,461)	—	(16,461)
Reclassification of unrealized gains on available-for-sale financial assets to net earnings	—	—	(1,597)	(1,597)
Balance – September 30, 2017	$ 35,890	$ (29,816)	$ —	$ 6,074

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended September 30 (in thousands of Canadian dollars)	2017	2016
Net earnings for the year	$ 670	$ 784
Other comprehensive income (loss), net of income taxes, which will recycle through profit		
Unrealized gains (losses) arising during the year on available-for-sale financial assets	418	(139)
Amounts reclassified to consolidated statements of operations	(1,597)	—
Comprehensive income (loss) for the year	$ (509)	$ 645

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended September 30 (in thousands of Canadian dollars)	2017	2016
Cash provided by (used in)		
OPERATING ACTIVITIES		
Net earnings for the year	$ 670	$ 784
Gain on sale of marketable security	(1,814)	—
Deduct non-cash items (note 17(a))	(1,765)	(805)
Leasing costs incurred	(54)	(28)
Changes in non-cash operating balances (note 17(b))	1,903	(122)
	(1,060)	(171)
INVESTING ACTIVITIES		
Investment properties		
Additions	(258)	(109)
Expropriation proceeds	—	150
Sales proceeds	11,466	—
Syndicated mortgage loan maturity	—	22
Short-term investments		
Purchases	(29,740)	(40,440)
Sales or maturities	40,332	39,740
Proceeds on sale of marketable security	3,091	—
Tax incurred on accumulated other comprehensive income	—	(67)
Restricted cash	5	11
	24,896	(693)
FINANCING ACTIVITIES		
Dividends paid (note 20)	(16,461)	—
Repayments of mortgage loan on an investment property	(179)	(237)
	(16,640)	(237)
Increase (decrease) in cash and cash equivalents during the year	7,196	(1,101)
Cash and cash equivalents, beginning of the year (note 7)	548	1,649
Cash and cash equivalents, end of the year (note 7)	$ 7,744	$ 548

SUPPLEMENTARY INFORMATION (note 17(c))

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

1. DESCRIPTION OF BUSINESS

Consolidated HCI Holdings Corporation ("the Company") was an Ontario based, publicly traded real estate development and investment company trading on the Toronto Stock Exchange under the trading symbol CXA.B. 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, were settled subsequent to September 30, 2017.

On September 20, 2017, the Company announced that, as it had discontinued and divested a substantial portion of its operations, it had ceased to be actively engaged in ongoing business and no longer met the listing requirements of the Toronto Stock Exchange (the "Exchange") its Class B shares were delisted from trading on the Exchange at the close of business on that day. With this announcement, the Company also advised that, with the opening of trading on Thursday, September 21, 2017, its Class B shares would commence trading on the NEX board under the trading symbol CXA.H.

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

The address of the Company's registered office is 40 King Street West, Suite 2100, Toronto, Ontario.

The Board of Directors approved the consolidated financial statements on December 14, 2017.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of consolidated annual financial statements. The policies applied in these consolidated financial statements are based on IFRS policies effective as at September 30, 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company together with the Company's proportionate share of the assets, liabilities, revenue and expenses of the co-tenancies.

Investment Properties

Until their sale on June 30, 2017, as explained above, the Company's investment properties constituted an industrial/commercial property and a fast food restaurant property held to earn rental income and for capital appreciation and were not for sale in the ordinary course of business. Investment properties were recorded initially at cost and subsequently at fair value as determined by qualified external valuation professionals at the consolidated balance sheet dates. Changes in fair value were recognized in the consolidated statements of operations. Subsequent expenditures were capitalized to the asset carrying amount only when it was probable that the future economic benefit associated with the expenditure would flow to the Company and the cost of the item could be reliably measured. All other repair and maintenance costs were expensed when incurred.

Financial Instruments

The Company's designations and measurement of the basis of its financial instruments are as follows:

Cash and cash equivalents and restricted cash, amounts receivable and short-term investments consisting of term deposits are classified as "Loans and Receivables." After their initial recognition at fair value, these instruments are recorded at amortized cost using the effective interest rate method.

Marketable securities, consisting of equity investments, are classified as "Available-for-sale Securities." These financial assets are recognized at the trade date and are recorded at fair value through other comprehensive income at each year-end using quoted market prices.

