35 Years Committed to Home Warranty Service

2011 ANNUAL REPORT

TARION

PROTECTING ONTARIO'S NEW HOME BUYERS

TARION WARRANTY CORPORATION
ANNUAL REPORT 2011

CONTENTS

OUR MANDATE

Tarion Warranty Corporation is a not-for-profit corporation created in 1976 to regulate new home builders and administer a warranty plan that protects home buyers in Ontario from certain risks associated with the purchase of a new home.

Overall, our mandate is to administer the *Ontario New Home Warranties Plan Act* (The Act). This includes:

- Protecting new home buyers from builder failures or defaults (such as, substandard construction, faulty workmanship and materials, incomplete construction and loss of deposits) through the development, promotion and administration of statutory warranties.
- Promoting better communication between builders and buyers of new homes.
- Providing new home buyers with a forum for complaints about builders and assisting in their expeditious and equitable resolution.
- Establishing and administering a guarantee fund that provides for the payment of compensation under the Plan.
- Informing and educating new home builders, and through research programs, promoting progressive improvement in the quality of housing in Ontario.

35 YEARS COMMITTED TO HOME WARRANTY SERVICE

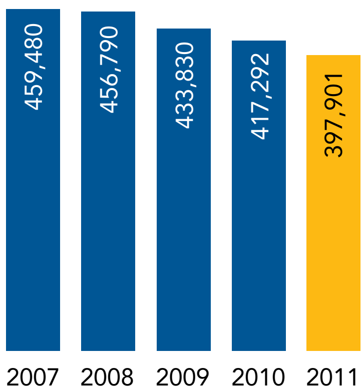
In 2011, Tarion celebrated 35 years of administering Ontario's new home warranty program. Throughout the years, our name has changed and leaders have made an impact on our services, but our overall mandate has remained the same. What started as a simple warranty for construction defects 35 years ago is now very robust and continues to expand in order to constantly adapt to the changing needs and demands of our stakeholders.

The warranty program began in 1976 and originally focused on consumer protection. The emphasis shifted to stricter builder regulation in the 1980s and 1990s, and is now a more balanced approach focusing on the interests of all our stakeholders. This includes consumers, builders and the Government of Ontario.

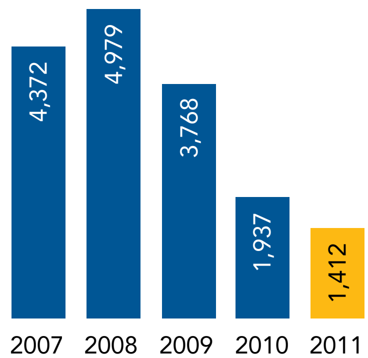
After 35 years, Tarion remains committed to providing warranty coverage to meet the needs of new home buyers while improving the regulation of new home builders. As we look ahead, we will continue to embrace new methods to fulfill our original goals.

KEY OPERATIONAL HIGHLIGHTS

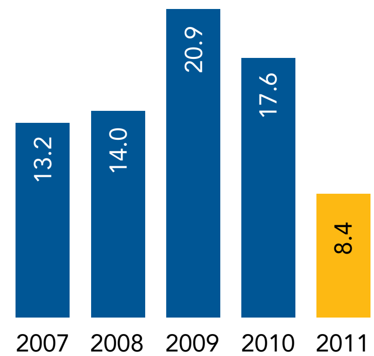
NEW HOMES UNDER WARRANTY*



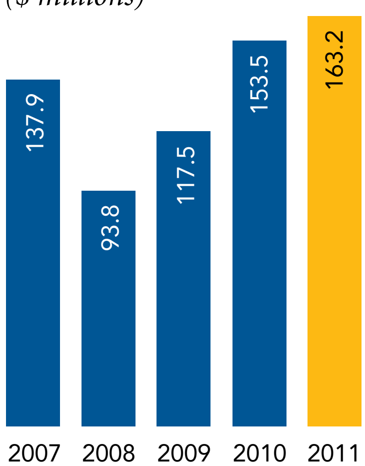
HOMES WITH A CONCILIATION INSPECTION



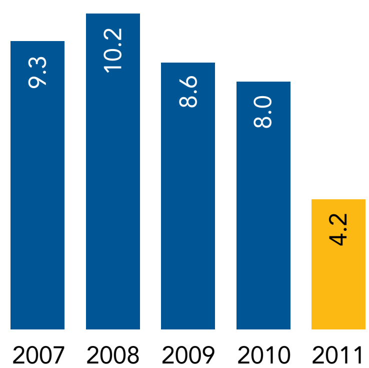
TOTAL CLAIMS PAID
($ millions)



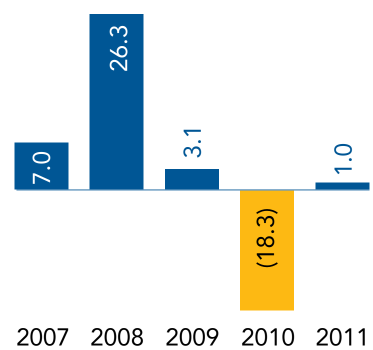
TOTAL EQUITY†
($ millions)



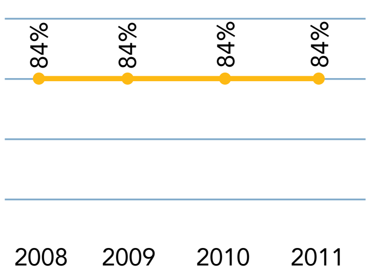
RECOVERIES FROM BUILDERS
($ millions)



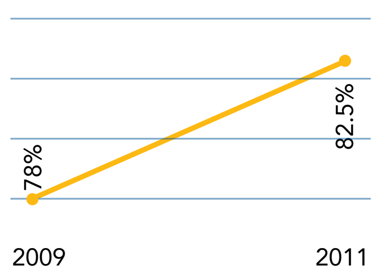
NET CLAIMS INCURRED
($ millions)



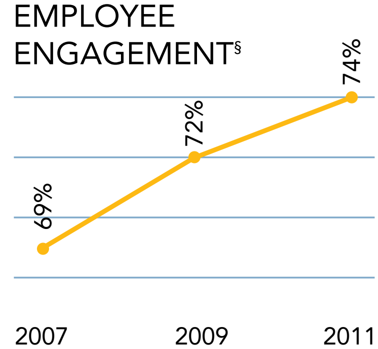
HOMEOWNER SERVICE ORIENTATION INDEX‡



BUILDER SERVICE ORIENTATION INDEX



EMPLOYEE ENGAGEMENT§



* Possessions and units under warranty for prior years are restated based on the latest available data.

† The equity of the Corporation for 2009 and 2010 have been restated under the International Financial Reporting Standards ("IFRS") when it adopted IFRS in 2011.

‡ The Homeowner Service Orientation Index reflects the average of opinion scores for accessibility, ability to listen to and understand needs and how easy Tarion is to do business with. The Builder Service Orientation Index reflects the average of opinion scores for accessibility and ability to listen to builder needs and concerns. Please see Providing Services and Support - Listening to and Engaging Customers for survey methodologies.

§ Based on results of a bi-annual employee opinion survey conducted by The Hay Group.

STRATEGIC INITIATIVES

In 2011, Tarion continued to pursue the goals in our three year plan that was initiated in 2009. Called *Meeting the Challenges—2009-2011*, the plan was created in the aftermath of the 2008 market downturn and took into account the realities of the economy while aiming to make the organization more flexible, creative and efficient. The goals of this plan were to help ensure that new home buyers are protected and educated, builders are given support to satisfy their customer commitments, and Tarion is able to fulfill each area of its mandate while maintaining a stable financial position.

Many important accomplishments were realized under this plan. Most importantly, Tarion was able to reduce its expenses while expanding its service.

In 2011, Tarion continued to work on and completed many projects that began in 2009. These included:

Expense Reduction and Revenue Enhancement

- ✓ Engaged key supplier relationships in a competitive selection process to ensure Tarion receives good value.
- ✓ Negotiated information technology services to provide substantial savings.
- ✓ Reduced expenses by $1.5 million relative to the previous year.

Improve Stakeholder Messaging

- ✓ Launched the Breaking Ground e-newsletter to maintain a consistent medium of communication with builders.
- ✓ Helped to design the New Construction Inspection Training Program for the Ontario Association of Home Inspectors.
- ✓ Expanded our online seminar library with a video on Conciliation Inspections.

Be More Customer-Centric

- ✓ Continued to build on a service excellence initiative implemented in 2009 called The Tarion Way.
- ✓ Finalized the details for the Channel Strategy, a 2012 initiative that focuses on becoming more efficient and effective in the way we communicate with stakeholders.
- ✓ Organized town hall meetings to ensure open and consistent communication with homeowners, industry partners and community leaders.

"Make it Work"

- ✓ Launched a new Customer Relationship Management system improving the use, efficiency and reliability of our data management.
- ✓ Updated Tarion's procedures and physical environment in order to comply with the province's Accessibility for Ontarians with Disabilities Act.
- ✓ Worked with Municipal Officials to identify overlapping issues on files to improve the claims experience for consumers.
- ✓ Continued to consult extensively with stakeholders on a proposed framework for the Major Structural Defect Warranty.

STRATEGIC INITIATIVES

Increase Transparency

- ✓ Continued the expansion of the public consultation process to make policy development more collaborative and transparent.
- ✓ Formed the Consumer Advisory Council to act as a voice for new home buyers on proposed policy changes.
- ✓ Made regulatory changes to the terms and conditions of registration to clarify that builders can only pass along third party costs actually incurred.

Prevent Illegal Building

- ✓ Worked with the government to pass legislation that makes it mandatory for municipalities to share building permit information helping Tarion's Enforcement Department more easily detect illegal building.
- ✓ Enhanced a criminal intelligence analyst software for Tarion's unique purposes which increases the accuracy and speed of detecting illegal building activities in over 400 municipalities across Ontario.

MESSAGE FROM THE CHAIR OF THE BOARD

Congratulations to Tarion on achieving 35 years of valuable service! The past few years have exemplified how Tarion has sustained its services throughout its history, while adapting to the ups and downs of the economy. Risk management has always been an essential element to Tarion's viability in order to maintain sufficient reserves to address large, unexpected claims and to ensure that we mitigate, as much as possible, the effects of a downward market. When the market tightened in 2008, Tarion made expense reduction a priority, without compromising its services. Since the Canadian economy did not weaken to the extent that was predicted, Tarion's focus on expense reduction initiatives, coupled with an upward trend in the housing market and no significant new claims, resulted in the continued health of our reserve fund levels while maintaining strong customer service.

In 2011, we reached more than 100,000 high-rise units under warranty. This steady rise in condominium enrolments over the years was the motivation behind the formation of the Condominium Task Force. This team facilitates research, provides informed opinions and assists in policy development on condominium developments as they relate to Tarion's mandate.

