

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

As of August 14, 2018

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, 2018 and 2017, as well as updating CHCI's most recently issued annual MD&A, dated January 4, 2018. 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, 2018 and 2017 and should also be read in conjunction with the audited consolidated financial statements and the MD&A for the fiscal years ended September 30, 2017 and 2016, as set out in the Company's 2017 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, 2018 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 June 30, 2018 and 2017.

### **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**

As explained in note 1 to the June 30, 2018 interim consolidated financial statements, Consolidated HCI Holdings Corporation after June 30, 2017, no longer actively engaged in any ongoing business.

## 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 2018	June 30 2017	June 30 2018	June 30 2017
Revenue	\$ 22	\$ 264	\$ 59	\$ 943
Earnings (loss) before income taxes	\$ (100)	\$ 1,672	\$ (401)	\$ 2,113
Recovery of income taxes	26	33	123	68
Net earnings (loss) for the period	\$ (74)	\$ 1,705	\$ (278)	\$ 2,181
Basic and diluted earnings (loss) per share	\$ –	\$ 0.09	\$ (0.01)	\$ 0.11

The decrease of \$884 in revenue in the first nine months of 2018, compared to the same period in 2017, is primarily the result of the absence of investment property rental revenue in 2018 due to the sale of the Company's investment properties in the third quarter of 2017.

#### Rental operations

(Unaudited, in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	June 30 2018	June 30 2017	June 30 2018	June 30 2017
Rental revenue	\$ –	\$ 235	\$ –	\$ 864
Property operating expenses	–	63	–	287
Net operating income*	\$ –	\$ 172	\$ –	\$ 577

\* 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 their sale on June 30, 2017, 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.

#### House building operations

As discussed in note 6 to the interim consolidated financial statements for June 30, 2018, the Company's house building co-tenancies were wound up on June 30, 2018. At that date, the Company made adjustments to cost estimates made in house building projects resulting in cost recoveries of \$56.

#### Interest and other income

Interest and other income for the first half of fiscal of 2018 decreased by \$13 compared to the same period in 2017, the result of the Company reducing its level of investment in term deposits since January 1, 2017.

#### General and administrative expenses

General and administrative expenses decreased for the first nine months of fiscal 2018 by \$409 over those of the comparative 2017 period resulting from the absence in 2018 of \$346 of costs related to the June 30, 2017 asset sale, as explained in note 1 to the June 30, 2018 interim consolidated financial statements, and a reduction of \$63 in other items.

## Income taxes

The income tax recovery for the first nine months of 2018, of \$106, computed by applying the average statutory Canadian federal and provincial income tax rate of 26.5% to earnings before income taxes was increased by \$16 of other items.

The income tax provision for the first nine months of 2017 of \$560, computed by applying the average statutory Canadian federal and provincial income tax rate of 26.5% to earnings before income taxes was offset by \$378 and \$240 as a result of the fair value gain on investment properties and the gain on sale of a marketable security, respectively, being taxed at lower than statutory rates and \$10 of other items.

## FINANCIAL CONDITION

(Unaudited, in thousands of Canadian dollars)

	June 30 2018	September 30 2017
Cash and cash equivalents	\$ 5,637	\$ 7,744
Amounts receivable	–	415
Income taxes recoverable	153	–
Other assets	27	37
Total assets	\$ 5,817	\$ 8,196

## ASSETS AND LIABILITIES

The Company's last remaining real estate holdings, included in "Other assets" at a cost of \$23, comprises 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 in the near future and the residential lot returned to the Company and be available for sale, either to the builder or on the open market.

## OUTSTANDING SHARE DATA

Authorized capital stock consists of an unlimited number of Class B voting shares without par value. Issued and outstanding as at June 30, 2018 are 20,575,866 shares, unchanged from October 1, 2016.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flows

(Unaudited, in thousands of Canadian dollars)

	Nine months ended	
	June 30	June 30
	2018	2017
Cash provided by (used in):		
Operating activities	\$ (2,107)	\$ (620)
Investing activities	–	12,208
Financing activities	–	(179)
Increase (decrease) in cash and cash equivalents during the period	(2,107)	11,409
Cash and cash equivalents, beginning of the period	7,744	548
Cash and cash equivalents, end of the period	\$ 5,637	\$ 11,957

In the first nine months of fiscal 2018, the Company used cash to pay the balance of its September 30, 2017 income tax liability and accounts payable and accrued liabilities and to cover general and administrative expenses. Currently, the Company's only revenue source constitutes interest on term deposits. The Company's cash and cash equivalents serve to provide the Company with sufficient liquidity to continue as is until Management and the Board of Directors come to a decision as to the Company's future.