Loan payable and accounts payable and accrued liabilities are classified as "Other Liabilities." After their initial recognition at fair value less directly attributable transaction costs, these instruments are recorded at amortized cost using the effective interest rate method. Transaction costs are recognized in comprehensive income over the expected life of the debt.

The Company expenses transaction costs related to its marketable securities that are available-for-sale.

Tenant Inducements

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.

Rental Revenue

Rental revenue is recognized using the straight-line method whereby any contractual rent increases over the term of a lease are recognized as revenue on a straight-line basis.

The recovery of property operating expenses from tenants is recognized as revenue in the period in which the applicable expense is incurred.

Interest Income

Interest income is recognized using the effective interest rate method.

Income Taxes

Income tax expense consists of current and deferred income tax expenses. Current income taxes are the expected taxes payable on the taxable income for the period using income tax rates enacted or substantively enacted at the end of the reporting period and any adjustments to income taxes payable in respect of previous years.

Deferred income taxes are the amount of income taxes expected to be paid or recovered in future periods in respect of temporary differences and unutilized tax losses. Deferred income taxes are determined based on differences between consolidated financial statement values and income tax values of assets and liabilities using substantively enacted income tax rates and laws expected to be in effect when the deferred income tax asset or liability is settled. Deferred income taxes relating to fair value adjustments to investment properties reflect the tax consequences of recovering the carrying amount through sale.

4. CRITICAL ACCOUNTING ESTIMATES

The preparation of 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 income and expenses during the reporting period. Actual results could differ from those estimates. The most significant item requiring estimates and judgments that could have had a material impact on the consolidated financial statements as at September 30, 2017 is addressed below.

Fair Value of Investment Properties

The fair value of the Company's 50%-owned investment properties was determined by qualified external valuation professionals as at September 30, 2016 and September 30, 2015. The valuations have been reviewed and approved by management. The properties comprise an industrial/commercial rental building and a rental building leased to a fast food outlet. 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.

5. ACCOUNTING STANDARDS

New Accounting Standards

IFRS 10 – Consolidated Financial Statements ("IFRS 10"), and IAS 28, Investments in Associates and Joint Ventures ("IAS 28")

IFRS 10 and IAS 28 establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities and prescribes the accounting for investments in associates, respectively. They were amended to clarify that a full gain or loss is recognized when a transaction involves a business combination and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments were effective for annual periods beginning on or after January 1, 2016 and did not have a material effect on the Company's consolidated financial statements.

Future Changes in Accounting Standards

The following new standards and amendments to existing standards apply to annual periods beginning on or after January 1, 2017, with earlier adoption permitted. Management does not expect these standards to have a material impact on the Company's consolidated financial statements.

IAS 7 – Statement of Cash Flows

This standard has been amended by the IASB to introduce additional disclosures that will allow users to understand changes in liabilities arising from financing activities. This amendment is effective for annual periods beginning on or after January 1, 2017.

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 – Financial Instruments

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 other comprehensive income ("OCI") and fair value through profit or loss. 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 loss 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 OCI, 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 uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 specifies how and when revenue should be recognized, in addition to requiring more informative and relevant disclosures. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. This standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue related interpretations. IFRS 15 must be applied for periods beginning on or after January 1, 2018, with early application permitted.

IFRS 16 – Leases ("IFRS 16")

IFRS 16 sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15.

6. INVESTMENT PROPERTIES

	2017	2016
Balance, beginning of the year	$ 12,436	$ 11,578
Amortization of leasing costs	(15)	(13)
Additions	258	109
Expropriation proceeds	—	(150)
Fair value adjustment	567	884
Leasing costs incurred	54	28
Sale of investment properties	(13,300)	—
Balance, end of the year	$ —	$ 12,436

The basis of valuation of the Company's 50%-owned investment properties as at September 30, 2016 is set out in note 4. Investment properties measured at fair value were categorized as Level 3 in the fair value hierarchy described in note 14, as the key valuation metrics are unobservable inputs in the calculation. For the second quarter ended March 31, 2017, investment properties measured at fair value were transferred to Level 2 in the fair value hierarchy described in note 14, as the key valuation metrics were observable inputs in the calculation as evidenced by the terms of the accepted offer to purchase these assets. The key valuation metrics for the investment properties as at September 30, 2016 are set out in the following tables:

Capitalization rate	Minimum	Maximum	Applied
Industrial/commercial building	5.61%	7.66%	6.75%
Fast food outlet	3.90%	7.70%	5.00%

Stabilized net operating income – at 100%	
Industrial/commercial building	$ 1,721
Fast food outlet	$ 125

Fair values of investment properties were most sensitive to changes in discount and capitalization rates. An increase in the capitalization rate would have resulted in a decrease in the fair value of an investment property, and vice versa. A decrease in the discount rate would have resulted in an increase in the fair value of an investment property, and vice versa.

