Tarion Warranty Corporation
Annual Report 2004

Corporate Mandate

A Unique Responsibility

TARION
PROTECTING ONTARIO'S NEW HOME BUYERS

Tarion Warranty Corporation:

- Underwrites and licenses all new home builders in Ontario.
- Guarantees new home warranty coverage for up to 7 years.
- Ensures home builders comply with statutory warranty requirements.
- Mediates warranty disputes between new homeowners and builders.
- Provides education to consumers and home builders about the statutory new home warranty.

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Tarion Warranty Corporation ("Tarion")* is a private corporation established in 1976 to provide protection for all consumers who purchase a new home or condominium residence in Ontario.

Tarion is empowered to administer the *Ontario New Home Warranties Plan Act* ("the Act"), which requires builders to offer a warranty to each purchaser of a new housing unit in Ontario. The Corporation manages a guarantee fund to ensure that the warranty offered to a consumer will be honoured if the builder refuses to do so, or in the event of builder insolvency. Currently, there are more than 430,000 homes in Ontario eligible for warranty protection under the Act.

In addition to standing behind the builder's statutory warranty, Tarion acts as the Regulator of the home building industry in Ontario, responsible for the licensing of all new home builders in the province. Builder licensing occurs annually and it involves the establishment of individual terms and conditions of registration in accordance with the Act. By the close of 2004, the number of registered builders in Ontario was more than 5,300. Tarion is also responsible for enforcement of builders' compliance with the Act. Beyond this regulatory role, the business of the Corporation is similar to a property and casualty insurance company: it takes in fee revenue, establishes reserves and pays out claims.

Tarion's mandate is unique in Canada. No other province or territory so completely transfers responsibility and liability for management of the home building industry to an independent organization. In fulfilling this mandate, the Corporation strives to establish policies and business practices that balance the interests of its stakeholders – consumers, home builders and the Government of Ontario.

**On April 5, 2004 the Corporation changed its name from the Ontario New Home Warranty Program to Tarion Warranty Corporation.*

Important Progress Made in 2004

50% increase in warranty coverage

On September 1, 2004, overall warranty coverage for new home buyers was increased by 50%, from $100,000 to $150,000 of coverage.

New Customer Centre

Established a unique, new walk-in storefront Customer Centre in an accessible retail mall setting with educated staff on hand to answer questions and provide information to consumers and builders.

Tarion, our New Brand

A progressive new brand was launched to symbolize our transformation into a modern, customer-focused organization. The name *Tarion* is easy to remember, and the three pillars of the new logo represent our mandate: builder licensing, buyer and builder education and warranty enforcement.

18,500 documents

Using the latest in document imaging technology, an average of 18,500 documents are being electronically scanned each month into electronic home enrolment files.

1,000 contacts each day

In 2004, our new Contact Centre responded to an average of 1,000 telephone and email contacts each day from consumers, builders, lawyers and others. Inquiries ranged from file-related matters to general questions about new home warranty coverage.

New claims department

A new Claims Department was created which will manage all homeowner claims using "best practices" in claims management from the property and casualty insurance industry.

New builder relations department

A new Builder Relations Department was launched to serve as Tarion's face to the Ontario home building industry. This new department works with builders to address their quality and service issues and to solicit feedback on Tarion's service delivery.

Centralized operations group

The Corporation's customer-facing staff were relocated to a new centralized Operations Group that manages all of our Field operations activity across Ontario using the latest in technology.

Corporate office Re-location

Tarion's Corporate Offices were re-located into a modern, new environment that is 25% smaller but designed to enable delivery of consistent, professional, customer-focused service.

Messages to Our Stakeholders

From the Chairman of the Board
Robert E. Wade

It gives me great pleasure to report to you for the first time as Chairman of the Board of Directors of Tarion Warranty Corporation. For those of you who do not know me, my background includes over 25 years in municipal politics, most recently as mayor of the City of Hamilton, as well as 38 years with London Life Insurance, spent mainly in the property investment field. I have served as a member of the Tarion Board of Directors since 1994. This background has given me insight into the realities faced by Tarion and its stakeholders.

The past year has been a remarkable one in terms of the accomplishments made by Tarion. On behalf of the Board of Directors, I would like to acknowledge the significant role played by our staff during a year of considerable change. Due in large part to their hard work and dedication, the Corporation has become stronger and better equipped for the future. In particular, I would also like to congratulate our President and CEO, Greg Gee, for his outstanding leadership as we move toward completion of our three-year strategic plan.

There were also several changes to our Board of Directors this past year. Six new directors were nominated at our Annual Meeting on April 8, 2004. We said goodbye to former Chair Al Libfeld and five other Directors who made substantial contributions throughout their various tenures on the Board. Our new Board members include Brian Johnston, President of Monarch Construction, Scott Cameron, former President of MCAP Equity Advisors, Peter Smith, President of Andrin Homes, Whipple Steinkrauss who brings many years of experience from the Ontario Public Service, Peter Saturno, President of Midhaven Homes and Joe Valela, President of Valemont Homes. Daniel Gabriele, President of the Ontario Home Builders' Association, also joined the Board during the year as an Associate Member.

As Chair of the Board, I remain committed to working with the Board and senior management of the Corporation as together we seek to deliver service excellence. I am confident that we are on the right path, and look forward to another exciting year of achievement.

Robert E. Wade
Chairman of the Board

From the President & Chief Executive Officer
Gregory W. Gee

The Corporation had a remarkable year of progress and achievement in 2004. Our financial and operating results for the year were very solid, and we accomplished each of the objectives established for the year under our strategic plan known as "Mission Excellence".

With respect to our financial results, Revenue for the year increased by 13% from $47.8 million to $54.0 million, due in part to a gain of $6.9 million realized through the sale of certain investments. Expenses declined by 13% from $42.0 million to $36.4 million, largely due to a reduction in claims incurred. Our claims paid, however, rose significantly by 69% from $7.4 million to $12.5 million, largely due to three major condominium projects. The net cost of these claims was reduced significantly by security held from the builder organizations. The Corporation continues to have a strong Balance Sheet with total assets increasing during the year by 12% from $218.7 million to $245.7 million. Total Surplus grew by 28% from $63.3 million to $80.8 million, of which $50 million represents Appropriated Surplus set aside to voluntarily meet regulatory standards.

These favourable financial results are a tribute to the continuing efforts of our Board and management to deliver long-term financial strength and stability. They also reflect strong industry sales in Ontario which have continued unabated at record levels for each of the past six years. In 2004, 74,845 new homes were enrolled with Tarion representing a modest 3.8% increase over the prior year, however, these enrolment numbers were the second highest in our 28-year history.

Against this background of record operating activity, the Corporation also moved ahead significantly in terms of implementing its three-year strategic plan to restructure, rebuild and renew the infrastructure of the organization. Some of the key initiatives include the development of a new centralized Operations Group with offices in Toronto to manage all of our Field operations across the Province using the latest technology. This allowed us to close four of our six regional Offices to reduce operating costs, and many of our field employees were moved into challenging new roles. A new walk-in Customer Centre was developed in a retail setting to provide improved access for our customers. We also re-branded the Corporation during the year with a new name to symbolize our transformation into a modern, customer-focused business organization.

I would like to thank each of our employees for their commitment and dedication to the organization during a significant year of change. Many employees were affected by the restructuring of our Field operations, and a number were moved into new roles. I congratulate our management team and employees for their enthusiasm and perseverance throughout these changes.

I would also like to thank our Board of Directors for their insight, guidance and support during the year. Our Board has played a key role in our restructuring. I also want to welcome our new Chairman, Bob Wade, and look forward to working with him in his new role.

Looking ahead, our Corporation will continue to evolve as a modern business organization that meets the objectives of our stakeholders, while serving the needs of our customers – both new home buyers and builders.

Gregory W. Gee

Gregory W. Gee
President & Chief Executive Officer

Tarion Stakeholders

For many people, buying a home is the single largest investment they will ever make. Tarion protects new home buyers by backing the statutory new home warranty that is provided by their builder and by making sure that purchasers understand their warranty rights and responsibilities.

"We are very happy with our new home. Tarion helped us work with our builder to make this the home we've always dreamed of for our family."

Jagjit and Kamlesh Samra with son Jason
New homeowners and Tarion customers

Tarion Stakeholders

Under the *Ontario New Home Warranties Plan Act*, home builders must meet specific legal requirements and customer service standards in order to build and sell new homes in Ontario. Tarion helps to define these requirements and works with builders to ensure they understand how to comply with them.

"Changes introduced by Tarion, such as the Construction Performance Guidelines that explain the coverage for many warranty items, have helped us improve the relationships we have with our customers."

Robert Greenberg
Executive Vice President, Minto Construction Limited, Ottawa
Home builder and Tarion customer

Tarion Stakeholders

Tarion's employees are committed to providing responsive, professional service to our two key customer groups: consumers and builders. Seven underlying business values provide employees with common principles and a framework for making decisions and for working with our customers.

"Understanding the needs of those who call our Contact Centre is the first part of my job. Responding to those needs, either personally or through another expert at Tarion, is the second part of what I do. It is very fulfilling when you are able to provide someone with the answer to an important question or help them solve a problem. To me, that is what customer service at Tarion is all about."