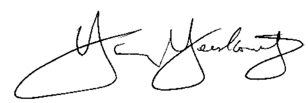
The Builder Education Task Force and the Performance Based Pricing Task Force were also established in 2011 to provide the Board with new strategies for enhanced standards and rational pricing models. In addition to the new task forces, we formed the new Consumer Advisory Council to help balance Tarion's perspective by providing a voice to the new home buyer on proposed policy changes.

Tarion continued to seek public consultation on proposed regulatory changes in 2011. This initiative, which began in 2010, was recommended by the Regulatory Affairs Committee as a way to make policy development more collaborative and transparent, and to ensure that stakeholders have an increased voice. In 2011, three policies were brought to public consultation including changes to the Major Structural Defect Warranty, the Delayed Closing and Delayed Occupancy Addendum Review, and the proposal to update the Construction Performance Guidelines. Now in its second year, I continue to believe that the public consultation process improves policy decisions and provides a greater perspective on proposed changes.

As part of our commitment to operate in accordance with best practices in corporate governance, the Board set term limits for its members. Directors will now serve a maximum of nine years (three, three-year terms), and the Chair of the Board will serve a maximum of six years (two, three-year terms). The Chair will still be subject to the same annual election process that is currently in place. The new terms were adopted to ensure that new ideas and perspectives are continually engaged by the Tarion Board.

In order to continuously improve our standards, a number of board members achieved their Institute of Corporate Directors Designation (ICD.D) in 2011. I am pleased to confirm that four members of our board now hold this designation, specifically Frank Giannone, Michael Lio, Peter Oakes and Lea Ray.

In 2011, we saw the departure of Board Member Bob Aaron, Partner of Aaron & Aaron Barristers and Solicitors LLP, and I would like to thank him for the positive impact he made throughout his tenure. Fortunately, we will continue to benefit from his consumer advocacy expertise, as he now serves as the Chair of the newly-formed Consumer Advisory Council. In addition, I would like to welcome new Board Member Lynn Peterson. Lynn served as the Mayor of Thunder Bay from 2003 to 2010 and is a valuable addition to the Board.



Harry Herskowitz
Chair of the Board

MESSAGE FROM THE CHAIR OF THE BOARD

This year the Board approved Tarion's new strategic plan that will take us through 2014. Under this new plan, we will continue to deliver warranty services and builder regulation efficiently and effectively, while ensuring all parties receive fair treatment. Tarion has many initiatives planned for the near future that aim to make us financially stronger and more operationally efficient. Above all, Tarion aims to deliver warranty services and builder regulation that is valued by all present and future stakeholders.

I would like to thank all my fellow Board Members for the leadership and direction that they have provided throughout the year, and would also like to express my gratitude to Howard Bogach, his Corporate Leadership Team and all of the Tarion employees for their hard work and dedication. I look forward to continue working with everyone at Tarion, and seeking new ways to improve our services for the benefit of Ontario's new home buyers.

MESSAGE FROM THE PRESIDENT AND CEO

This past year marked Tarion's 35 year anniversary. The ever changing nature of our industry compels us to focus on new standards rather than reflect on the past, so it isn't often that we look back and celebrate our history. Over the years, a clear trend towards higher standards for builders and broader coverage for homeowners has become evident. This year is no different, as we have implemented many new initiatives that continue to move us in this direction.

In the last three years the economy made a significant impact on the way we operate. Expense reduction was a vital component to our strategic plan in 2009 as we realized the potential consequences of the previous year's market downturn. In 2011, Tarion benefited from an expense reduction of $1.5 million relative to 2010. Most importantly, this considerable decrease in operating expenses was done without impacting our services.

With a total of 58,610 new homes enrolled in the warranty program in 2011, this number is lower than the historical average of 65,847 but considered fairly strong when compared to the 52,531 units enrolled in 2010. A large portion of the enrolments were high-rise condominiums, up 21 per cent compared to the previous year. The shift towards high-rise enrolments that began in 2009 remains evident, while the low interest rate environment continues to have a positive impact on the industry.

Tarion believes that understanding the needs of our stakeholders is the first step in creating new policies and procedures. Part of this understanding comes from our bi-yearly and yearly surveys sent out to builders and homeowners. Builders' general impressions of Tarion improved in 2011 in comparison to the previous survey conducted in 2009. In particular, there was a significant reduction in the proportion of builders who report issues with Tarion. The annual homeowner satisfaction survey garnered positive results again this year and in particular, the "ability to listen to the needs and concerns of new homeowners" continues to show a positive response. The findings from this survey helped us determine the key factors in homeowner satisfaction and the results were used to shape a new customer service training program in 2011.

Tarion recognizes that there are many groups that interact with new home buyers. We have broadened our reach to work with home inspectors and real estate agents as they have notable influence on new home buyers. Education programs were designed for each group that cover the rights of new homeowners and the requirements of new home construction as it pertains to the warranty. We also reached out to Municipal Officials in an effort to improve the claims process by identifying overlapping issues on files. Furthermore, we continue to work with municipalities to help identify illegal building activities in Ontario.

A significant undertaking for Tarion is the ongoing consultation on changes to the Major Structural Defect Warranty. This project began in 2010 when a number of concerns were expressed regarding the content of the existing seven year warranty. After a thorough consultation process with various industry groups, a proposal for an alternative framework for major defect claims was posted on our website for public consultation.

Howard Bogach
President &
Chief Executive Officer

MESSAGE FROM THE PRESIDENT AND CEO

I am proud to say that in addition to being a milestone year for Tarion, we also accomplished many goals and completed significant projects that better position us to meet the needs of new home buyers and builders. The year was not without hardship as we lost important leaders in our industry such as David Horton and Stephen Dupuis. We will miss their strong leadership and influential presence. The building industry is a vibrant and strong contributor to Ontario's economy and despite inevitable setbacks that come from both inner adjustments and outward pressure, constant change helps to propel us onward.

Looking forward, we have already begun to work on initiatives that fall under our new three year strategic plan. The three main themes of this plan include managing risk, enhancing financial performance and efficiency, and building trust and transparency. Within these themes, Tarion will continue to look for new ways and new ideas to support builders and new homeowners.

PROVIDING SERVICES AND SUPPORT

The Warranty Program

New home buyers in Ontario are entitled to limited warranty coverage of up to $300,000 over a seven year term which is provided by the builder and backed by Tarion. There is also separate coverage of up to $2.5 million for the common elements of a condominium (such as a lobby or garage).

Builders must enrol every new home with Tarion at a cost that is based on the selling price of the home and ranges from $535.00 to $1,650.00 (plus HST). The warranty provides excellent value and remains with the home for seven years, even if it is sold during this period. While the vast majority of builders are able to resolve any deficiencies or other issues that arise to the satisfaction of new home buyers, Tarion stands behind newly constructed homes and is there to help if a dispute about coverage does arise.

We do this by administering the new home warranty and ensuring that builders observe specific customer service standards. We also provide a process for making claims that involves working with the purchaser, the builder and other parties such as the local municipality if needed. In situations where a builder is unwilling or unable to address an issue that falls under the statutory warranty coverage, we will work directly with the homeowner to resolve the matter.

If a builder or homeowner disagrees with one of our decisions, they may appeal through various channels. Purchasers may appeal our decisions through the province's Licence Appeal Tribunal, or if they feel that they have been treated unfairly by us, they may contact the Tarion New Home Buyer Ombudsperson. Builders who disagree with a Tarion warranty decision may appeal it through our Builder Arbitration Forum.

Coverage Highlights

- Protection of deposits up to $40,000 for freehold homes and $20,000 for condominium units.*
- Compensation of up to $7,500 for certain types of delays in closing or occupancy.
- A one year warranty requiring that the home is fit for habitation as well as free from defects in work and materials and violations of the Ontario Building Code.
- A one year warranty providing protection against certain kinds of improper substitutions.
- A two year warranty that protects against defects allowing water penetration through the foundation and building envelope, defects in the electrical, plumbing and heating systems and the exterior cladding, and health and safety violations of the Ontario Building Code.
- A seven year warranty that protects against work and material defects that adversely affect a load-bearing part of the home's structure, cause it to fail or significantly affect use of the building as a home.

*Condominium deposits in excess of $20,000 are protected by the trust provisions of *The Condominium Act*.

PROVIDING SERVICES AND SUPPORT

Builder Licensing

In addition to standing behind the builder's statutory warranty, Tarion is the Regulator of the home building industry. As such, we are responsible for licensing all new home builders in the province and ensuring they have the technical competence, customer service capabilities and financial capacity required to build new homes. We also look at how past conduct reflects on the builder's honesty and integrity. Builder licensing occurs annually and it involves the establishment of individual terms and conditions of registration in accordance with the Act. This information as well as a builder's performance in constructing and servicing homes is used to determine conditions of registration when assessing a license renewal.

If a builder is unwilling or unable to honour his/her warranty obligations, a number of penalties may result. The terms and conditions of their registration may be changed such that:

- The builder is limited in the number of homes he/she can construct;
- The security they are required to provide Tarion is increased or held for a longer period of time;
- A Tarion-approved customer service plan is put into place and audited by Tarion for compliance; and/or
- The builder's licence is revoked.

Educating Consumers and Supporting Builders

Homeowner Education

Tarion devotes considerable resources to helping homeowners understand the benefits and limitations of their new home warranty.

The tools we provide include a Tarion Homeowner Information Package which builders are required to give to each new home buyer on or before their date of possession. It describes warranty coverage in detail and the process for making a claim. This package is also available on our website. In 2009, an online portal called MyHome was added to provide homeowners with both information and a convenient way to manage their warranty online. Homeowners can access personalized enrolment and warranty information and submit warranty forms quickly and easily. They will also receive emails from Tarion highlighting key warranty dates and information.

To create awareness about MyHome and ensure new homeowners understand their warranty deadlines, in 2010 we began sending a welcome package to all purchasers during the first 30 days after they move into their new home. It contains a letter with personalized warranty dates, highlights the benefits of registering on MyHome and includes a "10-Minute Warranty Guide" DVD which is also available on tarion.com along with a growing library of webinars about new home warranty coverage. In 2011 we expanded our online seminar library to include a video on Conciliation Inspections. This video helps homeowners prepare for a conciliation by demonstrating the process and outlining the required documents that should be on hand during an inspection. We plan to continue to grow this library that was created in 2009, along with improving and expanding the information provided on tarion.com.

PROVIDING SERVICES AND SUPPORT

In 2011, we continued to reach out to homeowners through our Contact Centre and regular homeowner correspondence to help increase awareness about the features and benefits of MyHome.

There were 12,932 registrations for MyHome in 2011 which is approximately 26 per cent of new home possessions for the year. This number has continued to increase since the launch of MyHome in 2009. We will be focusing on improving this service and encouraging more homeowners to manage their warranty online over the next few years.

In addition to the above educational tools, Tarion places corporate advertising online and in the new home sections of various newspapers and magazines and publishes a regular column in the Toronto Sun under the byline of President & CEO Howard Bogach which highlights issues of relevance to new home buyers.