### CONTRACTUAL OBLIGATIONS

The Company's contractual obligations, comprising its accounts payable and accrued liabilities totalling \$21, 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)

<b>June 30, 2018</b>	Note	Receives management fees from the Company
Marc Muzzo	(1)	<b>\$ 94</b>
Stanley Goldfarb	(2)	<b>\$ 94</b>

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

- (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.

## **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.

### **Credit and Operational Risks**

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

As at June 30, 2018 and September 30, 2017, 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. As at June 30, 2018, the Company is not subject to any liquidity risk.

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 capital consists its shareholders' equity and it is not subject to any externally imposed capital requirements.

While management and the Board of Directors consider options as to the Company's future, the Company's objective is to preserve capital and retain adequate liquidity to provide cash for the Company's needs.

## CONTROLS AND PROCEDURES

As at June 30, 2018, 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. Until January 19, 2018, other than the CFO, the Company had only one employee who was engaged in accounting and recordkeeping functions and who was directly supervised by the CFO. That employee retired on that date and his duties were assumed by the CFO.

As at of June 30, 2017, the Company’s proportionately consolidated investment property operations were sold and as of June 30, 2018, the Company’s proportionately consolidated residential construction operations were wound up. The certifying officers had limited the scope of the design of the DC&P and ICFR to exclude controls, policies and procedures of those non-publicly accountable, proportionately consolidated entities (“the entities”). Management of the entities was distinct from that of the Company and, as such, the Company did 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 have come to the attention of the Company’s management and have been corrected prior to consolidation.

The following summary of financial information as at June 30, 2018 and September 30, 2017 and for the nine-month periods ended June 30, 2018 and 2017 relates to the Company’s aggregate proportionate share of the proportionately consolidated entities referred to above:

(Unaudited, in thousands of Canadian dollars)

	<b>June 30 2018</b>	September 30 2017
Assets	\$ –	\$ 464
Liabilities	–	157
	<b>\$ –</b>	<b>\$ 307</b>

	Three months ended <b>June 30</b> <b>2018</b>		Nine months ended <b>June 30</b> <b>2018</b>	
		June 30 2017		June 30 2017
Revenue	\$ 56	\$ 235	\$ 56	\$ 864
Expenses	–	(92)	–	(397)
Fair value gain (loss) on investment properties	–	(116)	–	793
Earnings	<b>\$ 56</b>	<b>\$ 27</b>	<b>\$ 56</b>	<b>\$ 1,260</b>

	Nine months ended <b>June 30</b> <b>2018</b>		June 30 2017
Cash provided by (used in)			
Operating activities	\$ 56	\$	478
Investing activities	415		135
Financing activities	–		(122)

The certifying officers have determined there were no changes in the Company’s ICFR that occurred during the nine months ended June 30, 2018 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, 2018.

## **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, 2018.

## **FINANCIAL INSTRUMENTS**

Information pertaining to the Company's financial instruments is included in note 8 to the interim consolidated financial statements for June 30, 2018.

## **CRITICAL ACCOUNTING ESTIMATES**

Information pertaining to critical accounting estimates as they relate to the Company's investment properties, prior to their sale, is included in note 3 of the interim consolidated financial statements for June 30, 2018.

## **OFF-BALANCE SHEET ARRANGEMENTS**

### **Financial Guarantees**

The Company was previously contingently liable for its co-investors' share of the obligations in co-tenancy developments. As discussed in note 6 to the interim consolidated financial statements as at June 30, 2018, the Company's house building co-tenancies were wound up on June 30, 2018 and the Company was released from all obligations of the co-tenancies. As at September 30, 2017, the Company's co-investors' share of obligations of such entities comprised liabilities of \$637. In each case, assets of the co-tenancy developments, consisting primarily of cash and cash equivalents, were available to satisfy such obligations.

## **SUBSEQUENT EVENT**

Subsequent to June 30, 2018, on August 14, 2018, the Company declared a special dividend of \$0.225 per Class B share payable to shareholders of record at the close of business on August 28, 2018. The dividend totalling \$4,630 will be paid on September 4, 2018.

## **OUTLOOK**

Management and the Board of Directors are considering options as to the Company's future given that as at June 30, 2017, as previously reported, the Company had discontinued and divested substantially all of its operations, and had ceased to be actively engaged in any ongoing business.

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