Kiwana Quintyne
Customer Service Representative, Tarion Warranty Corporation


Kiwana Quinty
Warranty Protection

Key Strategic Initiatives in 2004

For the last five years, Ontario's housing industry has sustained remarkable momentum. In 2004, the number of homes under warranty reached a record 433,659 by year-end, and the number of builder licenses issued reached 5,394. Against this background of growth, Tarion has continued to pursue its three year strategic plan to modernize its operations and improve the service it provides to customers. In 2004, this involved a major restructuring of all operations activity in the province, together with the establishment of a new Operations Group and Customer Centre, the introduction of additional new technology, and the launch of a new brand that reflects the organization's focus on its customers.

In 2004, Tarion implemented a comprehensive restructuring of our Field operations using new technology in order to reduce costs and improve productivity. This restructuring complements other changes that were made over the last two years, including the introduction of new customer service standards for home builders, a modern Contact Centre and user-friendly educational tools for consumers.

Tarion President and CEO Greg Gee welcomes guests to the opening of the Corporation's new Customer Centre.

Centralized Operations The restructuring of the Corporation in 2004 began with a re-alignment of all customer-facing departments and staff. This involved the establishment of a centralized Operations Group which includes Tarion's Licensing & Underwriting Department, Enforcement Department and Contact Centre. In addition, two new departments were created: a Claims Department was established to manage all homeowner claims; and a Builder Relations Department was created to develop and enhance relationships with builders. Tarion's former Regional Offices located in Thunder Bay, Sudbury, Brampton, and Newmarket were closed and most of the staff in these locations were re-assigned to new roles.

The development of a central Operations Group enabled by new technology means that all of our Field operations can be co-ordinated from one office, which provides quicker access to information for Field Representatives, and allows customer-facing departments to be more integrated when serving our customers.

New Claims Department A Claims Department was established to help us manage homeowner and condominium common element claims throughout the province more professionally and consistently. This new department includes staff based with our Central Operations Group, as well as a large number of home-based Field Claims Representatives who are enabled through technology. The functions and processes of the new Claims Department will be modeled on the claims handling of the property and casualty industry. Staff are organized in three teams: home-based Field Representatives who conduct inspections with homeowners and builders to assess warrantability; Claim Service Representatives, based in our Customer Centre who serve as the main point of contact for both consumers and builders; and a Technical Unit which will set service standards, and conduct research and internal audits.

This new structure has allowed Tarion to decrease the number of Field staff while improving productivity and better managing workflow. Benefits for consumers and builders include focused and consistent management of warranty issues and single points of contact when home inspections are required.

New Builder Relations Department A new Builder Relations Department was developed to improve the level of service provided to registered builders. Staffed by individuals with many years of building industry experience, this department works with builders across the province to address their quality and service issues, solicit feedback on Tarion's service delivery, and evaluate the technical and business knowledge of new builders. This Field group will also serve as our representatives to the home building industry on matters of policy and process, construction methods, and customer service. The establishment of a department dedicated to working with builders will help us identify and proactively address industry-wide issues for home builders and emerging trends.

Corporate Re-branding

As part of our transformation into a modern, customer-focused organization, Tarion introduced a new corporate name and logo in 2004 to help ensure that our evolution would be broadly recognized.

New Identity In early April, we launched our new brand at an industry luncheon in Toronto which was attended by almost 300 builders and government officials.

Our new corporate name is *Tarion Warranty Corporation*, however, we market the organization under the brand name *Tarion* and the tagline: “Protecting Ontario’s New Home Buyers”, which always appear together. The name *Tarion* was selected for its bold, progressive feel. The logo, which is represented by three pillars of equal size, is meant to denote the three partners in the warranty process: consumers and builders, each of whom is treated equally and impartially, and by Tarion which mediates disputes between them. The logo also represents the three elements of our mandate, which are buyer and builder education, builder licensing and warranty enforcement.

Our new brand is now consistently represented in all of our corporate materials, making it easy for our customers to identify information provided by Tarion.

Name Reflects Progress The launch of a new name and logo represents a further significant step toward completion of our three-year strategic plan known as *Mission Excellence*, and follows a number of other improvements introduced over the previous two years. These include: a standard information package which builders must provide to homeowners in advance of closing, a user-friendly website that receives over 20,000 visitors per month, a Contact Centre that now handles more than 1,000 telephone and email inquiries each day, and statutory timeframes within which warranty issues must be resolved by a builder.

Research indicated that our former name, "*Ontario New Home Warranty Program,*" was thought to be outdated, bureaucratic, long and difficult to remember, and the acronym "*ONHWP*" contained a number of inaccurate or unfortunate associations.

Our website provides consumers and builders with instant access to information about Tarion.

In addition, our former website address, *www.newhome.on.ca,* did not link to our name, which made it difficult for customers to find us on the Internet. Although the Corporation had made good progress in making improvements to benefit builders and consumers, it was clear that a new brand name and an updated look were needed to ensure these changes would be widely recognized.

Marketing Support We have incorporated the look of our new brand into our advertising and brochures, and created a special logo for registered builders to use when marketing their services. We also updated the look and feel of our website and our new website address, *www.tarion.com*, is now featured prominently in all of our advertising along with our toll free telephone number 1-877-9TARION. Based on the feedback received, the *Tarion* name has been well received by both consumers and builders throughout Ontario.

New Facilities

In 2004, we opened a new Customer Centre in a retail mall setting in the Greater Toronto Area to serve consumers and builders.

Tarion Launches Retail Presence The Customer Centre features an inviting storefront design that underscores our commitment to being a modern, approachable and service-oriented organization. New interior and exterior signage offer excellent visibility for our new brand, and a central location at a subway stop ensures convenient access to visitors who come by public transit or by car.

The Toronto-based Operations Group is located in the Customer Centre, making it much easier for them to provide information and assistance to builders and consumers who visit Tarion's offices in person. Builders can come in and ask questions about how to enrol a new home or register with Tarion, or they can inquire about a particular registration or claim with the Tarion employees who are handling the matter. Knowledgeable staff are also on hand to speak with consumers in several languages about warranty coverage in general, or about their own individual situations. An interactive kiosk in the reception area allows all visitors to get information from the Tarion website.

Behind the storefront of the Customer Centre lies Tarion's newly centralized Operations Group: our state-of-the-art Call Centre, the new Claims and Builder Relations Departments, and the Licensing & Underwriting

Guests mingle at the reception marking the opening of Tarion's new Customer Centre.

In 2004, we began a pilot project offering free, educational seminars to help consumers learn about what is involved in buying a new home and what they can expect from their warranty coverage.

Department. Having all of these customer-facing staff located together is helping Tarion to manage claims more efficiently and to identify industry trends and issues as they emerge.

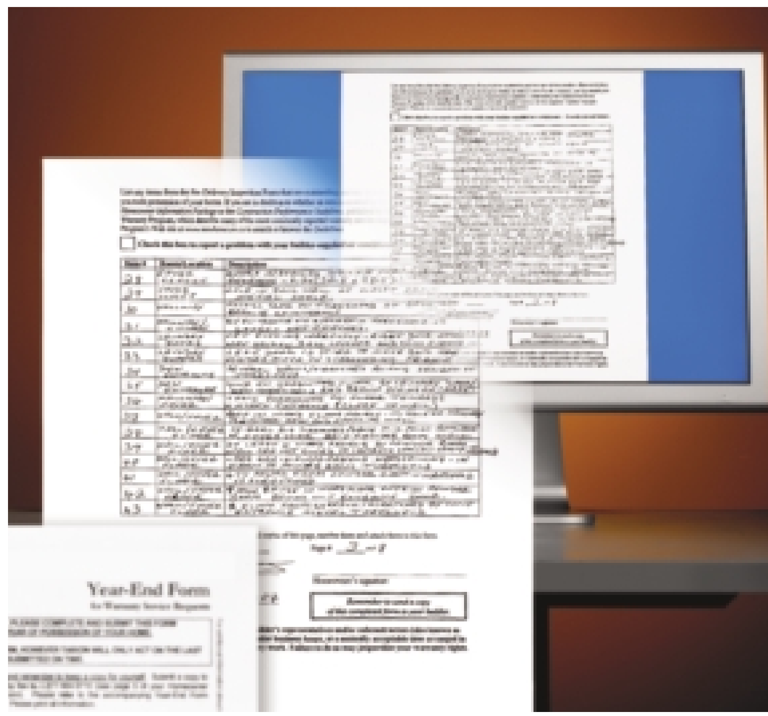
Home Buyer Education Seminars The Customer Centre will also help us fulfill our mandate to educate consumers and builders about their warranty rights and responsibilities. In 2004, we began offering free educational seminars for consumers in the Customer Centre's new meeting facilities. The goal of these seminars, which are held two evenings each month, is to improve consumer understanding about the home-buying process and to help manage expectations about warranty coverage. Two types of seminars are being offered: "Buying a New Home" features a panel of industry experts who guide new home buyers through the purchasing process; and "Understanding Warranty Coverage" explains what is involved in the warranty claim process. Over time, these seminars may be offered in additional languages, and in other locations across the province.