This year, Tarion completed the Condominium Common Element Information Package which is used to educate newly formed condo boards about the Tarion process with regards to the common element warranty. This package is provided by a Field Claim Representative who also delivers a presentation to the members of the condominium's Board of Directors.

Industry Outreach

Tarion has broadened our educational outreach to include industry participants that have direct involvement with new homeowners.

In 2011 we worked with a leading home inspection organization, on behalf of the Ontario Association of Home Inspectors, to design the New Construction Inspection Training Program. This program educates home inspectors on the Pre-Delivery Inspection (PDI) process for new homes and goes through the most common 30-day list items. The Construction Performance Guidelines is used as the primary guide for this course. After completion, home inspectors will have increased knowledge to properly assess the condition of a newly constructed home.

Tarion also works with real estate agents as they play an important role in educating new home buyers. Tarion created a course for Ontario real estate agents that can be credited towards their ongoing professional development requirements. This course educates real estate agents on illegal building and the rights of new home buyers with respect to their new home warranty. Led by the Enforcement Department, this course is continuously updated to reflect new trends in our claims activities, as well as ongoing policy developments at Tarion.

Over the years, Tarion has looked for opportunities to work with key government stakeholders who have an interest in the building industry. We have been identifying areas where we can work together on policy updates and the warranty process in order to improve knowledge and understanding of how Tarion operates.

PROVIDING SERVICES AND SUPPORT

Builder Support

Tarion's Builder Relations team is dedicated to supporting builders and keeping them regularly informed on new initiatives in the industry. The team helps builders deal with after sales service issues before they escalate, and facilitate the sharing of best practices within the residential construction industry. They also offer technical, administrative and customer advice to help builders understand the warranty requirements.

Tarion works closely with the provincial and municipal levels of government to ensure Building Code changes are incorporated into our orientation process in a timely manner. In 2011, we adjusted the builder orientation and testing process to reflect the changes that were to take effect in the Ontario Building Code as of 2012. New information was added into all areas of registration including the assessment, testing and orientation of builders. Beginning in the fourth quarter of 2011, these changes included testing builders on the impact of the new energy efficiency requirements, informing them about the new requirements for occupancy permits and explaining how this would impact delayed closing regulations in 2012.

In 2011 we also formed the Builder Education Task Force (BETF) to develop a vision for enhancing registration requirements for new applicants and updating renewal requirements for existing registrants. The purpose of the BETF is to determine if and how Tarion should enhance its current registration process to include a more detailed evaluation of a new applicant's core competency and ensure all builders stay current in their knowledge. The recommendations proposed by the BETF where posted online for public consultation in the first quarter of 2012.

In July, Tarion launched a new e-newsletter called Breaking Ground. The purpose of this communication is to keep builders regularly informed about industry news that may impact their business. The distribution list includes more than 6,000 email addresses of registered builders and additional stakeholders who have requested to receive the newsletter. In addition to sending out an email on a quarterly basis, one-off alerts are also sent to this distribution list when there is breaking news that is best sent out on a timely basis.


Breaking Ground

TARION

May 2011, Issue 1

Dear Registered Vendor/Builder,

Welcome to the first installment of Tarion's quarterly e-newsletter. Our goal is to keep you informed of any information from Tarion that may impact your business.

Feel free to contact us if there are any particular topics you would like more information about.

We hope you enjoy our first issue.

Mike Coté
Vice President, Builder Relations

IN THIS ISSUE

2011 Tarion Awards of Excellence Recipients
2011 Tarion Charity Golf Tournament
2010 Industry Review
Spring Vendor/Builder Clinics
Closing Adjustments Policy
Major Structural Defect Warranty Update
Combatting Illegal Building
We've Moved

Important Dates

June 7 - OHBA/Tarion Liason Committee Meeting
June 15 - Tarion Charity Golf Tournament

2011 Tarion Awards of Excellence Recipients

· **Domicile** of Ottawa in the High-Rise Category
· **Pidel Homes** of Guelph in the Large Volume Category
· **Wrighthaven Homes Limited** of Fergus in the Medium Volume Category
· **Cara Custom Homes** of Ancaster in the Small Volume Category

Congratulations to all the recipients and finalists for their outstanding after-sales customer service performance.

For more information, please click here.

2011 Tarion Charity Golf Tournament

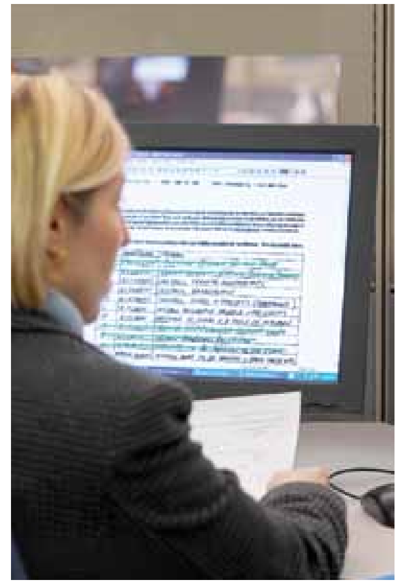
We invite you to join us at our 17th Annual Charity Golf Tournament at Angus Glen Golf Course in Markham on Wednesday, June 15, 2011.

Your invitation package should have arrived in the mail with all the tournament information and sponsorship opportunities. Registration includes a round of golf, shared cart rental, lunch and dinner as well as a small gift.

In 2011, Tarion formalized a new process to review builders who have received a complaint through Tarion's Ombudsperson office. Since the Ombudsperson does not investigate builder misconduct, if a complaint is received through this office the information is shared with Builder Relations. This group will then review the builder's conduct with respect to honesty and integrity, and determine if any further action should be taken.

As of January 2011, a regulatory amendment came into effect making it clear that any development levies passed along by a new home vendor to a purchaser must be refunded if they are ultimately waived by the municipality. This new regulation supports Tarion's expectation that vendors live up to their statutory obligations by acting with honesty and integrity.

PROVIDING SERVICES AND SUPPORT



Warranty Resolution

Tarion is responsible for assisting homeowners so they receive the coverage they are entitled to under the Act. A claim is initiated when a homeowner submits a warranty form to their builder and Tarion. Builders then have 120 days to resolve any warranted deficiencies. If the homeowner is not satisfied with the resolution, they must call Tarion and request a conciliation inspection within the following 30 days. Our Contact Centre is open Monday to Friday from 9 a.m. to 5 p.m. and the staff is available to schedule conciliation inspections, provide information and respond to questions and concerns.

After a conciliation inspection is scheduled, a member of our Claims staff contacts the homeowner and builder to discuss the item(s) in question prior to the inspection. If the item(s) inspected at the conciliation are under warranty, the builder will have 30 days to make the repair(s). When this period elapses, we will contact the homeowner to determine the status of the item(s). Should the matter not be resolved, we will re-inspect the home if necessary and work directly with the homeowner to settle the matter.

How We've Improved the Claims Process

It is our goal to be both helpful and efficient in our oversight of warranty coverage and to ensure that all parties receive fair treatment. Homeowners have expressed a desire for better communication and greater flexibility throughout the claims process.

As a result, several initiatives have been put into place including relaxing our form submission timelines to allow for the acceptance of forms that are received one day late, revisions to our homeowner correspondence and homeowners' ability to manage their warranty online through MyHome. In addition, we have made an effort, wherever possible to try and expedite the resolution of claims by having departments work together to ensure that matters are resolved as frequently as possible without requiring further intervention from Tarion.

In an effort to continue to improve the claims process, Tarion has been working with municipalities on shared claims files. In 2011, Tarion reached out to various municipal building departments across the province to identify overlapping issues on files and how to work together to solve these issues. Educating building officials on the warranty process and the potential for collaboration has aided in the overall process. We will continue to work directly with municipalities as we believe open communication between all parties involved improves the claims experience for homeowners.

In 2011 Tarion examined the results of our annual research study and determined that a key factor in homeowner satisfaction was our ability to listen and understand homeowner needs. This information was used to improve our claims process by engaging our Claims and Contact Centre staff in a customer service training program. Five key attributes within listening and understanding were identified by homeowners as having the most impact on their level of satisfaction. These included attentiveness, perceptiveness, responsiveness, understanding and empathy. These attributes were incorporated into an ongoing training program in order to improve overall customer experience.

PROVIDING SERVICES AND SUPPORT

Listening to and Engaging Stakeholders

Public Consultation

In 2009, Tarion introduced a new internal policy development process, a Regulatory Affairs Committee of the Board and an Annual Regulatory Plan which outlines the policy changes planned for the year. With these initiatives in place, a public consultation process was launched in 2010 to make policy development more collaborative and transparent.

We continued to engage the public and requested stakeholder feedback in 2011 through public consultations. Three policies were brought to public consultation this year: 1) changes to the Major Structural Defect Warranty (this was continued from 2010); 2) a review of the Delayed Closing/Delayed Occupancy Addendum 3) the third edition of the Construction Performance Guidelines.

In 2010, a number of concerns had been expressed with respect to the content of the existing seven year Major Structural Defect warranty. In response to these concerns, Tarion developed an alternative framework for major defect claims. The proposal went through a stakeholder consultation process including focus groups, detailed analysis by the Consumer Advisory Council and varied feedback from industry representatives. A backgrounder and interpretive bulletin were posted on Tarion's website in 2011 and updates regarding any changes to the warranty are expected to be posted in 2012.

Another item under public consultation in 2011 was the review of Delayed Closing/Delayed Occupancy Addenda. This addendum was introduced in 2008 as a way to provide new home buyers with clear information about closing delays. Some aspects up for review include improving the forms distributed to homeowners and extending critical dates by mutual agreement. The formal consultation period ended on November 25, 2011. Updates regarding final regulation changes and policy decisions are expected to be posted on Tarion's website in 2012.

Finally, the third edition of the Construction Performance Guidelines was under public consultation in 2011 and has since been revised. Changes to this document were the result of a number of industry consultations over a two year period. The third edition includes 93 revisions, 16 new items and the deletion of 4 items. Tarion is working with industry to determine the date that the new guideline will take effect. This document will continue to be updated in the future as the Building Code and construction standards evolve.

Understanding Homeowner Experiences with Tarion

Toward the end of 2011, Tarion commissioned our annual research through an independent third party to measure how we are viewed by homeowners. (Note: homeowner research is used to determine annual Tarion Awards of Excellence recipients and is therefore completed each year.) Our intention in seeking consistent feedback is to assess customer satisfaction and determine what we need to focus on in order to continually improve. Detailed results from our 2011 homeowner survey can be found on tarion.com.

Questionnaires were sent by Crunch Research in partnership with Harris Decima to more than 45,000 consumers in their first year of possession* as well as 9,850 additional consumers in their second through seventh year of possession.** A total of 8,051 responses were received. Most measures were tracked against similar surveys conducted during previous years.

PROVIDING SERVICES AND SUPPORT

Overall results from the survey of homeowners in their first year of warranty coverage were consistent year over year with 2011 marking a year of stability across all categories.