Presented separately from investment properties as at September 30, 2016 is $362 of net straight-line rent receivable (included in note 8) arising from the recognition of rental revenues on a straight-line basis over the lease term and $333 of tenant inducements (included in note 9) in accordance with IAS 17, Leases. The fair value of the investment properties was reduced by these amounts presented separately.

The balance of straight-line rent receivable outstanding of $361 and unamortized tenant inducements of $317 at the time of sale have been written off and are included in the cost of sale of the properties.

As at September 30, 2016, the Company's investment properties, exclusive of the fast food outlet component referred to above, which was unencumbered, with a fair value of $11,215, were pledged as security for a mortgage loan payable, which was assumed by the purchaser on closing (note 11).

7. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

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

		2017		2016
Cash	$	3,244	$	543
Term deposits		4,500	5	5
Total cash and cash equivalents	$	7,744	$	548

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 house building and investment property operations of $47 (2016 – $173).

(b) Restricted cash is as follows:

		2017		2016
Total restricted cash	$	—	$	5

Restricted cash, all held in one of the Company's house building co-tenancies, comprises a deposit required to secure an outstanding letter of credit.

8. AMOUNTS RECEIVABLE

		2017		2016
Straight-line rent receivable	$	—	$	362
Other receivables (a)		415		944
	$	415	$	1,306
Non-current	$	—	$	1,172
Current		415		134
	$	415	$	1,306

(a) Other receivables include $415 (2016 - $831) owing from the house building co-tenancies' project manager. These amounts are held pursuant to the project co-tenancy agreements and are meant to provide contingency funds should any warranty or other claims be made with respect to the houses sold. The project manager, at its discretion, may call on co-tenants 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 co-tenancy for distribution to the co-tenants once they are no longer considered necessary to hold. There are no outstanding claims against these amounts as at September 30, 2017 and 2016.

During the fourth quarter of fiscal 2017, the Company and the project manager reached an agreement in principle under which the project manager would indefinitely retain 50% of such contingency funds and release the balance back to the Company in exchange for releasing the Company from any future project related costs. Accordingly, the Company has expensed $415 of the amount receivable from the project manager in these consolidated financial statements.

9. TENANT INDUCEMENTS

	2017	2016
Tenant inducements	$ —	$ 432
Less: Accumulated amortization	—	(99)
	$ —	$ 333
Non-current	$ —	$ 311
Current	—	22
	$ —	$ 333

10. INVESTMENTS IN SHORT-TERM INVESTMENTS AND MARKETABLE SECURITIES

	2017	2016
Short-term investments consist of the following:		
Canadian chartered bank term deposits issued for periods of 90 days or greater, bearing interest at a year-end weighted average rate of 1.0%	$ —	$ 10,592
Marketable securities consist of the following:		
52,840.03 B/1 shares York Select Unit Trust (cost – US$1,000; fair value US$1,988)	$ —	$ 2,609

11. LOAN PAYABLE

The loan is as follows:

	2017	2016
Secured by an investment property, net of deferred financing fees of $19	$ —	$ 2,911

The estimated fair value of the loan payable as at September 30, 2016 approximated the carrying value because this loan bore interest at a variable rate.

The loan payable, which was secured by an investment property, constituted the Company's 50% share of a first mortgage loan on one of its Vaughan, Ontario investment properties. The loan, bore interest at the Business Development Bank of Canada's base rate for commercial and industrial loans minus 1% or 3.7%. The loan, with an original maturity in 2029, was assumed by the purchaser on June 30, 2017 on the sale of the property (note 1). In the third quarter of 2017, the Company was released from its guarantee of 50% of amounts due under the loan.