New Corporate Office In conjunction with the opening of the Customer Centre, we relocated all of the staff in our Corporate Office, which includes Finance, Law, Corporate Affairs, Information Systems, Project Management and Human Resources as well as the office of the President & CEO into a new facility that reflects the openness and accessibility of our new culture. This new space is 25% smaller than our previous office, but offers modern, ergonomically-designed workstations, ample meeting space to allow for collaboration, and easy access to both staff and training facilities.

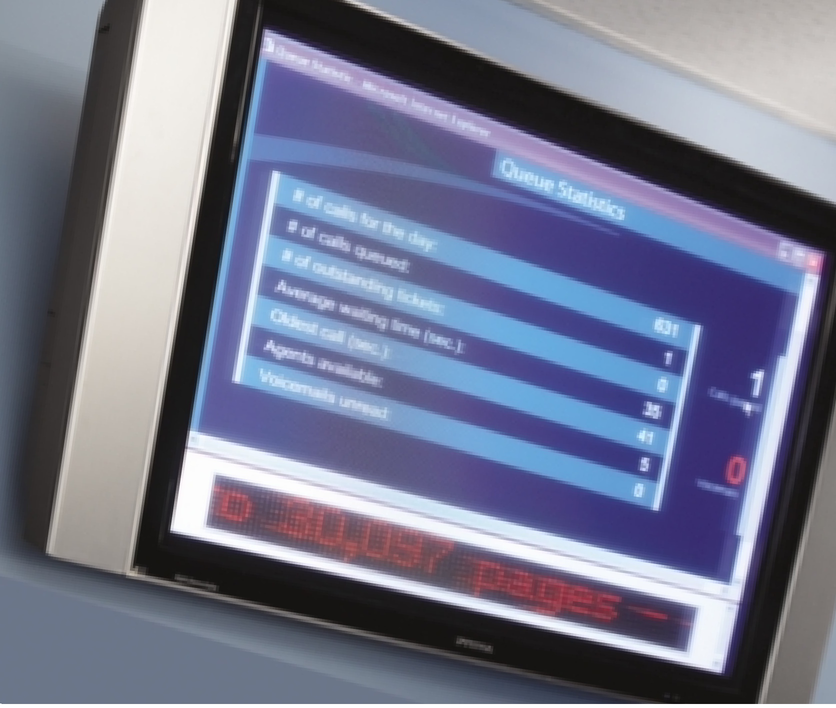
Technology

The continued implementation of the PeopleSoft Application Suite provides the Corporation with a robust series of fully integrated software modules to enable the automation of our business processes. A new state-of-the-art computer equipment facility featuring an Internet-based telephone system links all of our staff across the province.

Applications In 2004, we made significant progress in our business process automation through the continued implementation of the PeopleSoft Application Suite. The integration of the PeopleSoft customer relationship management (CRM) software with IBM's electronic document management software has proven to be essential for the operation of our Customer Service Standard, implemented in October 2003. This new set of policies requires Tarion staff to efficiently and accurately process thousands of forms and documents every day. We now use software to store documents in electronic files, to automatically generate required letters and notices, to calculate deadlines and timeframes, and to schedule inspections with homeowners and builders. In addition, electronic scanning capability introduced last year, has been improved and expanded to enable scanning and storage of non-standard documents such as Agreements of Purchase and Sale, and to allow the electronic annotation of documents.



Infrastructure Tarion's new computer facility features a number of improvements, such as enhanced local area network bandwidth and functionality, which will allow us to use technology to further improve the service we provide to our customers. Changes were also made to the wide area network serving our Eastern and Western Offices in order to improve reliability and accessibility.



Large overhead screens installed in Tarion's new Contact Centre help operators to monitor call flow volumes, and provide key information such as the number of callers waiting for service and the length of time they have been holding.

One of the most significant improvements was the introduction of a voice-over Internet protocol (IP) telephone system which enables the use of the Internet for the transmission of audio signals. This new system allows the convergence of voice and data which has many beneficial applications for Tarion's customers. For example, we will soon begin to use this system in conjunction with our CRM software, which will give us the ability to route consumers or builders who contact Tarion regarding a specific issue directly to the individual handling the matter, simply by asking the customer to enter a file number on their telephone keypad.

Builder Portal Important advancements were also made through the development of an Internet portal that will enable builders to view their Tarion files online. During the third quarter of 2004, progress was made on the technical development of this new tool. In addition, an operational prototype of the portal was created for pilot testing purposes. The Builder Portal will be an important new customer service tool that will allow builders to have access to the same file information as we use at Tarion. This will help to ensure transparency in our information flow to builders, and will assist them in resolving homeowner issues quickly. The portal is planned to be introduced to the building industry in 2005.

Claims

The Claims Department is responsible for managing homeowner and condominium common element claims throughout the province, which include matters related to construction, contract, and warranty issues, as well as deposits and delayed closings.

Our Claims Department consists of a team of 78 staff who are centrally managed from our Operations Group, many of whom are "on the road" each day operating from home-based offices or from Tarion's Eastern Office located in Ottawa, or our Western Office located in London, Ontario.

Tarion becomes involved in a claim when an issue related to the construction of a new home arises between a homeowner and their builder, or when certain types of contractual matters arise. In cases where there is an issue regarding construction, the homeowner or the builder may request a Conciliation Inspection in which a Tarion Claims Representative will visit the home to determine whether the item is covered under the statutory warranty. If an issue concerns the common elements of a condominium, Tarion facilitates negotiations between the builder and the Board of Directors of the condominium corporation.

In 2004, Tarion conducted conciliations in a total of 3,111 homes, which represents an increase of 5 per cent over the previous year. These conciliations include issues related to homes with dates of possession prior to October 1, 2003. New home possessions (and subsequent conciliations) which took place after this date are managed under the Customer Service Standard implemented by Tarion in 2003. This set of new policies involves specified repair timeframes to ensure that most warranty issues will be resolved by the builder within 180 days of a home's date of possession. In the first eight months after these policies took effect, over 60 per cent of conciliations that were requested by homeowners were subsequently cancelled because the related warranty disputes were resolved to the satisfaction of the homeowner by the builder without involvement from Tarion.

If, during a conciliation, Tarion finds an item to be covered under the statutory warranty, the builder is required to make the repair, or otherwise resolve the matter in accordance with our guidelines. If the builder cannot or will not do

	2004	2003	2002	2001	2000
Total Homes Under Warranty	433,659	403,246	360,867	321,268	286,937
Number of Homes with Conciliations / Claim Inspections	3,111	2,970	2,670	2,293	1,823
Claims Paid ($ millions)					
Freehold Homes	6.8	5.6	5.9	5.3	5.3
Condominium Units	1.5	0.9	1.5	1.9	0.5
Condominium Common Elements	4.2	0.9	1.8	0.5	1.6
Total Claims Paid	**12.5**	**7.4**	**9.2**	**7.7**	**7.4**

so, Tarion's Claims staff manage the resolution of the claim directly with the homeowner, either by overseeing repairs or by providing a financial settlement.

In 2004, claims paid by Tarion increased by almost 70 per cent to $12.5 million due to a number of large builder insolvencies on projects that required significant repairs, or other participation by Tarion to bring the development to completion. In addition, condominium common element claims accounted for almost half of the total claims paid (largely due to issues with 3 large condominium developments), with payments on freehold homes increasing 21 per cent over 2003. Claims paid on condominium units comprised less than 13 per cent of the total amount paid.

In addition to managing conciliations, and overseeing warrantable repairs, Claims Representatives are called upon to assess the value of warranty claims to establish claims reserves, to provide technical support to builders and consumers, and to work with our lawyers and provide evidence on behalf of Tarion at hearings before the Licence Appeal Tribunal (LAT) of Ontario.

In 2004, claims paid increased by almost 70% due to a number of large builder insolvencies on projects that required significant repairs or participation by Tarion to bring them to completion.

Builder Relations

The Builder Relations Department serves as Tarion's face to the Ontario home building industry on matters of policy and process, technical advice, construction methods and customer service to new homeowners.

Robin Fitzgerald, Senior Vice President, Operations, welcomes builders at a Builder Information Meeting. These meetings help to promote ongoing dialogue with builders.

Builder Relations Department staff are responsible for identifying emerging industry issues and for keeping Tarion's knowledge of industry best practices current by working with builders through group meetings facilitated by local home builders' associations and through face-to-face meetings with individual builders. Builder Relations is also responsible for interviewing and assessing the technical and business knowledge of builders applying to be licensed in Ontario.

The department began in 2004, emerging out of a pilot project in which Tarion staff worked closely with builders identified by our Licensing & Underwriting Department as having unsatisfactory performance. Tarion worked with these builders to develop business plans to improve their performance and the level of customer service they provide to new home buyers. Following the actual launch of the Builder Relations department, a province-wide statistical analysis of builder performance by region was undertaken which has indicated that these builders, which were the subject of our pilot project, now lead the province in terms of performance under the new minimum customer service standards.

In addition to helping builders improve their performance, the work that Builder Relations undertakes with the industry will provide Tarion with crucial feedback about our own operating policies, thus allowing us to remedy service delivery issues affecting builders and homeowners in a timely manner.