- As in previous years, a large majority of homeowners (85 per cent) in their first year of possession have a favourable impression of Tarion. Results across all categories hi-rise, large, medium and small) were stable.
- Most homeowners view Tarion as accessible (89 per cent), able to listen to their needs and concerns (81 per cent), easy to do business with (81 per cent), able to help them understand their warranty rights and responsibilities (85 per cent) and able to make sure builders fulfill their warranty obligations (78 per cent). None of these measures varied by more than one per cent in comparison with the previous year's results.
- Fifty-six per cent of homeowners were extremely or very satisfied with the service they received from Tarion (compared with 58 per cent in 2010). Satisfaction levels were mostly stable with some increased aspects of telephone contact and email and/or mail enquiries. Freehold home buyers were most likely to feel this way and high rise condominium buyers were least likely.
- Satisfaction with Tarion remained stable across all areas of the conciliation/claim experience. The trend of fewer homeowners having a conciliation or claim inspection continued with four per cent reporting having had one in 2001 versus five per cent in 2010 and seven per cent in 2009.

Results of the survey among homeowners in their second through seventh year of warranty coverage followed the same trends as the 2010 results. Overall, homeowners in their first or second year of coverage are most favourable toward Tarion.

- Impressions of Tarion decline marginally among homeowners in each of the first five years after possession dropping more steeply in years six and seven.
- Homeowners' satisfaction with their Tarion interactions also decline over time, and continue to be highly dependent on the experience they had with their builder even after the first year of possession.
- Eighty-one per cent viewed us as accessible and when asked if we were easy to do business with, results ranged from 81 per cent among those in year two of the warranty to 57 per cent among those in year seven.

YEAR OF WARRANTY COVERAGE	FAVOURABLE IMPRESSION OF TARION	HIGHLY SATISFIED WITH TARION INTERACTIONS
Year 1	85%	56%
Year 2	85%	57%
Year 3	74%	48%
Year 4	65%	40%
Year 5	74%	43%
Year 6	65%	35%
Year 7	62%	32%

PROVIDING SERVICES AND SUPPORT

Understanding Builder Experiences with Tarion

A biannual survey of builders was also commissioned in 2011. It was conducted by telephone among 275, randomly selected builders who were registered with Tarion and had at least one possession during the previous 12 months. Results were statistically weighted to reflect the distribution of builders across the province by size and region.*** Where possible, the measures below are compared to the results of a similar survey completed in 2009.

- Compared to 2009, builders are less optimistic overall about market prospects with 30 per cent expecting increased residential activity in 2011 versus 43 per cent in 2009. The economy and consumer confidence remain the perceived top challenges.
- Impressions of Tarion improved on most key metrics since 2009. In 2009, 42 per cent of builders were concerned with changes we had made after we introduced several fee increases and changed the terms of warranty coverage to make builders responsible for claims over $150,000 (to a maximum of $300,000). Major concerns included fee increases, the "off-loading" of warranty liability to builders, fairness and the need for improved communication. This number decreased to 26 per cent in 2011.
- Forty-eight per cent are highly satisfied with Tarion's overall performance (compared with 38 per cent in 2009).
- Sixty-four per cent of builders describe their relationship with us as "excellent" or "very good" and 72 per cent are willing to say positive things about us to others if asked.
- Ninety-four per cent of builders view us as accessible (compared with 93 per cent in 2009), 86 per cent said we are fair (compared with 75 per cent in 2009) and 85 per cent view us as consistent (compared with 81 per cent in 2009).
- In addition, 77 per cent see us as well as easy to do business with, 77 per cent feel we listen to and understand their needs and concerns (compared with 70 per cent in 2009) and 83 per cent believe we are effective at handling homeowner claims (compared with 74 per cent in 2009).

* Homeowners took possession of their home between October 1, 2010 and September 30, 2011. Results are accurate to within +/- 1 per cent 19 times out of 20.

** Homeowners took possession of their home between October 1, 2004 and September 30, 2010. Aggregate results are accurate to within +/- 3.1 per cent, 19 times in 20. Margins of error are higher for individual years of coverage ranging between +/- 6.9% and +/- 8.7%.

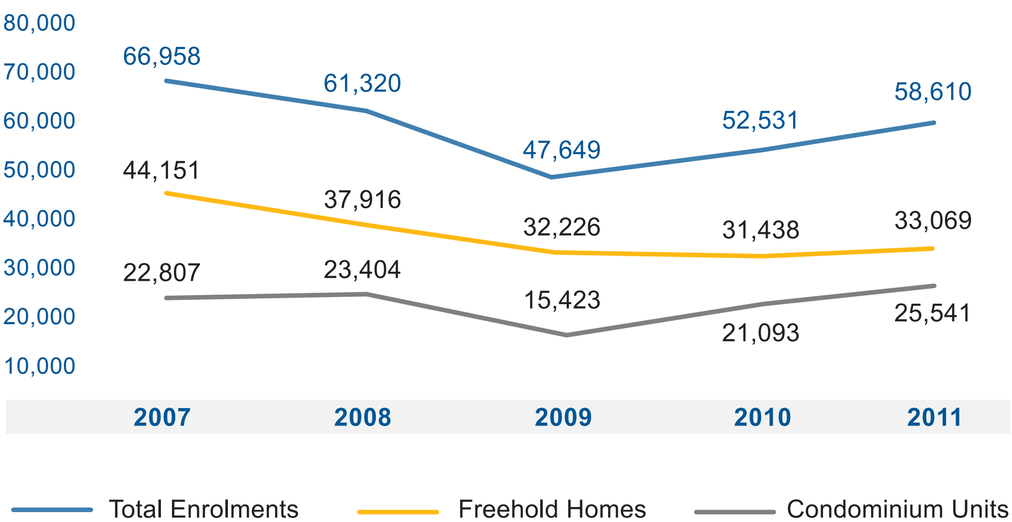
*** Builder survey results are accurate to within +/- 5.9 per cent, 19 times out of 20.

OPERATIONS OVERVIEW

Builder Licensing and Underwriting

From early on in 2011 new home enrolments looked like they would continue their upward trend from 2010. They did not disappoint. Total enrolments were up year over year by 12 per cent. Freehold homes experienced an increase of 5 per cent while condominiums were up an impressive 21 per cent. Throughout 2011 and expected to continue for some time, the low interest rate environment was the key factor in the strong housing market. In particular, the high-rise condominium market continued its strength with many projects moving from the sales phase into the construction phase.

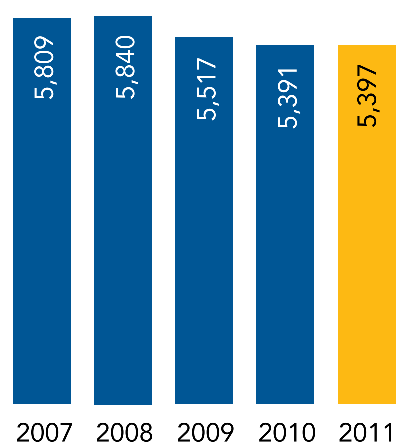
NEW HOME ENROLMENTS



Tarion requires builders to post security in certain cases. This can be in the form of surety bonds, letters of credit, deposit trust agreements, cash or indemnity agreements. Generally, more security is taken for condominium construction than for freehold homes. The rise in the number of condominiums enrolled with Tarion as compared to freehold homes has naturally resulted in a corresponding rise in the size of the security portfolio from $1.9 billion at the end of 2010 to $2.2 billion at the end of 2011, primarily attributable to surety bond growth.

Builder registrations were very stable over the past year finishing only slightly higher than the previous year at 5,397. During 2011, 29 builders were denied licenses or had their licenses revoked by Tarion.

BUILDERS REGISTERED



Warranty Service

Tarion's warranty service role begins when a buyer enters into an agreement to purchase a new home. We stand behind the builder's commitment to deliver the home to the purchaser on time in keeping with basic quality commitments and to provide after-sales service. The warranties protecting homeowners when there is a delay in closing or a deposit refund issue start on the date the home is purchased. The warranties that protect homeowners when there is a construction deficiency or after-sales service issue begin on the date the home is available for possession (in the case of freehold homes as well as condominium units). In 2011 there were 49,995 new home possessions which fell under the regulation of Tarion.

OPERATIONS OVERVIEW

WARRANTY SERVICE STATISTICS	2011	2010	2009	2008	2007
Total homes under warranty	397,901	417,292	433,830	456,790	459,480
New home possessions	49,995	56,371	46,657	56,848	60,283
Number of 30-Day forms submitted	29,135	26,824	22,772	27,599	26,977
Percentage of homes for which 30-Day forms were submitted	58%	50%	49%	49%	45%
Number of Year-End forms submitted	27,801	24,748	20,135	25,804	24,883
Percentage of homes for which Year-End forms were submitted	56%	44%	43%	45%	41%

Continued Refinement on Customer Service

In 2011 Tarion continued to focus on service excellence through The Tarion Way. This initiative was launched in 2009 and aimed to bring a common approach to the customer service we deliver. All employees have participated in a full day session that introduces The Tarion Way customer service principles and provides an opportunity to practice them through case studies based on familiar situations. In 2011, the principle of "fairness" was chosen as a focus of training for the Claims Department. The Tarion Way continues to be an important part of Tarion's customer service training and we will continue to build on this standard in the coming years.

We have continued to help new homeowners who have encountered issues with their homes that fall outside of our jurisdiction. Tarion organizes town hall meetings to bring homeowners in contact with the expertise they require depending on the issue they are facing with their new home. Tarion has brought builders, engineers, contractors and local government officials to these meetings to help homeowners find a solution to a particular problem. The purpose of these meetings is to allow homeowners to take advantage of Tarion's knowledge and contacts even when the warranty does not cover a certain situation. Although the issues fall outside the warranty coverage, we believe that helping new homeowners is part of our responsibility as a consumer protection agency and this is one of the ways we can broaden our customer service offering.

Claims Paid

When a homeowner is unable to resolve an issue with his or her builder and we determine that the item is covered under the statutory warranty, we will work directly with the purchaser to resolve the matter. In 2011, 581 claims totalling $8.4 million were paid by Tarion. Claim payments in 2011 were lower than 2010 primarily due to lower payouts on freehold warranty claims as compared to prior years while 2010 claims paid included large payments made for unwilling/unable builders as well as a high cost repair project involving a subdivision which began in 2009. Overall, the decline in claims activity is driven by a number of factors positively reflecting a trend that more claims are now being resolved directly between homeowners and builders. This has been encouraged by a number of efforts undertaken by Tarion to increase the likelihood of a resolution. These efforts include earlier communication with builders

and homeowners, and conciliation fee structures which encourage resolution. Other factors that impact these numbers also include a general decline in possessions since 2008, and changes in the housing mix that reflect more condominium units relative to freehold houses. Condominium units have a historically lower claims rate.