12. INCOME TAXES

a) Significant components of the income tax provision (recovery) for the years ended September 30 are as follows:

	2017	2016
Current	$ 881	$ (9)
Deferred	(1,242)	87
Provision for (recovery of) income taxes	(361)	78
Income tax expense (recovery) on other comprehensive income	(153)	29
	$ (514)	$ 107

b) The income tax provision 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 as follows:

	2017	2016
Expected income tax at 26.5% (2016 – 26.5%)	$ 82	$ 228
Fair value gains on investment properties taxed at lower than statutory rates	(189)	(117)
Gain on sale of marketable security taxed at lower than statutory rates	(240)	—
Other	(14)	(33)
	(443)	(150)
Income tax provision in earnings	(361)	78
Income tax expense (recovery) in other comprehensive income	(153)	29
	$ (514)	$ 107

c) Deferred income taxes relate to:

	2017	2016
Temporary differences:		
Capital cost allowance in excess of accounting amortization booked	$ —	$ 402
Costs capitalized for accounting, deducted for income tax	—	113
Unrealized gain on investment properties	—	631
Mortgage reserves and discounts on amounts receivable	—	96
Other comprehensive income	—	153
	$ —	$ 1,395
Comprise:		
Deferred income tax liabilities reversing after more than 12 months	$ —	$ 1,390
Deferred income tax liabilities reversing within 12 months	—	5
	$ —	$ 1,395

13. CAPITAL STOCK

AUTHORIZED

Unlimited Class B, voting shares, without par value

Details of issued capital stock, unchanged since October 1, 2015, are as follows:

	Number of shares	Amount
Balance, September 30, 2017 and September 30, 2016	20,575,866	$ 35,890

14. FINANCIAL INSTRUMENTS

Fair Values

The fair values of investments traded in active markets, such as marketable securities classified as available-for-sale, were based on the quoted bid price on the 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 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 September 30, 2016:

September 30, 2016	Level 1	Level 2	Level 3	Total
Short-term investments	$ 10,592	$ —	$ —	$ 10,592
Marketable securities	—	2,609	—	2,609
	$ 10,592	$ 2,609	$ —	$ 13,201

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 following interest sensitivity tables outline the potential impact of a 1% change in interest rates on variable rate assets and liabilities:

Year ended September 30, 2017		Interest rate risk			
		-1%		+1%	
Increase (decrease)	Carrying value	Net earnings	Equity	Net earnings	Equity
Financial Assets					
Cash and cash equivalents	$ 7,744	$ (57)	$ (57)	$ 57	$ 57

Year ended September 30, 2016		Interest rate risk			
		-1%		+1%	
Increase (decrease)	Carrying value	Net earnings	Equity	Net earnings	Equity
Financial Assets					
Cash and cash equivalents	$ 548	$ (4)	$ (4)	$ 4	$ 4
Financial Liabilities					
Loan payable	2,911	21	21	(21)	(21)
Total increase (decrease)		$ 17	$ 17	$ (17)	$ (17)

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 cash and cash equivalents.

Credit Risk

The Company's maximum exposure to credit risk is the fair value of cash and cash equivalents and amounts receivable.

Liquidity Risk

Liquidity risk is managed by maintaining cash and cash equivalents in excess of projected needs.

The Company's contractual obligations, which are its accounts payable and accrued liabilities, are expected to be repaid within twelve months.

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 its shareholders' equity. It is not subject to any externally imposed capital requirements.

The Company sets the amount of capital in proportion to risk. The Company manages the 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

As at September 30, 2017, the Company has available letters of credit totalling $nil (2016 – $5) of which $nil (2016 – $5) has been utilized in support of its obligation to complete servicing requirements in connection with various house building projects.

The Company is contingently liable for its co-investors' share of the obligations in co-tenancy developments. As at September 30, 2017, the Company's co-investors' share of obligations of such entities comprises liabilities of $637 (2016 – $802) and letters of credit of $nil (2016 – $11) in support of obligations to complete servicing requirements in connection with various completed house building projects. In each case, assets of the co-tenancy developments, consisting primarily of cash and cash equivalents, are available to satisfy such obligations.

16. INVESTMENTS IN JOINT ARRANGEMENTS

A joint arrangement is a contractual arrangement, pursuant to which the Company and other parties undertake an economic activity that is subject to joint control, whereby the strategic financial and operating policy decisions relating to the activities of the joint arrangements require the unanimous consent of the parties sharing control. Joint arrangements are of two types – joint ventures and joint operations.