In 2005, the Builder Relations Department will expand upon its established strategy of outreach to the industry. This will include additional staffing to boost the department's effectiveness and service capacity, along with new program offerings such as the "File Review Clinics". These clinics will allow senior managers to meet with builders from across Ontario to help them understand and comply with Tarion's business processes, forms and claims procedures. Their intent is to provide an open forum for reviewing and discussing a wide range of topics, from the 'file-specific' issues of individual builders to general matters of customer service. Here again, information gleaned from builders at the clinics will be shared with other Tarion departments, as appropriate, to ensure our own ongoing evolution.

Enforcement

The Enforcement Department is responsible for identifying and investigating illegal new home building activity throughout Ontario.

Under the *Ontario New Home Warranties Plan Act* ("the Act") every builder or vendor of a new home that is sold in Ontario must be licensed by Tarion and must enrol each new home prior to its construction. Tarion employs a team of nine former police officers who work across the province investigating illegal building activity.

Consumers who have purchased illegally built homes are often unaware of their right to statutory warranty coverage. Offending builders are prosecuted by the Ontario courts which are empowered to impose fines of up to $100,000 and jail sentences of up to one year. In 2004, jail sentences were given to two home builders, both of whom were repeat offenders who had continually failed to register with Tarion and to enrol homes that were under construction. These jail sentences were the first such penalties since 1997.

In addition to fines and possible imprisonment or probation, illegal builders must also pay the required fees for each un-enrolled home. In 2004, Tarion's Enforcement staff identified 5,792 un-enrolled homes, which led to the collection of $2.8 million in related enrolment fees. This represents an increase of approximately 47 per cent over the previous year, in both homes enrolled and fees collected.

Tarion employs a team of former police officers who partner with municipalities, building officials and home builders' associations to investigate illegal building activity throughout Ontario.

An increase of **19%** in the number of charges, laid by Tarion against illegal builders, was realized in 2004 and two repeat offenders received jail sentences.

Enforcement Activity

	2004	2003	2002	2001	2000
New Investigations	961	700	498	441	377
Charges Laid	993	831	556	370	339
Convictions	467	560	324	337	190
Homes Enrolled After Investigation	5,792	3,929	3,435	908	514
Fines Levied ($ Thousands)	575	422	203	330	140
Related Enrolment Fees ($ Thousands)	2,800	1,910	1,684	540	320

In 2004, Tarion began making significantly more effort to publicize notable convictions by distributing press releases to media in local communities where convicted builders operate, and by publishing the names of all convicted builders on our website and in our quarterly newsletter, distributed to builders and government officials. As a result, our enforcement hotline has begun to receive more calls informing us of illegal building activity.

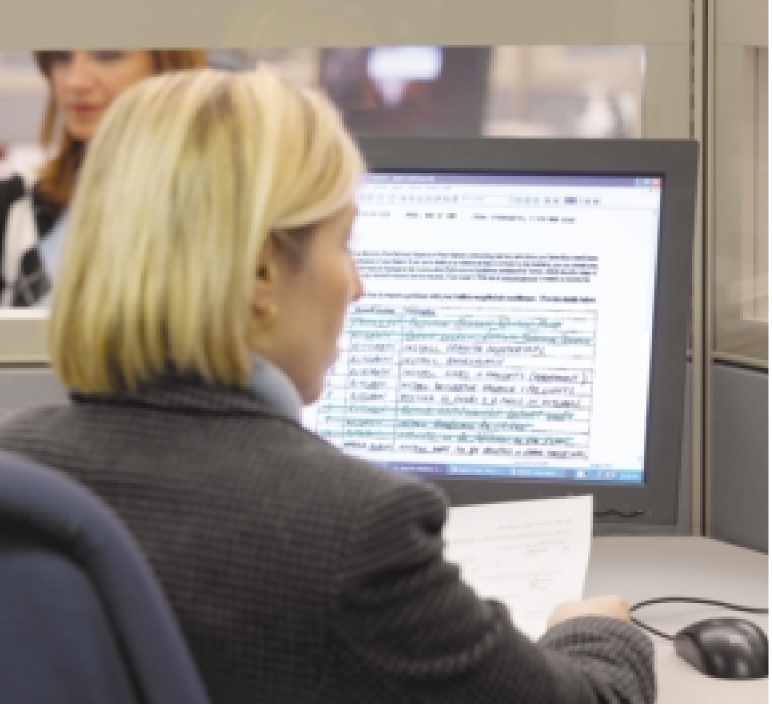
Over the last two years, the number of charges laid against illegal builders has increased steadily. This is due to a number of factors, including: higher awareness among consumers about the right to warranty coverage; increased communication from Ontario builders about illegal building activity; and greater co-operation between Tarion and municipal building departments, which has resulted in additional investigation of builders' activities prior to and during new home construction.

Two builders were given jail sentences by the provincial courts in 2004, following repeat offences associated with illegal building activity.

Contact Centre

The centralized Contact Centre at Tarion allows us to respond to customer inquiries promptly and professionally using the latest technology.

Front line staff in Tarion's Contact Centre receive thousands of inquiries each week, mostly from new home buyers and builders.



Checking the accuracy of data on each form submitted to Tarion is another responsibility carried out by Contact Centre staff.

Contact Centre staff receive on average 1,000 telephone and email contacts each day from new homeowners, prospective new home buyers, builders, lawyers and others who are looking for information about matters related to new home construction in Ontario. Following the Corporation's re-branding early in the year, the volume of customer contacts steadily increased as awareness of Tarion grew and homeowners and builders called for service under the new Customer Service Standard.

Staff in the Contact Centre work in one of three teams: the Call Centre Team, the Forms Processing Team or the Scheduling Team. The Call Centre Team manages general telephone inquiries and emails, and is responsible for ensuring that the majority of these interactions are resolved at the first point of contact. Queries requiring further discussion or technical input are transferred to specialists in other parts of the Corporation.

The Scheduling Team books all conciliation and claim inspections requested by homeowners and verifies appointments. Schedulers are also responsible for notifying builders when inspections are cancelled by the homeowner.

The Forms Processing Team processes and scans into electronic files about 18,500 forms each month, which Tarion receives from homeowners. These include Certificates of Completion and Possession, warranty service request forms and other documents, such as Agreements of Purchase and Sale. Once scanned, the forms in each file can be easily accessed by Tarion staff across the province.

Licensing and Underwriting

The Licensing and Underwriting Department is responsible for licensing new builders under the Ontario New Home Warranties Plan Act, managing annual license renewals, assessing the financial risk associated with underwriting a builder's warranty obligations and enrolling new housing units.

The licensing process requires that prospective builders submit details of their financial status and construction experience to Tarion, as well as their plans for new home building in the coming year. Licensing and Underwriting staff are responsible for assessing this information to determine whether the individuals applying for a license to build new homes will be capable of meeting their statutory warranty obligations. Registrations are renewed yearly, allowing Tarion to re-assess builders' qualifications onan ongoing basis. In keeping with favourable market conditions and rising new home prices, the number of registered builders continued its upward trend in 2004, reaching 5,394 by year end, which represents an increase of almost 5 per cent over 2003.

The underwriting process allows Tarion to obtain security from builders, which is used to protect the Guarantee Fund from which Tarion pays warranty claims. Licensing and Underwriting staff determine the level of financial risk that is posed by a particular builder based on a number of factors, including: a builder's size, years of experience, business and technical skills, financial strength, customer service record and the type of building project that is being undertaken. Over $1 billion in security was being held by Tarion at the end of 2004.

In 2004, Tarion enrolled **74,845 new homes**, which represents the second largest number of enrolments in the Corporation's history.

If we are not satisfied that a builder meets all of our requirements, registration may be refused, or the builder may be subject to specific conditions. For example, Tarion may limit the number of homes that a builder may construct. In addition, we may refuse or revoke the registration of a builder if they demonstrate continued poor performance, a history of adverse claims, or a breach of registration terms and conditions. In 2004, Tarion refused or revoked the registrations of 56 new home builders and vendors, which represents a significant decrease from the number of license refusals and revocations in 2003. This change can be attributed to a variety of factors, including the introduction of more transparent processes which make it easier for builders to understand the terms and conditions of registration, improved communication with builders achieved through our Builder Relations Department, and the increased vigilance of our Enforcement team.

	2004	2003	2002	2001	2000
Annual Enrolments					
Freehold Homes	54,655	57,680	60,664	51,039	49,046
Condominium Units	20,190	14,395	20,440	14,974	13,858
Total	74,845	72,075	81,104	66,013	62,904
Annual Possessions					
Freehold Homes	50,806	62,238	53,001	51,231	44,860
Condominium Units	12,529	18,795	13,299	8,962	13,566
Total	63,335	81,033	66,300	60,193	58,426
Builder / Vendor Registrations					
Registered Builders / Vendors	5,394	5,150	4,907	4,770	4,743
Licences / Refusals / Revocations	56	94	97	110	89
Builder Security ($ Thousands)					
Freehold Homes	49,541	41,841	36,256	30,570	32,162
Condominiums	1,089,352	1,033,446	965,743	831,632	753,902
Total	1,138,893	1,075,287	1,001,999	862,202	786,064

High enrolment volumes which began in 1999 have continued unabated for each of the past six years. Although enrolments peaked in 2002 at 81,104, a total of 74,845 new homes were enrolled with Tarion in 2004, representing the second largest number of enrolments in our 28 year history.