	2011	2010	2009	2008	2007
Number of Claims Paid	581	937	1,452	1,304	1,059
Claims Paid ($ millions)					
Freehold Homes	5.4	13.9	17.8	10.8	8.9
Condominium Units	0.9	0.4	0.6	0.6	0.9
Condominium Common Elements	2.0	3.3	2.5	2.6	3.2
Total Claims Paid	**8.4**	**17.6**	**20.9**	**14.0**	**13.2**

Avenues of Appeal

Once a decision about warranty coverage is made by Tarion, a homeowner has the right to an appeal if they do not agree with our determination. Builders also have the right to appeal decisions by Tarion if we refuse or revoke their licence to build homes. These appeals are accomplished through an informal process that is conducted independently by the Ontario Licence Appeal Tribunal (LAT). In 2011, 95 consumer appeals were filed with LAT (down from 116 the previous year) and 15 builder appeals were filed (down from 28 in the previous year). Of the 95 consumer appeals filed, 13 went before LAT. Tarion's assessment was upheld in 10 cases, overturned in one case and upheld in part in the other two cases. The number of new builder appeals filed in 2011 was almost 50 per cent lower than the number filed in 2010, and a fraction of the number of new appeals filed in previous years. Of the 17 appeals resolved in 2011, only one proceeded to hearing before the LAT. In that case, LAT upheld Tarion's proposal to refuse the builder's application for registration.

Homeowners who feel they have not been treated fairly by Tarion can turn to our New Home Buyer Ombudsperson Office, which is available to provide an objective perspective for consumer concerns and determine whether a decision was made fairly. The New Home Buyer Ombudsperson receives, investigates and seeks to resolve complaints from homeowners. The Office promotes and protects fairness, and is meant to supplement and not replace usual dispute resolution processes or formal channels of appeal. Accordingly, it does not make warranty decisions, mandate policies, or formally adjudicate issues for Tarion.

The Ombudsperson Office makes recommendations related to specific complaints and systemic concerns. The Ombudsperson annual report provides a summary of activities, case studies and observations, and recommendations for process improvement and/or policy changes based on the previous year's activity. In 2011, three recommendations were made, all of which were accepted by Tarion. Tarion developed and implemented an action plan that has already resulted in changes to our policies or processes.

For more information about the New Home Ombudsperson Office or for a copy of the 2011 Ombudsperson Annual Report visit www.tarion.com.

OPERATIONS OVERVIEW

Customer Services

Tarion Customer Services is one of the first places people can call if they want to ask a question or discuss an issue or concern. In 2011, Tarion responded to over 72,000 telephone calls and approximately 11,000 emails from homeowners and builders. Questions are typically about warranty coverage, the claims process or the status of a specific claim. In addition, over 2,500 homeowners and builders visited Tarion to drop off warranty forms and other documents, or to meet in person with Tarion representatives regarding a question or issue.

In the past, Customer Services has been considered the starting point for complaints about Tarion's staff, service and warranty process. This department tracks the data and has reported it in previous annual reports. In 2011, we worked on an approach to better track complaints regardless of where the complaint originated. Since there are other intake points for complaints, we are working on streamlining our tracking process in order to provide more comprehensive information about complaints received throughout the organization. A committee of representatives from the Claims Department, Contact Centre and Corporate Affairs created a "Complaints Log" which is currently maintained by each department. In 2011, Tarion received 296 complaints directly related to Tarion's mandate across all departments. In general, most of the complaints related to fairness, policy and decisions. The committee will continue to meet quarterly in 2012 to review and compare the Complaints Logs and identify any recommendations or training where needed.

Illegal Building

Illegal building hurts the reputation of the building industry, costs Tarion millions of dollars in unnecessary claims and burdens the provincial and federal governments with lost tax revenues and claims to the Workplace Safety and Insurance Board. When a builder fails to register with Tarion, purchasers are typically unaware of their new home warranty coverage. In addition, illegally built homes often do not meet Ontario Building Code standards.

ENFORCEMENT ACTIVITY	2011	2010	2009	2008	2007
New Investigations	157	354	419	601	449
Fines Levied ($ thousands)	128	345	1,040	851	616
Charges Laid	71	154	353	583	586
Convictions	84	184	241	379	320

The Tarion Enforcement team tracks down, charges and prosecutes illegal builders. In 2011, the efforts of this group, which consists primarily of former police officers, led the provincial courts to convict 84 builders and levy fines totalling $128,000.

OPERATIONS OVERVIEW

In 2011, Tarion made two significant advancements in the prevention and detection of illegal building. As of January 1, 2011, it became mandatory for municipalities to share building permit information with Tarion's Enforcement Department. Since all 426 municipalities across Ontario are now required to submit building permits to Tarion at the onset of a project, it has become easier to identify illegal building activities. Another new initiative in 2011 was the enhancement of a new criminal intelligent analyst software. This software will increase the accuracy and speed of detecting illegal building activities that are currently underway. The Enforcement Department has been working with the software provider to refine this tool in order to meet Tarion's needs. The software is scheduled for implementation in 2012. Tarion is also hiring a trained Criminal Intelligence Analyst to begin in 2012 to further the department's Intelligence Based Enforcement plan.

New Advice, New Systems and New Services

In 2011, Tarion formed the Consumer Advisory Council to serve as a sub-committee to the Consumer Committee of the Board. This new council acts as a voice for new home buyers when consulting on proposed policy and regulation changes. The council will identify topics for consideration that would enhance consumer confidence in buying a new home, new home warranty protection or benefit Ontario's new home buyers. The goal of this council is to add a more balanced perspective to policy decisions.

To comply with the province's Accessibility for Ontarians with Disabilities Act, Tarion updated its processes and physical environment in order to meet the needs of people with disabilities. Some highlights of this project include creating an Accommodation Request Form, updating our physical facilities and purchasing new software with assistive devices such as a screen reader. In complying with the new requirements, Tarion has expanded the way Ontarians can access our services and can now better accommodate people with disabilities.

In July 2011, Tarion implemented a new Customer Relationship Management (CRM) system that is more efficient and reliable, and improves our overall performance. This new system was launched with minimal disruption to our services and has since made improvements to Tarion's ability to track and coordinate data. This project began in 2010 by engaging employees to help design an upgraded system to better meet their needs. The result of this project is an enhancement to Tarion's real time data processing and better collaboration with other applications. All Claims Department staff participated in a training session to ensure the new system was implemented with little disruption to their workflow.

OPERATIONS OVERVIEW

Looking Forward

Tarion has developed a new strategic plan to take us through the next three years entitled "Balancing Stakeholder Interests While Seeking Operational Efficiencies." We will be focusing on managing risk, enhancing financial performance and efficiency, and building trust and transparency. There are many initiatives planned to help Tarion continue to deliver warranty services and builder regulation in an efficient and effective way while balancing the interests of all of our stakeholders.

One project that is currently underway is improving our online channels. In the next three years Tarion will be developing new and more convenient ways for homeowners, builders and employees to access and process information.

Enhancing core competencies will not only be a focus for builder registration, which is a project currently under public consultation, but also internally. All Tarion freehold Field Claim Representatives (FCRs) will be working towards obtaining an external certification with respect to Part 9 of the Building Code, with a view to ultimately obtain a Building Code Identification Number. Formal certification to supplement the experience they already have and their training in applying the statutory warranties will enhance their knowledge and provide additional legitimacy to their expertise when they are in the field.

Looking forward, we hope our new strategic plan positions Tarion to be financially stronger and more operationally efficient. In doing this, we will continue to deliver warranty services and builder regulation that is valued by present and future stakeholders.

CORPORATE GOVERNANCE

Corporate Leadership Team

Howard Bogach
President and
Chief Executive Officer

David J. Guiney
Senior Vice President,
Operations

Peter Balasubramanian
Vice President,
Claims

John E. Becevello
Vice President,
Licensing and Underwriting

Mike E. Coté
Vice President,
Builder Relations

Eileen M. Holden
Vice President,
Human Resources

Edmond F. Lee
Vice President and
Chief Financial Officer

Janice Mandel[†]
Vice President,
Corporate Affairs

Lesley Ross
Deputy Corporate Secretary

Tim P. Schumacher
Vice President,
General Counsel and
Corporate Secretary

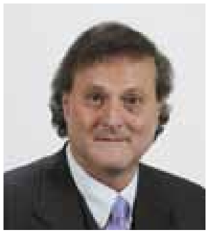
Suzanne M. Tiffin
Vice President,
Customer Service

Bill R. Wallace
Vice President,
Information Systems

[†] No longer with the organization as of October 8, 2011.

CORPORATE GOVERNANCE

Board of Directors



Harry Herskowitz
Chair
Partner
Delzotto, Zorzi LLP
Toronto

Christopher S. Spiteri
Vice Chair
Partner
Spiteri & Ursulak LLP
Ottawa and Toronto

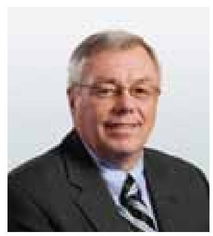
Howard Bogach
President and Chief Executive Officer
Tarion Warranty Corporation
Toronto

Mark Basciano
President
Mountainview Homes
Thorold

Dick Brouwer
Partner
Zebro Development Ltd.
London

Deborah Brown
Director of Operations
Ministry of Government Services
Toronto

Robert Cooper
President
Alterra Group of Companies
Toronto



Sandy Ewen
Principal
Developer Surety Consulting

Frank Giannone, ICD.D
President
Fram Building Group
Mississauga

Brian K. Johnston, CA
President
Monarch Corporation
North York

Harold Levy
Corporate Director
Toronto

Michael Lio, ICD.D
President
Lio & Associates
Toronto

Peter Oakes, CA, MBA, ICD.D
Corporate Director
Toronto

Lynn Peterson
Corporate Director
Thunder Bay

Peter Saturno
President
Midhaven Homes
Oshawa

Bob Finnigan
(Associate Member)
Heathwood Homes Group of Companies
Toronto
Past President, Ontario Home Builders' Association

Lea Ray, CA, ICD.D
(Associate Member)
Corporate Director
Toronto

CORPORATE GOVERNANCE

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 and to ensure that Tarion acts in the best interest of its stakeholders. 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 and Chief Executive Officer, is a member of Tarion management.

Board Composition

In accordance with Tarion's by-laws, membership on the Board of Directors is comprised of a number of stakeholders with an interest in the home building industry in Ontario, including representatives of all stakeholders. The by-laws of the Corporation provide for the appointment of Directors from nominees recommended by each of the Ontario Home Builders Association (OHBA) and the Ministry of Consumer Services, as well as an individual with a financial background. The 2011 Board was composed of 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 ability to deal directly with the external auditor regarding Tarion's annual financial statements, and with the external actuary regarding the warranty liabilities 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 Tarion's policies 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 Corporation's annual business plan and the current strategic plan.

Annual Performance Objectives

The Board approves the annual corporate business plan as well as the annual objectives of the President and Chief Executive Officer and the corporate key performance indicators.

Code of Governance Practices

Each member of the Board is required, on an annual basis, 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.