Joint ventures involve the establishment of a separate entity in which each venture has an interest in the net assets of the arrangement and are accounted for using the equity method of accounting.

Where the Company undertakes its activities as a joint operation through a direct interest in the joint operation's assets and a direct obligation for the joint operation's liabilities, rather than through the establishment of a separate entity, the Company's proportionate share of the joint operation's assets, liabilities, revenues, expenses and cash flows is recognized in the consolidated financial statements and classified according to their nature.

The following table summarizes joint operations in which the Company participates and for which it recognizes its proportionate interest in the underlying assets, liabilities, revenues, expenses and cash flows:

Name of joint operation	Ownership interest % 2017	2016
7700 Keele Street – to June 30, 2017 (note 1)	50.00	50.00
Seven- Keele – to June 30, 2017 (note 1)	50.00	50.00
Purple Stone Homes	30.00	30.00
Kewanee Holdings	30.00	30.00
Honeysuckle Homes	10.00	10.00
Jenrette Construction	28.75	28.75

The Company's aggregate proportionate share of its joint operations is reflected in these consolidated financial statements as shown below.

	2017	2016
Assets	$ 464	$ 14,264
Liabilities	157	3,174
	$ 307	$ 11,090

	2017	2016
Revenue	$ 864	$ 1,109
Expenses	(819)	(427)
Fair value gain on investment properties	567	884
Earnings	$ 612	$ 1,566

	2017	2016
Cash provided by (used in)		
Operating activities	$ (178)	$ (375)
Investing activities	11,208	120
Financing activities	(179)	(237)

17. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2017	2016
Deferred income taxes	$ (1,242)	$ 87
Amortization of leasing costs	15	13
Amortization of deferred financing costs	17	3
Amortization of tenant inducements	16	22
Accrued interest receivable	(4)	(1)
Straight-line rent receivable	—	(45)
Fair value gain on investment properties	(567)	(884)
	$ (1,765)	$ (805)

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

	2017	2016
Amounts receivable	$ 415	$ (74)
Accounts payable and accrued liabilities	568	(42)
Income tax payable	937	2
Other	(17)	(8)
	$ 1,903	$ (122)

(c) Supplementary information consists of the following:

	2017	2016
Interest paid	$ 95	$ 133
Income taxes paid	$ 9	$ 97

18. 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 co-tenancies;
- 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 co-tenancies;
- three companies, one owned by one co-tenant and the other two owned by another co-tenant of the Company's Vaughan, Ontario investment properties, leased space in one of the properties until its sale on June 30, 2017 (note 1); and
- a company owned by a co-tenant of the Company's Vaughan, Ontario investment properties, until their sale on June 30, 2017 (note 1), acted as the manager of those properties and was paid management fees.

Related party transactions are recorded at the amount of consideration agreed to by the parties.

Transactions with related parties during the year were as follows:

	2017	2016
Management fee expense	$ 279	$ 284
Rental income	$ 118	$ 163

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

	2017	2016
Accounts payable and accrued liabilities	$ —	$ 250

Key Management Compensation

Key management includes the Chief Executive Officer, the Chief Financial Officer, Vice-President and Directors and they have been compensated as follows:

	2017	2016
Salaries and employee benefits	$ 880	$ 185
Management fees	250	250
Directors' fees	61	52
Total	$ 1,191	$ 487

19. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

Expenses incurred by nature are as follows:

	2017	2016
Salaries, employee benefits and directors' fees	$ 1,183	$ 324
Management fees	250	250
Professional fees	189	103
Other	494	161
	$ 2,116	$ 838

20. DIVIDENDS

On August 23, 2017, the Company declared a special dividend of $0.80 per Class B share payable to shareholders of record at the close of business on September 8, 2017. The dividend, totalling $16,461, was paid on September 15, 2017.

21. CONTINGENCIES AND COMMITMENTS

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 consolidated financial position or financial performance.

CORPORATE DIRECTORY

DIRECTORS

Rudolph Bratty**
President
Ruland Reality 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.

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Cassels Brock & Blackwell LLP

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STOCK EXCHANGE LISTING

TSX Venture Exchange – Nex
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