Government and Industry Relations

Government Relations Tarion has been designated by the Government of Ontario to administer the *Ontario New Home Warranties Plan Act*. As the Regulator of the new home construction industry, Tarion serves as an important resource to the provincial and municipal governments for information on builder registrations, new home enrolments and possessions as well as prosecutions of illegal builders.

In addition, Tarion works directly with individual members of provincial parliament and their constituency offices to assist them in helping constituents with questions about our services. Tarion is also called upon to provide elected members with responses to questions from consumers or media about Tarion policies and decisions.

Industry Relations Tarion works with the Ontario Home Builders' Association, the Greater Toronto Home Builders' Association as well as local home builders' associations across the province to help ensure their members are up-to-date on our activities. This is primarily accomplished through communication with the home builder associations in order to assist them in providing updates to their members about Tarion policies and processes.

In addition, the Corporation holds periodic information meetings with builders which are organized across the province in co-operation with local home builders' associations. These events typically involve Tarion's President & CEO and are designed to complement the activities of the Builder Relations Department, which serves as the face of the Corporation to members of the home building industry on a day-to-day basis.

"The work of Tarion and the information we collect has important implications for the Ontario government, as well as the new home construction industry."

Rob Mitchell,
Director of Industry and Government Relations

The 2004 Tarion Awards of Excellence Winners

Small Volume Category	Crosby Homes, St. Thomas
Medium Volume Category	Dunnink Homes, Guelph
Large Volume Category	Mountainview Homes, Thorold
High-Rise Category	Tridel, Downsview

Mike Memme and Mark Basciano of Mountainview Homes, Thorold, were presented with the 2004 Tarion Award of Excellence in the Large Volume Category by Tarion Chairman of the Board Bob Wade (left) and President and CEO Greg Gee (right).

Tarion Awards of Excellence Each year, Tarion recognizes the home builders who lead the industry in after-sales service. The Tarion Awards of Excellence (formerly known as the Ernest Assaly Awards), are presented in four categories: Small Volume, Medium Volume, Large Volume and High-Rise Builder of the Year. Builders must be invited to participate in the awards, based on their after-service history. Due to our stringent criteria, only a small group of Ontario's 5,000 registered builders – typically about five per cent – qualify each year.

Finalists are chosen through homeowner surveys and builder interviews, which are conducted by an independent research organization. In addition, site inspections are carried out. In 2004, for the first time in Tarion's history, Awards of Excellence winners were announced at a signature gala event at the prestigious Liberty Grand in Toronto. The event was attended by over 300 representatives from Ontario's building community, along with representatives from the Ministry of Consumer and Business Services, members of Tarion's Board of Directors and local media.

Maintaining a Sound Financial Position

The Corporation continued to build its financial strength in 2004. Due to the cyclical nature of the home building industry, it is critical that Tarion add to its surplus in good times in order to be in a position to assist the industry and protect new home buyers when the next downward economic cycle arrives.

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Financial Commentary

Financial Statements The Corporation enrolled 74,845 housing units during the year, exceeded only by the record of 81,104 enrolments in 2002. This period of strong enrolments has allowed the Corporation to again add to its surplus, achieving an excess of revenue over expenses of $17.5 million in 2004. This surplus will help to ensure that Tarion maintains its strong financial position, enabling it to fulfill its mandate and meet future foreseeable claims.

Revenue for the year increased from 2003 by 13% to $54.0 million. While revenue from home enrolments was 2% higher in 2004, the increase from 2003 is mainly due to the gain on sale of investments realized when the Corporation re-balanced its investment mix to a lower risk portfolio, which led to accrued gains of more than $5.0 million realized on the sale of certain investments.

Total expenses for the year were $36.4 million, a 13% decrease from 2003. In reviewing expenses, it is helpful to separate the operating expenses required to run the Corporation, including expenses to support policy initiatives and infrastructure improvements, from the claims incurred. Expenses in 2004 other than claims incurred were under budget by 2.2%.

Claims incurred include changes in the provisions for claims reported, claims in process, and anticipated claims from homeowners and condominium corporations, less claims recoveries from builders, vendors and their guarantors. Claims incurred for the year totalled $4.7 million, compared to $14.6 million in 2003. The decrease from 2003 is due to favourable claims recoveries in 2004, combined with lower increases in provisions in 2004 than in 2003. The 2003 provisions included $10 million to deal with potential issues arising from defective concrete from a now bankrupt concrete manufacturer, which was used in the construction of new homes in the Greater Toronto Area.

The changes in provisions for claims that are included in claims incurred are added to warranty liabilities on the balance sheet. As the related claims are paid, warranty liabilities are reduced. Claims paid in 2004 totalled $12.5 million, against 2003 claims paid of $7.4 million. The claims paid in 2004 represent the highest amount since 1996 when claims paid totalled $14.0 million, half of which related to claims to address defects in plastic venting systems. The claims paid in 2004 represent a 61% increase over the average claims paid in the previous seven years, largely due to several large common element claims in condominium developments.

The new initiatives for 2004 included the development and launch of a Builder Relations Department, launch of consumer education seminars, and the continued investment in technology, including the PeopleSoft Applications Suite of software. The Corporation achieved ongoing expense savings due to the closing of four Regional Offices during the year.

What Does it all Mean? 2004 was another good year for renewing the structure of the Corporation and building financial strength for the future. It is critically important to the long term viability of the Corporation that it add to its surplus in positive times for the new home building industry. Like the economy in general, the home building industry is cyclical. Tarion is committed to prudently managing the Corporation's finances, accumulating surplus in the good times in order to be in a position to assist the home building industry and protect new home buyers when the next downward economic cycle arrives.

Auditors' Report

To the Directors of Tarion Warranty Corporation We have audited the balance sheet of Tarion Warranty Corporation (the "Corporation") as at December 31, 2004 and the statements of operations, surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants

Toronto, Ontario
March 1, 2005

Actuary's Report

To the Directors of Tarion Warranty Corporation I have reviewed the warranty liabilities of Tarion Warranty Corporation for its balance sheet as at December 31, 2004 and their change in the statement of income for the year then ended in accordance with accepted actuarial practice, including the selection of appropriate assumptions and methods.

In my opinion, the amount of these warranty liabilities makes appropriate provision for all warranty obligations, and the financial statements fairly present the results of the review.

Jim Christie

James K. Christie
Fellow, Canadian Institute of Actuaries

Toronto, Ontario
March 1, 2005

Management's Responsibility for Financial Reporting

Management is responsible for the integrity of the financial statements and operational information presented in this Annual Report. The financial statements have been presented in accordance with appropriate and generally accepted accounting principles and reflect management's best estimates and judgments. Financial information presented elsewhere in the Annual Report is consistent with the financial statements. Management maintains a system of internal controls, consistent with reasonable costs, to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information. External auditors have examined and reported on the financial statements. The Audit Committee, consisting of non-executive directors, has reviewed these financial statements with management and the external auditors, and has reported to the Board of Directors, which has approved these financial statements.

Gregory W. Gee

Gregory W. Gee
President & Chief Executive Officer

John Becevello

John Becevello
Vice President & Chief Financial Officer

Balance Sheet

December 31, 2004
($ thousands)

	2004	2003
Assets		
Cash	**$ 104**	$ 1,696
Investments (Notes 4 and 7)	**230,149**	209,720
Accrued interest, dividends and accounts receivable	**3,323**	1,664
Prepaid expenses and other assets	**397**	528
Capital assets (Note 5)	**8,524**	3,154
Amounts recoverable from builders	**3,164**	1,979
	$ 245,661	$ 218,741
Liabilities		
Warranty liabilities (Note 6)	**$ 130,731**	$ 129,960
Funds held as security (Note 7)	**24,458**	17,943
Accounts payable and accrued liabilities	**8,954**	6,728
Employee future benefits liabilities (Note 8)	**689**	819
	164,832	155,450
Contingencies, Commitments and Guarantees (Note 9)		
Surplus		
Appropriated surplus (Note 3)	**50,000**	46,000
General surplus	**30,829**	17,291
	80,829	63,291
	$ 245,661	$ 218,741

Approved by the Board

Robert E. Wade, Director and Chair of the Board

Dick Brouwer, Director and Chair of the Audit Committee

Statement of Operations

Year ended December 31, 2004 ($ thousands)	2004	2003
Revenue		
Home enrolment fees earned, net of refunds	**$ 35,655**	$ 34,802
Builders' registration and renewal fees	**1,986**	1,881
Investment results		
Interest and dividends	**9,843**	8,091
Gain on sale of investments	**6,924**	3,431
Investment management fees	**(445)**	(385)
Total revenue	**53,963**	47,820
Expenses		
Claims incurred (Note 6)	**4,678**	14,629
Salaries and benefits	**17,174**	14,352
General and administrative	**10,690**	10,718
Legal	**1,394**	1,226
Depreciation and amortization	**2,489**	1,078
Total expenses	**36,425**	42,003
Excess of revenue over expenses for the year	**$ 17,538**	$ 5,817