CORPORATE GOVERNANCE

Responsibilities of the Committees of the Board

Audit Committee

Peter Oakes, CA, ICD.D – Chair
Lea Ray, CA, ICD.D – Vice Chair
Dick Brouwer
Sandy Ewen
Brian K. Johnston, CA

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. It 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.

Governance Committee

Peter Saturno – Chair
Mark Basciano – Vice Chair
Deborah Brown
Frank Giannone, ICD.D
Harry Herskowitz
Michael Lio, ICD.D
Chris Spiteri (ex-officio)

The Governance Committee provides recommendations to the Board with respect to governance matters affecting Tarion. The Committee has responsibility for developing and recommending ongoing improvements to corporate governance, and also to update as necessary the Code of Governance Practices which is executed by each Director annually.

The Committee is also responsible for recommending the Chair for each Board Committee in advance of the Annual Meeting, together with the membership for each Committee. In addition, the Committee recommends the Chair and Vice Chair appointments to the Board for the ensuing year. The Committee is responsible for providing input to the Board nomination process to ensure that the Board has Directors with the appropriate skills and background to address Tarion's business issues.

Investment Committee

Brian K. Johnston, CA – Chair
Robert Cooper – Vice Chair
Sandy Ewen
Peter Oakes, CA, ICD.D
Lea Ray, CA, ICD.D

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

Human Resources & Compensation Committee

Michael Lio, ICD.D – Chair
Robert Cooper – Vice Chair
Harry Herskowitz (ex-officio)
Brian K. Johnston, CA
Harold Levy
Chris Spiteri

The Human Resources & Compensation Committee is responsible for determining the compensation payable to the Tarion President and CEO and for the determination of the pension and other benefits payable to employees. The Committee works with external compensation advisers who provide information with respect to current market compensation payable to senior executives of comparable organizations.

The Committee is also responsible for recommending to the Board of Directors the annual objectives for the President and CEO, and for evaluating performance against those objectives. It also undertakes an annual succession review of the senior management team in consultation with the President and CEO.

CORPORATE GOVERNANCE

Regulatory Affairs Committee

Harry Herskowitz – Chair
Deborah Brown – Vice Chair
Mark Basciano
Michael Lio, ICD.D
Peter Saturno
Chris Spiteri (ex-officio)

The Regulatory Affairs Committee assists the Board in fulfilling its oversight responsibilities with regard to Tarion's regulation-making powers as provided in the *Ontario New Home Warranties Plan Act.*

It provides due diligence on behalf of the Board of Directors for the planning, research, stakeholder consultation and drafting of each proposed regulation change; evaluates the adequacy and effectiveness of current or proposed legislation or regulations to ensure compliance with Tarion's mandate; and ensures that Tarion is meeting its regulatory obligations and responsibilities as set out in its mandate.

Consumer Committee

Chris Spiteri – Chair
Deborah Brown, Vice Chair
Mark Basciano
Frank Giannone, ICD.D
Harold Levy
Michael Lio, ICD.D
Lynn Peterson

The Consumer Committee provides input to management and the Board on strategic matters with respect to consumer protection initiatives and external communication by Tarion to consumers. It is composed of seven independent members of the Board who represent Tarion's major stakeholders.

The Committee assists Tarion management with consumer policy development and provides insight and input 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.

Consumer Advisory Council

In 2011, a Consumer Advisory Council was created to serve as a subcommittee to the Consumer Committee for the purposes of providing ongoing advice from a home-buyer consumer perspective, on proposed Tarion policy changes.

The members of this committee included: **Bob Aaron** (Chair), Hitesh Doshi (Building Sciences Expert), Luc Lyness (Consumer), Nicole Lippa-Gasparro (Consumer), Victor Hergott (Consumer), David Clattenburg (Consumer), Mario Deo (Condominium Real Estate Lawyer), Mark Youngman (Real Estate Lawyer), Rocky Cerminara (Retired Chief Building Official), Steven Balshin (Home Inspector)

Nominations Committee

The Nominations Committee is a subcommittee of the Governance Committee and is composed of the Board Chair, an additional select Board member, and ministerial and industry appointees who meet annually to identify candidates for vacant Board positions.

Builder Education Task Force

The Builder Education Task Force (BETF) was appointed by the Board of Directors to assist the Board in developing a strategy for improving registration requirements for new applicants and updating renewal requirements for existing registrants. The purpose of the BETF is to determine if and how Tarion should enhance its current registration process to include a more detailed evaluation of a new applicant's core competency and ensure all builders stay current in their knowledge. The BETF is composed of seven Directors and two representatives from the Ontario Home Builders Association.

CORPORATE GOVERNANCE

Condominium Task Force

The Condominium Task Force is composed of three Directors experienced in the condominium industry and was established as a forum to facilitate research, provide informed opinion and discussion and make progressive recommendations to Tarion management and the Board of Directors. It also assists in policy development with respect to determining practices and procedures relating to planning, construction and operation of condominium developments in the province of Ontario as they relate to the mandate of Tarion. The Task Force utilizes engineering and other available resources to assess emerging risks in the area of condominium development and in quantifying and taking steps to minimize the degree of risk being assumed by Tarion.

Performance Based Pricing Task Force

The Performance Based Pricing Task Force was appointed by Board of Directors to assist the Board in developing a strategy to enable Tarion to introduce performance-based pricing (PBP) in order to better match the cost of its services/claims to the fees for individual builders and to improve the quality of construction/after sales service of builders. The PBP proposal is also to reward builders with “good” performance and cost builders with “poor” performance. The Task Force is composed of four Directors, three builders and Tarion’s Senior Vice President of Operations.

CORPORATE GOVERNANCE

Directors' Attendance

DIRECTOR	BOARD OF DIRECTOR MEETINGS	COMMITTEE MEETINGS
Harry Herskowitz	7 of 7	11 of 11
Bob Aaron‡	2 of 2	1 of 1
Mark Basciano	5 of 7	11 of 12
Howard Bogach	7 of 7	19 of 20
Dick Brouwer	7 of 7	4 of 4
Deborah Brown	6 of 7	10 of 12
Robert Cooper	7 of 7	7 of 8
Sandy Ewen	6 of 7	8 of 8
Frank Giannone	7 of 7	8 of 8
Brian Johnston	6 of 7	10 of 12
Harold Levy	7 of 7	8 of 8
Michael Lio	7 of 7	16 of 16
Peter Oakes	6 of 7	10 of 10
Lynn Peterson	4 of 4 (Apr-Dec)	3 of 3
Lea Ray	7 of 7	7 of 8
Peter Saturno	6 of 7	9 of 9
Christopher Spiteri	7 of 7	14 of 14
Bob Finnigan	7 of 7	N/A

Notes on Director Attendance:

1 The record of attendance of Directors relates to the Meetings of the Board of Directors and of the Board Committees held by the Corporation during 2011.

2 The number of Board and of Board Committee meetings held by Tarion during 2011 was as follows:

Board of Directors	7
Audit Committee	4
Governance Committee	4
Investment Committee	4
Human Resources & Compensation Committee	4
Regulatory Affairs Committee	4
Consumer Committee	4
Total	**31**

‡ Reflects partial terms of office.

FINANCIAL STATEMENTS

December 31, 2011 and 2010

Table of contents

FINANCIAL STATEMENTS

2011 Financial Commentary

In 2011, the economy continued to experience modest growth with high volatilities due to the fluctuations within the housing and investment sectors. The Ontario housing market experienced steady improvements causing enrolment levels to increase. The upward trend in the housing market with no significant new claims resulted in positive earnings of $10.1 million and an increase in total equity of $9.7 million.

At 58,610 units, new home enrolments were lower than the historical average of 65,847 but, still considered fairly strong when compared to the 52,531 units enrolled in 2010.

The investment market remains volatile due to the slower than expected recovery, possibility of European sovereign debt default and low investor confidence. Tarion's stock portfolio had a loss of $7.4 million because of the uncertainty in the global economy. On the other hand, the fixed income portfolio benefited from market appreciation of $8.1 million as a result of a low interest rate environment. Overall, Tarion's investment portfolio earned an income of $13.1 million in 2011.

Corporation expenses including net claims incurred increased from $20.9 million to $37.9 million primarily due to higher net claims incurred, offset by lower operating expenses.

- In 2011, the net claims incurred was $1.0 million as there were no significant new claims received by Tarion. There were also no significant releases of large claims reserves which occurred in 2010 when certain claims were resolved at costs much lower than expected, resulting in a negative net claims incurred the prior year.
- Continued expense management benefited the Corporation and resulted in an expense reduction of $1.5 million relative to 2010.
- Depreciation and amortization decreased by 0.8 million.

Tarion's capital management framework includes a minimum threshold for the Minimum Capital Test ("MCT") and a minimum total equity test to cover a catastrophic loss as defined in the Dynamic Capital Adequacy Testing ("DCAT"). The MCT is the same test utilized by Canadian property and casualty insurance companies. The Corporation's MCT of 427 per cent as at December 31, 2011 compares favourably to the threshold minimum of 150 per cent. The Corporation's total equity of $163.2 million compares favourably to the catastrophic loss threshold scenario of $82 million.

Tarion will continue to be diligent in its management of costs and capital to maintain its financial strength and support new home warranties while the economy undergoes a fragile recovery.

FINANCIAL STATEMENTS

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 International Financial Reporting Standards and reflect management's best estimates and judgments. Financial information presented elsewhere in the Annual Report is consistent with these financial statements.

Management maintains a system of internal controls, to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

The external actuary who is appointed by the Board of Directors is responsible for ensuring that the assumptions and methods used in the determination of the warranty liabilities are in accordance with accepted actuarial practice.

The external auditors have examined and reported on the annual financial statements prepared in accordance with International Financial Reporting Standards.

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 the financial statements.

Howard Bogach
President & Chief Executive Officer

April 19, 2012

Edmond F. Lee
Vice President & Chief Financial Officer

April 19, 2012

FINANCIAL STATEMENTS

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Independent Auditor's Report

To the Directors of Tarion Warranty Corporation

We have audited the accompanying financial statements of Tarion Warranty Corporation, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of comprehensive results of operations, statements of changes in equity and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Tarion Warranty Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
April 19, 2012

Ernst & Young LLP
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Actuary's Report

To the Directors of **Tarion Warranty Corporation:**

I have valued the warranty liabilities of **Tarion Warranty Corporation** for its Statements of Financial Position as at December 31, 2011, December 31, 2010, and January 1, 2010, and their change in the Statements of Comprehensive Results of Operations for the years ended December 31, 2011, and December 31, 2010, in accordance with accepted actuarial practice in Canada, 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 valuation.