Statement of Surplus

Year ended December 31, 2004 ($ thousands)	Appropriated		General		Total	
	2004	2003	**2004**	2003	**2004**	2003
Surplus, beginning of year (Note 3)	**$ 46,000**	$ 46,000	**$ 17,291**	$ 11,474	**$ 63,291**	$ 57,474
Current year's appropriation (Note 3)	**4,000**	–	**(4,000)**	–	**–**	–
Excess of revenue over expenses for the year	**–**	–	**17,538**	5,817	**17,538**	5,817
Surplus, end of year	**$ 50,000**	$ 46,000	**$ 30,829**	$ 17,291	**$ 80,829**	$ 63,291

Statement of Cash Flows

Year ended December 31, 2004
($ thousands)

	2004	2003
Net inflow (outflow) of cash related to the following activities		
Operating		
Excess of revenue over expenses for the year	**$ 17,538**	$ 5,817
Add (deduct) non-cash items		
Amortization of bond premiums and discounts	**554**	579
Gain on sale of investments	**(6,924)**	(3,431)
Depreciation and amortization	**2,489**	1,078
	13,657	4,043
Changes in non-cash balances related to operations		
Increase in accrued interest, dividends and accounts receivable	**(1,659)**	(200)
Decrease (increase) in prepaid expenses and other assets	**131**	(261)
Increase in amounts recoverable from builders	**(1,185)**	(270)
Increase in warranty liabilities	**771**	9,620
Increase in funds held as security	**6,515**	5,606
Increase in accounts payable and accrued liabilities	**2,226**	2,091
(Decrease) increase in employee future benefits liabilities	**(130)**	392
Cash provided by operating activities	**20,326**	21,021
Investing		
Proceeds from sale and maturity of investments	**105,948**	87,313
Purchase of investments	**(120,007)**	(105,384)
Purchase of capital assets	**(7,859)**	(2,405)
Cash used in investing activities	**(21,918)**	(20,476)
Net (decrease) increase in cash during the year	**(1,592)**	545
Cash, beginning of year	**1,696**	1,151
Cash, end of year	**$ 104**	$ 1,696

Notes to Financial Statements

December 31, 2004 ($ thousands)

Note 1 Operations

In April of 2004, the former Ontario New Home Warranty Program changed its corporate name to *Tarion Warranty Corporation*. All references to its previous name have been changed accordingly.

Tarion Warranty Corporation (the "Corporation") was designated in 1976 by the Government of Ontario to administer the *Ontario New Home Warranties Plan Act* (the "Act"). The objectives of the Act include consumer protection, builder regulation and providing consumers and builders with information and education. The Corporation collects home enrolment and builder registration fees and invests available funds for the purposes of settling warranty claims from homeowners, and providing for investigation, enforcement, and other administrative costs related to its responsibilities in administering the Act. Warranty protection is outlined in the Act and includes providing a warranty to purchasers of new homes in respect of:

- loss of deposit if a builder cannot or will not complete the sale of a home, through no fault of the home buyer;
- specified construction and contractual warranties for defects in work and material; and
- protection against delayed closing, under certain circumstances.

As a non-profit organization, the Corporation is exempt from income taxes.

Note 2 Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In addition, although not required, the Corporation adopts certain accounting requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI") for property & casualty insurance companies in Canada. These accounting requirements are in accordance with GAAP.

The preparation of financial statements, in conformity with GAAP, requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual amounts could differ from those estimates. The most significant estimation processes are related to the determination of warranty liabilities.

Revenue recognition Home enrolment fees are remitted by builders during the year. These fees, net of refunds, are deferred and taken into revenue as earned, as determined by actuarial calculation, over the warranty period. The maximum warranty period is seven years. The deferred portion of home enrolment fees is included in warranty liabilities. If claims experience indicates that home enrolment fees collected will not be sufficient to discharge related liabilities, a provision for premium deficiency is included in the warranty liabilities.

Builders' registration fees are recorded as revenue upon registration and renewal fees are recorded as revenue in the year in which they are due.

Warranty liabilities The warranty liabilities include deferred home enrolment fees and warranty claim liabilities. Deferred home enrolment fees represent the unearned portion of home enrolment fees remitted by builders. Warranty claims liabilities are estimates of future warranty costs, and are derived from the accumulation of anticipated costs for known claims reported and in process, where it is anticipated that costs will be incurred by the Corporation, plus amounts for future anticipated claims related to warranty coverage in effect for homeowner enrolment fees received prior to the balance sheet date.

The warranty period spans seven years and accordingly, significant periods of time can elapse between the incurrence of claims liabilities and their payment. Accordingly, the estimation of the liabilities involves significant measurement uncertainty.

The liabilities are discounted to reflect the time value of money over the periods between claims incurrence and settlement. Provisions for adverse deviation are added to allow for the inherent measurement uncertainty that arises because actual investment yields may differ from the discount rate. As well, actual settlement may occur at amounts that differ from expected settlement results.

Claims incurred include claims recoveries and the changes in the provisions for claims reported and in process and for anticipated claims.

Claims recoveries include amounts recovered from builders on claims incurred during the year and changes in the estimate of amounts recoverable from builders on outstanding warranty claims liabilities. As at December 31, 2004, estimated amounts recoverable from builders are included as an asset of the Corporation.

Investments Certificates of deposit with financial institutions, treasury bills and bankers' acceptances are stated at cost. Bonds are stated at amortized cost. Discounts or premiums on purchase are amortized over the term of the investment. Common shares are carried at cost.

When a decline in the value of an investment is considered other than temporary, a provision for loss is recorded to reduce the investment to its net realizable value with the amount of the reduction charged to operations.

Capital assets Capital assets are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are provided at the following rates and bases:

Software	straight-line over three years
Data processing equipment	straight-line over four years
Furniture and office equipment	20% declining balance
Leasehold improvements	straight-line over the term of the lease

Employee future benefits The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions and other post-employment benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at market value. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of eligible employees active at the date of amendment.

Note 3 Appropriated Surplus

The Corporation follows the capital adequacy policy mandated by the Office of the Superintendent of Financial Institutions Canada for property & casualty insurance companies. This policy includes a formula known as the Minimum Capital Test ("MCT"). The Corporation adopted this test for capital adequacy, as its warranty liabilities are subject to measurement uncertainty. Hence, surplus has been appropriated to financially manage the risk associated with such uncertainty. The MCT is based on a risk-oriented formula for the minimum capital required, and also provides a formula to determine the capital that is available to meet the minimum standards. The MCT results in a ratio of available capital compared to required capital.

The Corporation has adopted a target minimum MCT ratio of 250%. This ratio reflects the Corporation's relatively high risk profile of measurement uncertainty of its warranty liabilities due to the warranty period of up to seven years as well as other factors explained in note 6. Based on this standard, the Corporation appropriated an additional $4,000 in Surplus during 2004. The new level of appropriated surplus of $50,000 approximates an MCT ratio of 250%.

Note 4 Investments

The following tables analyze the Corporation's investment portfolio as at December 31:

	2004		2003	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Securities with interest rate exposure:				
Bonds issued by federal and provincial governments	**$ 110,855**	**$ 118,718**	$ 89,706	$ 94,710
Financial institution bonds	**29,266**	**31,644**	12,952	15,187
Other corporate bonds	**30,711**	**32,470**	33,676	34,953
Treasury bills	**6,111**	**6,048**	6,166	6,239
	176,943	**188,880**	142,500	151,089
Equity investments:				
Common shares	**53,206**	**78,823**	67,220	85,796
	$ 230,149	**$ 267,703**	$ 209,720	$ 236,885

	2004			2003		
	Unrealized Gains	**Unrealized Losses**	**Net Unrealized Gains (losses)**	Unrealized Gains	Unrealized Losses	Net Unrealized Gains
Bonds issued by Federal and Provincial governments	**$ 7,863**	**$ –**	**$ 7,863**	$ 5,048	$ (44)	$ 5,004
Financial institution bonds	**2,378**	**–**	**2,378**	2,235	–	2,235
Corporate bonds	**1,759**	**–**	**1,759**	1,353	(76)	1,277
Treasury bills	**20**	**(83)**	**(63)**	73	–	73
Common shares	**27,876**	**(2,259)**	**25,617**	19,770	(1,194)	18,576
	$ 39,896	**$ (2,342)**	**$ 37,554**	$ 28,479	$ (1,314)	$ 27,165

a) Securities with interest rate exposure As at December 31, the scheduled maturities and fair values for securities having interest rate risk exposure are as follows:

	2004			2003		
	Effective Rate (%)	**Carrying Value**	**Fair Value**	Effective Rate (%)	Carrying Value	Fair Value
Due within one year	**2.50**	**$ 6,111**	**$ 6,048**	2.41	$ 8,728	$ 8,802
Due one year through five years	**5.44**	**46,255**	**48,336**	5.00	25,780	26,613
Due five years through ten years	**5.77**	**76,446**	**81,203**	5.41	71,264	74,246
Due ten years through twenty years	**4.37**	**20,294**	**23,043**	6.81	33,675	38,153
Due after twenty years	**5.93**	**27,837**	**30,250**	6.16	3,053	3,275
	5.44	**$ 176,943**	**$ 188,880**	5.50	$ 142,500	$ 151,089

Fair values presented in the preceding tables are based on market values and will vary with interest rate changes.

The Corporation has adopted an investment policy that requires minimum credit ratings of "A" for debt securities at the time an investment is purchased and that limits the concentration in any one investee or related group of investees, except for financial instruments issued by the Government of Canada for which there is no limit. This investment policy is subject to annual review by the Investment Committee of the Board of Directors of the Corporation.

b) Equity investments Common shares fair values are considered to approximate market values and are based on quoted market prices or dealer quotes.

c) Foreign currency exposure The Corporation regularly monitors its risk associated with foreign currency exposure by reviewing the amount of U.S. dollar denominated investments. As at December 31, 2004, the Corporation had approximately 24.6% (2003 – 22.3%) of the carrying value of equity investments denominated in U.S. dollars and approximately 1.1% of securities with interest rate exposure (2003 – nil%).

Note 5 Capital Assets

	2004			2003
	Cost	Accumulated Depreciation/ Amortization	Net Book Value	Net Book Value
Software	$ 5,103	$ 1,591	$ 3,512	$ 2,008
Data processing equipment	3,246	622	2,624	689
Furniture and office equipment	839	161	678	265
Leasehold improvements	1,838	128	1,710	192
	$ 11,026	$ 2,502	$ 8,524	$ 3,154

Note 6 Warranty Liabilities

The determination of the Corporation's warranty liabilities, which include deferred home enrolment fees and warranty claims liabilities, is dependent on the Corporation's claims handling practices, on actuarial assessments, on the judgment of its management, on historical precedents and trends, on prevailing legal, economic, social and regulatory environments and on expectations of future developments. Periodic studies are performed by management and reviewed by external actuarial consultants to assess the adequacy of the warranty claims liabilities recorded for new homes or condominiums, as well as the adequacy of deferred home enrolment fees to cover future claims and related administration costs to administer claims.

In general, the longer the time period between the incidence of loss and settlement of the related claim, the greater the potential for actual settlement amounts to differ from the recorded estimates. Actual settlements may also differ significantly from the estimates of these liabilities due to the variability of assumptions about future rates of claim frequency, severity, inflation, the ability of builders to fulfill their obligations to home buyers, recoveries from builders and administrative costs.

The following table summarizes the components of the warranty liabilities as at December 31:

	2004	2003
Deferred home enrolment fees, beginning of year	**$ 72,089**	$ 72,281
Fees received	**37,024**	34,609
Fees earned	**(35,655)**	(34,801)
Deferred home enrolment fees, end of year	**73,458**	72,089
Warranty claims liabilities, beginning of year	**57,871**	48,059
Provisions for claims, net of reversals	**11,897**	17,250
Claims paid	**(12,495)**	(7,438)
Warranty claims liabilities, end of year	**57,273**	57,871
Warranty liabilities, end of year	**$ 130,731**	$ 129,960

The following table summarizes the components of claims incurred presented in the statement of operations:

	2004	2003
Provisions for claims, net of reversals	**$ 11,897**	$ 17,250
Less recoveries from builders	**(7,219)**	(2,621)
Claims incurred for the year	**$ 4,678**	$ 14,629

Note 7 Funds Held as Security

The Corporation receives security deposits from builders, in the form of cash, securities or letters of credit/guarantee, on registration of certain projects in order to reduce the risk of financial loss related to future warranty claims from homeowners. Security deposits that are not used to pay claims are either paid back to the builder, or the securities or letters of credit/guarantee are released when the Corporation's requirements are met.

Cash security deposits are invested as part of the Corporation's cash and investment portfolio. The funds held as security presented on the balance sheet are the potentially refundable cash deposits including cumulative accrued interest thereon of $706 (2003 – $574).

During the year, the Corporation incurred interest of $432 (2003 – $362) on cash security deposits.

Note 8 Employee Future Benefit Plans

On September 9, 1999, the Corporation's defined benefit pension plan and money purchase pension plan were merged into a new pension plan called The Pension Plan for Employees of the Tarion Warranty Corporation (the "Pension Plan"). The Pension Plan is open to all full-time employees of the Corporation meeting certain eligibility conditions. Under the terms of the Pension Plan, employees contribute a percentage of eligible employee earnings per year. The Corporation's contribution varies depending upon the employee's age and the number of years of eligible service. In addition, the Corporation provides other post-employment benefits ("OPEB"), primarily for health and dental coverage, on an unfunded basis.

As at December 31, 2004, the market value of the pension fund assets is $10,621 (2003 – $9,912) which exceeds the actuarial present value of accrued pension benefits for the Pension Plan, which is estimated to be $10,207 (2003 – $9,312). The accrued pension liability is $367 (2003 – $563).

The OPEB are unfunded and the accrued benefit liability for these benefits is $322 (2003 – $256).

Key information, as provided by the Corporation's external pension consultants, is as follows:

Actuarial Assumptions for Pension Expense Estimates

Return on assets	6.75%, net of expenses (2003 – 6.75%)
Liability discount rate	6.25% (2003 – 6.75%)
Salary increases	4.0% (2003 – 4.0%)
Mortality	Group Annuitant Mortality Table – 1983

Actuarial Assumptions for OPEB Expense Estimates

Discount rate	6.25% (2003 – 6.75%)
General inflation	3.0% (2003 – 3.0%)
Dental care trend rate	4.5% (2003 – 4.5%)
Extended health care trend rate	9.5% (2003 – 10.0%); decreasing by 0.5% annually to an ultimate rate of 4.5%
Mortality	Group Annuitant Mortality Table – 1983

Pension Plan Asset Mix

Canadian equity securities	30.1% (2003 – 28.2%)
U.S. equity securities	11.1% (2003 – 11.5%)
International equity securities	9.8% (2003 – 8.8%)
Bonds	38.9% (2003 – 42.5%)
Cash	10.1% (2003 – 9.0%)

The Corporation has a December 31 measurement date. A valuation of the accrued pension benefit obligation was performed at January 1, 2002. To estimate the obligation at December 31, 2004, results were extrapolated from the January 1, 2002 valuations.

Other information about the Corporation's Pension Plan and OPEB is as follows:

	2004		2003	
	Pension Plan	**OPEB**	Pension Plan	OPEB
Reconciliation and Funded Status				
Fair value of plan assets	**$ 10,621**	**–**	$ 9,912	–
Accrued benefit obligation	**10,207**	**575**	9,311	490
Funded status of plan – surplus (deficit)	**414**	**(575)**	601	(490)
Unamortized transitional (asset)/obligation	**(1,260)**	**171**	(1,387)	188
Unamortized net actuarial (gain)/loss	**221**	**82**	(52)	46
Unamortized past service cost	**258**	**–**	275	–
Accrued benefit asset (liability), net of valuation allowance	**$ (367)**	**$ (322)**	$ (563)	$ (256)
Transfers to other Plans and benefits paid	**$ 1,007**	**$ 15**	$ 148	$ 15
Employee contribution	**320**	**–**	301	–
Employer contribution	**548**	**15**	–	15
Pension expense	**352**	**81**	332	74

Note 9 Contingencies, Commitments and Guarantees

As part of the normal course of business, the Corporation is party to a number of lawsuits, the outcome of which is not determinable at this time. However, in the opinion of management, these lawsuits should not result in material losses to the Corporation.

The Corporation has future minimum annual lease payments for rental of properties and computer equipment as follows:

2005	$ 1,319
2006	1,189
2007	930
2008	762
2009	593
2010 and thereafter	4,385
	$ 9,178

The Corporation has agreed to indemnify its directors and certain of its officers and employees against any liability incurred in their capacity as a director, officer or employee of the Corporation in accordance with the Corporation's by-laws. The nature of substantially all of the indemnification undertakings precludes making a reasonable estimate of the maximum potential amount the Corporation could be required to pay to third parties, as the amounts are dependant upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Corporation has made no significant payments under such indemnification provisions.

Note 10 Fair Values of Financial Instruments

Fair values of all financial instruments, except investments and warranty liabilities, have been determined to approximate their carrying values.

Fair values of investments are disclosed in Note 4. Given the absence of an active market for the sale of warranty liabilities, the actuarially discounted carrying value for warranty liabilities provides the best available representation of fair value.