Liam McFarlane
Fellow, Canadian Institute of Actuaries

April 19, 2012

FINANCIAL STATEMENTS

Statements of Financial Position

December 31, ($CAD thousands)

	Notes	2011	2010	Jan.1, 2010
Assets				
Equipment and leaseholds	8	$ 3,734	$ 2,200	$ 3,413
Intangible assets	9	3,005	2,504	1,513
Trade and other receivables from vendors and builders	11	4,063	8,791	11,613
Other assets		100	100	665
Prepaid expenses		289	361	417
Investments	10	370,346	339,507	312,441
Cash and cash equivalents	12	2,527	2,163	2,851
Total Assets		$ 384,064	$ 355,626	$ 332,913
Equity and Liabilities				
Equity				
Surplus		$ 164,486	$ 154,427	$ 117,465
Accumulated actuarial losses for employee future benefits liabilities	13	(1,272)	(951)	—
Total equity		$ 163,214	$ 153,476	$ 117,465
Liabilities				
Employee future benefits liabilities	13	4,356	3,442	2,393
Warranty liabilities	14	165,124	150,616	164,251
Funds held as security	15	40,901	39,950	38,876
Lease inducements and obligations	17	2,829	1,055	1,251
Accounts payable and accrued liabilities	18	7,640	7,087	8,677
Total liabilities		$ 220,850	$ 202,150	$ 215,448
Total Equity and Liabilities		$ 384,064	$ 355,626	$ 332,913

See accompanying notes to financial statements.

Approved by the Board of Directors

Harry Herskowitz
Director and Chair of the Board

Christopher S. Spiteri
Director and Vice Chair of the Board

FINANCIAL STATEMENTS

Statements of Comprehensive Results of Operations

for the years ended December 31, ($CAD thousands)

	Notes	2011	2010
Revenue			
Home enrolment fees earned		$ 31,822	$ 29,692
Builders' registration and renewal fees		3,286	3,362
Investment results			
Investment income	6	13,142	25,077
Investment management fees		(985)	(867)
Other revenue		717	621
		$ 47,982	$ 57,885
Expenses			
Net claims incurred	14	1,010	(18,272)
Salaries and benefits		23,376	24,631
General and administrative		10,943	11,430
Depreciation and amortization	8, 9	2,098	2,863
Interest expense	7	496	271
		$ 37,923	$ 20,923
Excess of revenue over expenses		$ 10,059	$ 36,962
Other comprehensive results of operations			
Actuarial losses for employee future benefits		(321)	(951)
Total comprehensive results of operations for the year		$ 9,738	$ 36,011

See accompanying notes to financial statements.

Statement of Changes in Equity

for the years ended December 31, ($CAD thousands)

	2011	2010
Surplus		
Beginning of year	$ 154,427	$ 117,465
Excess of revenue over expenses for the year	10,059	36,962
End of Year	164,486	154,427
Accumulated actuarial losses for employee future benefits		
Beginning of year	(951)	–
Change during the year	(321)	(951)
End of Year	(1,272)	(951)
Total Equity, End of Year	$ 163,214	$ $153,476

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

Statement of Cash Flows

for the years ended December 31, ($CAD thousands)

	2011	2010
Net Inflows (Outflows) of Cash Related to the Following Activities		
Operating		
Home enrolment fees received	$ 54,397	$ 47,542
Builders' registration fees received	3,286	3,362
Other miscellaneous fees (expenses) received (paid)	717	(376)
Payments to employees for salaries and benefits	(22,872)	(23,596)
Payments to suppliers for general and administrative expenses	(10,550)	(11,560)
Claims payments	(8,423)	(17,619)
Securities receipts from builders, net of releases	1,032	1,672
Recoveries from builders for claims	4,213	8,003
Interest expenses	(474)	(762)
Cash provided by operating activities	21,326	6,666
Investing		
Interest received	9,274	8,390
Dividend received	2,914	2,414
Investment management fees	(931)	(847)
Proceeds from sale and maturity of investments	261,415	297,397
Purchase of investments	(291,281)	(311,917)
Purchase of equipment and leaseholds	(105)	(178)
Purchase of intangible assets	(1,576)	(2,061)
Cash used in investing activities	(20,290)	(6,802)
Financing		
Payment of finance lease liabilities	(570)	(444)
Interest expense on finance leases	(102)	(108)
Cash used in financing activities	(672)	(552)
Net increase (decrease) in cash and cash equivalents during the year	364	(688)
Cash and cash equivalents, beginning of year	2,163	2,851
Cash and cash equivalents, end of year	$ 2,527	$ 2,163

See accompanying notes to financial statements.

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

1 CORPORATION OPERATIONS

Tarion Warranty Corporation (the "Corporation"), domiciled in Ontario, Canada, 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 a broad range of services including 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 or material; and
- the effects of delays in closing, under certain circumstances.

The Government of Ontario has designated the Corporation as a non-profit organization incorporated without share capital under the Act. The Corporation's equity is not traded in a public market and it represents the retained accumulation of excess of revenue over expenses under the Act. The registered office is located at 5160 Yonge Street, 12th Floor, Toronto, Ontario, M2N 6L9.

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

The financial statements for the years ended December 31, 2011 and 2010 were approved by the board of directors and authorized for issue on April 19, 2012.

2 IFRS ADOPTION

This is the first reporting period the Corporation prepared its financial statements under International Financial Reporting Standards ("IFRS"). The Canadian Institute of Chartered Accountants ("CICA") requires all Canadian publicly accountable enterprises and certain government business enterprises to adopt IFRS for fiscal years beginning on or after January 1, 2011. The objective of the change is to move toward the use of a single set of world-wide accounting standards to facilitate and improve the usability and comparability of financial statements globally.

The financial statements have been prepared on an historic cost basis except for certain financial assets and financial liabilities that have been measured at fair value.

The Corporation's financial statements for the year ended December 31, 2011 are the first annual financial statements that comply with IFRS. The Corporation's date of transition to IFRS is January 1, 2010 and comparative information has been provided under IFRS. The Corporation previously presented financial statements annually under Canadian generally accepted accounting principles ("CGAAP") up to, and including December 31, 2010.

Although there are many similarities between CGAAP and IFRS, there are some significant GAAP differences which have impacted the Corporation's financial statements. As part of the transition to IFRS, the Corporation had to make specific elections under *IFRS 1 – First time adoption of IFRS*. The changes to the Corporation's accounting policies are noted below.

FINANCIAL STATEMENTS

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

2 IFRS ADOPTION (continued)

The statements of financial position at the date of transition and at December 31, 2010 can be reconciled to the amounts reported under previous CGAAP as follows:

		January 1, 2010			December 31, 2010		
	Notes	CGAAP	Adjustments	IFRS	CGAAP	Adjustments	IFRS
Assets							
Equipment and leaseholds		$ 3,413	$ –	$ 3,413	$ 2,200	$ –	$ 2,200
Intangible assets		1,513	–	1,513	2,504	–	2,504
Trade and other Receivables from vendors and builders		11,613	–	11,613	8,791	–	8,791
Other assets		665	–	665	100	–	100
Prepaid expenses		417	–	417	361	–	361
Investments		312,441	–	312,441	339,507	–	339,507
Cash and cash equivalents		2,851	–	2,851	2,163	–	2,163
Total assets		$ 332,913	$ –	$ 332,913	$ 355,626	$ –	$ 355,626
Equity and liabilities							
Equity							
Surplus	2(a), 2(f)	$ 97,432	$ 20,033	$ 117,465	$ 127,630	$ 26,797	$ 154,427
Accumulated actuarial losses for employee future benefits liabilities		–	–	–	–	(951)	(951)
Accumulated net unrealized gains in the equity portfolio	2(f)	20,054	(20,054)	–	26,851	(26,851)	–
Total equity		117,486	(21)	117,465	154,481	(1,005)	153,476
Liabilities							
Employee future benefits liabilities	2(a)	2,372	21	2,393	2,437	1,005	3,442
Warranty liabilities		164,251	–	164,251	150,616	–	150,616
Funds held as security		38,876	–	38,876	39,950	–	39,950
Lease inducements and obligations	2(c), 2(e)	–	1,251	1,251	–	1,055	1,055
Accounts payable and accrued liabilities	2(c), 2(e)	9,928	(1,251)	8,677	8,142	(1,055)	7,087
Total liabilities		215,427	21	215,448	201,145	1,005	202,150
Total equity and liabilities		$ 332,913	$ –	$ 332,913	$ 355,626	$ –	$ 355,626

Notes to Financial Statements
for the year ended December 31, 2011 ($CAD thousands)

2 IFRS ADOPTION (continued)

Total comprehensive results of operations for the reporting period ended December 31, 2010 can be reconciled to the amounts reported under previous CGAAP as follows:

for the year ended December 31, 2010	Notes	CGAAP	Adjustments	IFRS
Revenue				
Home enrolment fees earned		$ 29,692	$ –	$ 29,692
Builders' registration and renewal fees		3,362	–	3,362
Investment results				
Investment income	2(e), 2(f)	18,117	6,960	25,077
Investment management fees		(867)	–	(867)
Other revenue		621	–	621
		50,925	6,960	57,885
Expenses				
Net claims incurred		(18,272)	–	(18,272)
Salaries and benefits	2(a)	24,598	33	24,631
General and administrative	2(e)	11,538	(108)	11,430
Depreciation and amortization		2,863	–	2,863
Interest expense	2(e)	–	271	271
		20,727	196	20,923
Excess of revenue over expenses		30,198	6,764	36,962
Other comprehensive income				
Actuarial losses on employee future benefits recognized in the period	2(a)	–	(951)	(951)
Net unrealized gains (losses) in the equity portfolio	2(f)	6,797	(6,797)	–
Total comprehensive results of operations for the year		$ 36,995	$ (984)	$ 36,011

The basis of material adjustments between CGAAP and IFRS are as follows.

First time adoption of IFRS:

(a) Employee future benefits liabilities (Defined benefit plans)

The Corporation elected to recognize all cumulative unrecognized actuarial gains and losses at transition. The effect is to increase employee future benefits liabilities at the date of transition by $21. Actuarial gains and losses subsequent to transition date are recognized in the period they occur and reported separately as part of other comprehensive income. Further, the Corporation has elected to use the exemption not to disclose defined benefit plan surplus/deficit and experience adjustments that arose prior to the date of transition.

The Corporation has assets and liabilities previously not recognized under CGAAP but are now required to be recognized under IFRS, specifically unamortized past service costs and unamortized actuarial gains and losses.

for the year ended December 31, 2011 ($CAD thousands)

2 IFRS ADOPTION (continued)

CGAAP accounting policy transition provisions which resulted in the deferral of costs upon the adoption of *Section 3461 – Employee future benefits* of the CICA Handbook are written off to Surplus on transition date.

The Corporation currently amortizes past service costs on a straight-line basis over the average remaining service periods of eligible employees active at the date of amendment. *IAS 19 – Employee Benefits* requires vested past service costs to be expensed immediately, and unvested past service costs to be expensed on a straight-line basis over the average period until the benefits become vested. The impact on the December 31, 2010 statement of comprehensive results of operations is to increase salaries and benefits by $33.