Note 11 Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

Corporate Leadership Team

Gregory W. Gee
President & Chief Executive Officer

Robin E. Fitzgerald
Senior Vice President, Operations

John E. Becevello
Vice President & Chief Financial Officer

Mike Coté
Vice President, Builder Relations

Eileen M. Holden
Vice President, Human Resources

Robert S. Jewett
Vice President, Claims

Janice Mandel
Vice President, Corporate Affairs

Robert P. Mitchell
Director, Industry &
Government Relations

Mary H. Mullens
Vice President & General Counsel

A. Pat Varcoe
Vice President,
Licensing & Underwriting

Bill R. Wallace
Vice President,
Information Systems

Standing [Back row] John Becevello, Robin Fitzgerald, Gregory Gee, Bill Wallace, Janice Mandel, Bob Jewett, Mike Coté, Rob Mitchell

Seated [Front row] Mary Mullens, Pat Varcoe, Eileen Holden

Corporate Governance

Board of Directors

Dick M. Brouwer
Partner, Zebro Developments Ltd., London
Chair of Audit Committee
Member of Executive Committee

S. Scott Cameron
President, Cameron Stephens, Toronto
Member of Investment Committee

Tony Campanale
President, Campanale Homes, Ottawa
Member of Executive Committee

Robert Cooper
President, Alterra Group of Companies
Member of Audit Committee

Robert Dowler
Assistant Deputy Minister,
Policy and Consumer Protection
Services Division
Ministry of Consumer
and Business Services
Member of Consumer & Communications Advisory Committee

Daniel Gabriele
President, Ontario Home builders Association (OHBA)
Marz Homes, Stoney Creek
OHBA Observer

Gregory W. Gee
President & Chief Executive Officer
Member of Executive Committee

Karen Girling
Corporate Director, Toronto
Member of Consumer & Communications Advisory Committee

Harry Herskowitz
Partner, DelZotto, Zorzi, Toronto
Vice Chair of Board
Chair of Consumer & Communications Advisory Committee
Member of Executive Committee
Member of Investment Committee

Brian K. Johnston
President, Monarch Construction Ltd., Toronto
Member of Executive Committee
Member of Audit Committee

Karen Kinsley
President & Chief Executive Officer, Canada Mortgage and Housing Corporation, Ottawa
Member of Audit Committee

Walter T. Moodie
Corporate Director, Mississauga
Chair of Investment Committee
Member of Executive Committee
Member of Audit Committee

Peter Saturno
President, Midhaven Homes, Oshawa

Peter R. Smith
President, Andrin Homes Limited, Brampton
Member of Investment Committee

Whipple Steinkrauss
Corporate Director,
Member of Consumer & Communications Advisory Committee

Joe Valela
President, Valemont Homes Inc., Toronto
Member of Investment Committee

Robert E. Wade
(formerly Mayor of Hamilton)
Chair of Board
Chair of Executive Committee

Back Row Daniel Gabriele, Peter Saturno, Whipple Steinkrauss, Tony Campanale, Walter T. Moodie, Brian K. Johnston, Karen Kinsley, Dick M. Brouwer, S. Scott Cameron, Robert Dowler, Karen Girling, Joe Valela

Seated Gregory W. Gee, Robert E. Wade, Harry Herskowitz

Board Committee Membership

Executive Committee

Robert E. Wade (Chair)
Dick M. Brouwer
Tony Campanale
Gregory W. Gee
Harry Herskowitz
Brian K. Johnston
Walter T. Moodie

Audit Committee

Dick M. Brouwer (Chair)
Robert Cooper
Brian K. Johnston
Karen Kinsley
Walter T. Moodie

Investment Committee

Walter T. Moodie (Chair)
S. Scott Cameron
Harry Herskowitz
Peter R. Smith
Joe Valela

Consumer and Communications Advisory Committee

Harry Herskowitz (Chair)
Robert G. Dowler
Karen Girling
Whipple Steinkrauss
Chris Ward*
Martin Redfern*
J. Richard Blickstead*
Sarah Simpson*
Deborah Brown*

* Non-Board member participants

Responsibilities of the Committees of the Board

Executive Committee

The Executive Committee provides guidance to the full Board on governance matters as well as on policy issues related to government and industry relations. In addition, the Committee deals with management resources matters including compensation, the handling of significant claims, as well as policy matters related to the licensing of home builders.

Audit Committee

The Audit Committee, composed entirely of independent Directors, reviews the annual audited financial statements and financial operating performance, the assessment of reserves and the results of capital adequacy testing. The Committee is responsible for the development and monitoring of policies to address risk management as well as the internal control framework. The Committee also makes recommendations to the Board with respect to the appointment of an external auditor, the external actuary and the pension plan actuary and administrator.

Investment Committee

The Investment Committee considers and recommends investment strategies, plans and policies related to the invested assets of the Corporation. The Committee oversees the selection and appointment of one or more investment managers and reviews and approves the investment policies of the Corporation each year. It also reviews reports from fund managers on investment activities in relation to the investment goals of the Corporation. In addition, the Committee is responsible for the management of assets related to the pension plan of the Corporation.

Consumer and Communications Advisory Committee

The Consumer and Communications Advisory Committee (a recent amalgamation of the former Consumer Advisory Committee and the former Communications Advisory Committee), acts as a forum to assist Tarion management with consumer policy development and development of communications strategy, by acting as a sounding board to provide insight on issues, by making recommendations regarding the development and delivery of consumer protection policies, by analyzing relevant consumer research data, and by giving insight into current communication programs and trends. The Committee includes members of the Board, together with external members with expertise in consumer relations and/or the communications and marketing industry.

Governance Policies

The Board of Directors of Tarion Warranty Corporation is committed to a series of governance policies which are intended to support the supervisory role of the Board to ensure that the Corporation acts in the best interests of its stakeholders. The Board is continuing to review its practices in response to ongoing governance improvements in the marketplace.

Some highlights of the Board's current governance practices include the following:

- **Independence**
  To ensure independence of the Board and management, an outside Director acts as Chair of the Board. Only one Director, the President & Chief Executive Officer, is a member of Tarion management.
- **Board Composition**
  In accordance with the by-laws of the Corporation, the Board of Directors includes Directors drawn from a number of stakeholder groups with an interest in the home building industry in Ontario, including representatives from the Ontario Homebuilders' Association (OHBA), consumer representatives, financial institution representatives and those from provincial and municipal governments. However, Directors are not appointed to represent the interests of a particular group. In 2004, the By-Laws of the Corporation were amended to provide for the appointment of Directors from nominees recommended by each of the OHBA and the Ontario Minister of Consumer and Business Services. The Board currently has 15 members and two associate members.
- **Financial Controls**
  The Audit Committee of the Board is composed entirely of outside and unrelated Directors whose responsibilities are set forth in a detailed Committee mandate. The Committee has the opportunity to deal directly with the external auditor regarding issues arising from the financial statements, and with the external actuary regarding the reserves of the Corporation.
- **Risk Management**
  The Board, together with the Audit Committee, monitors reviews and approves adherence to corporate policies to manage and control risk, as well as compliance with policies of the Corporation and regulatory requirements.
- **Strategic Planning**
  The Board engages in a strategic planning process each year, which takes into account business policy initiatives and opportunities, as well as operational and financial risks. Throughout the year, the Board reviews corporate performance against the Company's business objectives and strategic plans.
- **Board Evaluation**
  The Board retains an independent external professional organization to undertake an annual Board review to assess and enhance the effectiveness of the Board and of each Director. Individual interviews of Directors and focus group discussions with Directors form part of this process. Feedback is provided by the external organization, to Directors individually and to the Board as a whole, with a view to enhancing Director development and their contribution to the Corporation.
- **Board Committees**
  Membership in Board Committees is composed of non-management members of the Board of Directors, except that the President and Chief Executive Officer is a member of the Executive Committee.
- **Annual Objectives**
  The Board approves the annual Business Plan of the Corporation, and the Executive Committee approves the annual objectives of the Chief Executive Officer. All employees of the Corporation prepare written performance objectives each year.
- **Code of Governance Practices**
  Each member of the Board is required to sign a Code of Governance Practices that has been approved by the Board. This Code is intended to assist the Directors in performing their responsibilities to the Corporation with appropriate discipline and dedication.

Directors' Attendance for 2004

	Board of Directors	Board Committees
Robert E. Wade	6 of 6	5 of 5
Dick M. Brouwer	6 of 6	9 of 9
S. Scott Cameron	5 of 5	2 of 2
Tony Campanale	6 of 6	5 of 5
Robert Cooper	6 of 6	3 of 3
Robert G. Dowler	6 of 6	3 of 3
Gregory W. Gee	6 of 6	15 of 15
Karen Girling	4 of 6	3 of 3
Harry Herskowitz	6 of 6	11 of 11
Brian K. Johnston	5 of 5	3 of 6
Karen Kinsley	5 of 6	4 of 4
Peter Saturno	5 of 5	
Peter R. Smith	5 of 5	1 of 2
Whipple Steinkrauss	5 of 5	2 of 2
Joe Valela	5 of 5	2 of 2
Walter T. Moodie	6 of 6	12 of 12
Daniel Gabriele	1 of 1	

Notes on Directors' Attendance

1. The record of the attendance of Directors relates to the Board and Board Committee meetings held by the Corporation during 2004.
2. The number of Board or Board Committee meetings held by the Corporation in 2004 was as follows:

Board of Directors	6
Executive Committee	5
Audit Committee	4
Investment Committee	3
Consumer & Communications Advisory	3
Total	21

Corporate Information

Customer Centre
5150 Yonge Street
Concourse Level
Toronto, ON M2N 6L8

Corporate Office
5160 Yonge Street
12th Floor
Toronto, ON M2N 6L9

Eastern Office
1600 Scott Street, Suite 400
Ottawa, ON K1Y 4N7

Western Office
140 Fullarton Street
Ground Floor
London, ON N6A 5P2

Questions or comments regarding Tarion Warranty Corporation or any information appearing in the Annual Report may be directed to:

Tarion Warranty Corporation
Corporate Affairs Department
Telephone: 416-229-9200

The Corporation's Annual Report can also be found on the Tarion website at **www.tarion.com**

5160 Yonge Street
Toronto, Ontario M2N 6L9
Telephone: 416-229-9200
Toll Free: 1-877-9TARION
Fax: 1-877-664-9710

Email: *info@tarion.com*

TARION
PROTECTING ONTARIO'S NEW HOME BUYERS