The total effect of adopting IAS 19 is to increase employee future benefits liabilities and decrease opening Surplus as follow:

	January 1, 2010
Recognition of actuarial loss	$ 29
Recognition of cumulative unamortized transitional asset	(502)
Recognition of cumulative unamortized past service cost	493
	$ 21

(b) Warranty liabilities

With the adoption of *IFRS 4 – Insurance Contracts*, the Corporation has performed a review over the classification of its warranty liabilities that resulted in no accounting changes. The Corporation will continue to use existing policies for liabilities arising from warranty liabilities. The Corporation has also elected to disclose only five years of claims experience data in its claims development table as permitted in the first financial year in which it adopts *IFRS 4 – Insurance Contracts*. These disclosures will be extended for an additional year in each succeeding year until the ten year information requirement has been satisfied.

(c) Leases

The Corporation has applied the transitional provision in *IFRIC 4 – Determining Whether an Arrangement Contains a Lease* and has assessed all arrangements as at the date of transition.

(d) Statement of cash flows

There are no material adjustments to the statements of cash flows as a result of the transition from CGAAP to IFRS. Where the Corporation previously presented the statement of cash flows using the indirect method, it now uses the direct method.

(e) Presentation differences

Certain financial statement line items have been reclassified to other line items under IFRS at the date of transition. These presentation differences between previous CGAAP and IFRS have no impact on the reported comprehensive results of operations. These line items include:

- Interest expense previously included in investment income or in general and administrative expenses is now reported separately in the statements of comprehensive results of operations.
- Lease inducements and obligations previously included in accounts payable and accrued liabilities are now reported separately on the statements of financial position.

2 IFRS ADOPTION (continued)

Early adoption of IFRS:

(f) IFRS 9 – Financial Instruments

The Corporation has early adopted *IFRS 9 – Financial Instruments* at the date of transition even though its effective date is only for fiscal years beginning on or after January 1, 2015. The Corporation's equity portfolio, previously classified as available for sale is now measured at fair value through profit or loss based on the new standard. The effect is that the previously accumulated net unrealized gains in the equity portfolio are now being recognized immediately in the statements of comprehensive results of operations. The comparative numbers have been restated by increasing the January 1, 2010 opening surplus by $3,921 and the December 31, 2010 investment income by $6,960.

3 STATEMENT OF COMPLIANCE

The financial statements of the Corporation have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

Financial statement values are presented in Canadian dollars ($) rounded to the nearest thousand ($000), unless otherwise indicated.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents comprises cash on hand and at the bank, any short term deposits with a maturity of up to three months on the date of purchase and any bank overdrafts payable on demand. There are no restrictions or limitations to the use of the cash and cash equivalents.

Financial Instruments

The Corporation early adopted *IFRS 9 – Financial Instruments* effective January 1, 2010 and recognizes its financial instruments in accordance with the requirements of *IFRS 7 – Disclosure*, *IAS 32 – Presentation*, *IAS 39 – Recognition and Measurement* and *IAS 1 – Presentation of Financial Statements* as described below:

IFRS 9 – Financial Instruments requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

- Financial assets at fair value through profit or loss ("FVTPL")

  Cash and cash equivalents, the fixed income portfolio and the equity portfolio are classified as FVTPL. Financial assets at FVTPL are measured initially at fair value with any gains or losses arising on subsequent measurement recognized in the statements of comprehensive results of operations in investment income.

  Transaction costs are recognized in the statements of comprehensive results of operations as incurred.

  Interest income on the fixed income portfolio is included in investment income as earned using the effective interest rate. Dividend income on the equity portfolio investments is recognized as of the declaration date in investment income. The gains and losses from currency translation are recognized in the statements of comprehensive results of operations.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Financial assets at amortized cost

  Trade and other receivables from vendors and builders are measured at amortized cost. The carrying value is based on management's best estimate of the recoverable value determined by considering past collection experience, the amount of security held and the existence of guarantees. Impairment is being assessed at the end of each reporting period. Where there is objective evidence that there is impairment in these amounts, the impairment charge is recognized in the statements of comprehensive results of operations to reduce the carrying value of the financial assets to their recoverable amounts.

- Other financial liabilities

  Accounts payable and accrued liabilities, and funds held as security, are measured at amortized cost using the effective interest method.

Equipment and leaseholds

Equipment and leaseholds are recorded at cost less accumulated depreciation, amortization and impairment. The assets' residual values, useful lives and the method of depreciation and amortization are reviewed at each financial year end, and adjusted as necessary on a prospective basis. The depreciation and amortization expense on equipment and leaseholds is disclosed separately in Note 8 to the financial statements and included in the statements of comprehensive results of operations.

Depreciation and amortization are provided at the following rates:

Computer equipment	– straight-line over four years
Furniture and office equipment	– declining balance at 20% a year
Leasehold improvements	– straight-line over the term of the lease
Computer and office equipment of under finance lease	– straight-line over the term lease to a maximum of four years

Leased property includes buildings, computer and office equipment. There are no renewal terms on building leases but equipment leases include renewal options. These options are based on the fair market value of the equipment and the lease rate available at the time of expiry. The Corporation also has the option to extend leases on a month to month basis making the same payments and this is typically the option taken by the Corporation.

The gain or loss arising on the disposal or retirement of an item of equipment and leaseholds is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognized in the statements of comprehensive results of operations. The gain or loss is recognized upon disposal or when no future economic benefits are expected from its use or disposal.

Intangible assets

Intangible assets consist of software and applications acquired separately and internal software enhancements related to the customization of these software systems and applications. These intangible assets have finite lives and are amortized over their useful economic life. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The amortization expense on intangible assets are disclosed separately in Note 9 to the financial statements and included in the statements of comprehensive results of operations.

Software and applications	– straight-line over three years
Internal software enhancements	– straight-line over three years

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other assets

In the normal course of business, the Corporation may be required to purchase (take legal title) from a new home owner, an uninhabitable property (land and/or dwelling) so as to settle a warranty claim. The Corporation's intent is to remediate and divest the property, as soon as possible, or in some cases where restoration is not possible to donate the sites to local governments for parks or green-space. The most significant portion of the asset relates to the value of the land. These assets are generally purchased at their fair value and recorded as other assets. The gain or loss realized, if any, between the fair value on acquisition and the final sale price, is recorded as part of net gain on disposal of other assets. These assets are expected to be recovered more than one year after the statements of financial position date.

Prepaid expenses

Prepaid expenses are measured at historical costs. Prepaid expenses are generally settled within one year.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Corporation. All other leases are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Assets held under finance leases are initially recognized as assets of the Corporation at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in the statements of comprehensive results of operations.

Assets under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Impairment of non-financial assets

The Corporation assesses at each reporting date whether there is any indication that an asset may be impaired. The Corporation reviews and considers both internal and external sources of information that indicate any events or changes in circumstances causing the carrying amount of the non-financial assets not be recoverable.

An impairment loss is recognized for the amount by which the carrying amount of the cash generating unit exceeds its recoverable amount, which is the higher of the cash generating unit's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive results of operations.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Warranty liabilities

Warranty claims liabilities include estimates of costs for claims reported and in process, and provisions for claims incurred but not yet reported at the statements of financial position date where it is anticipated that costs will be incurred by the Corporation.

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

The liabilities are discounted to reflect the investment income expected to be earned over the period between the incurrence and settlement of claims. The discount rate reflects the expected future yield from the fixed interest investments. 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; because the actual settlements may occur at amounts that differ from expected settlement amounts; and because the timing of settlements may differ from expected timing.

Claims incurred include claims recoveries and changes in the provisions for claims reported and in process and for claims incurred but not yet reported.

Claims recoveries include amounts recovered from builders on claims incurred during the current year or in previous years and changes in the estimate of amounts recoverable from builders on outstanding warranty claims liabilities. Estimated amounts recoverable from builders are presented on the statements of financial position as an asset of the Corporation.

Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as a separate asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Expenses related to any provision are presented in the statements of comprehensive results of operations net of any reimbursement.

Employee future benefits

In-addition to participating in a government managed employee benefit plan, the Corporation has the following employee benefit plans:

- A pension plan consisting of a fully vested and closed defined benefit pension plan, and an active defined contribution plan where employees become vested after two years of employment; and
- A post-employment pension and medical benefits plan for employees.

The costs of pension and other post-employment benefits earned by employees are actuarially determined using the projected unit credit valuation method. This takes into account management's best estimates of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains and losses are recognized as part of other comprehensive income in the period they occur.

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The defined benefit asset or liability comprises the net present value of the defined benefit obligation less past service costs not yet amortized and less the fair value of the plan assets, out of which obligations are to be settled. Plan assets are held in a trust and are not available to creditors of the Corporation, nor can they be paid directly to the Corporation. Fair value is based on market price information. The value of any asset recognized is restricted to the sum that can be used to reduce future contributions to the plan.

The Corporation's contributions to the defined contribution pension plan are expensed in the statements of comprehensive results of operations in the year to which they relate and are included as part of salaries and benefits expenses.

Revenue recognition

- *Home enrolment fees earned and builders' registration and renewal fees*

  Home enrolment fees are remitted by builders during the year. These fees are deferred and taken into revenue as earned based on the expected claims experience over the warranty period. 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.

  Other revenue comprises of various administration fees charged for services generally related to the handling of claims and licensing and underwriting. These fees are recorded as earned.

- *Investment income*

  Dividend income is recognized as of the declaration date. Interest income is accrued on time proportion basis at the effective rate when it is probable that the Corporation will receive the economic benefit and the amount of revenue can be measured reliably. Net realized gains or losses on investments are recognized on a trade date basis. Unrealized gains or losses based on the fair value in effect at the statements of financial position date on financial assets classified as fair value through profit or loss are recognized in investment income.

Interest expense

Interest paid is recognized in the statements of comprehensive results of operations as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing liability.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Currency translation

The Corporation's financial statements are presented in Canadian dollars, the functional currency of the Corporation and the currency of the primary economic environment in which the Corporation operates. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the period-end rate. The translation impact is recorded in the statements of comprehensive results of operations in the period in which they arise. Exchange gains or losses on financial assets at fair value through profit or loss are reported as part of investment income in the statements of comprehensive results of operations. Revenue and expense items in a foreign currency are translated into Canadian dollars at the transaction date rate.

Subsequent events

Subsequent events are events that occur after the reporting period, December 31, 2011, and up to the date when the financial statements are authorized for issue, April 19, 2012. All events subsequent to December 31, 2011 and for which IFRS require adjustment or disclosure would be adjusted or disclosed, as appropriate, by the Corporation. In addition, accounting estimates and disclosures included in the financial statements that are impacted by events after the reporting period would be appropriately adjusted. There are no subsequent events requiring adjustment or disclosure as of April 19, 2012.

Future accounting changes

IFRS 4 – Insurance Contracts

The Corporation is awaiting additional pronouncements from the IASB related to the accounting and reporting standards of *IFRS 4 – Insurance Contracts*, expected to be mandatory in 2015.

IFRS 9 – Financial Instruments

The Corporation has early adopted IFRS 9 and the impact has been quantified in Note 2(f). As the standard is further revised the Corporation will update the financial statements to reflect the most recent IFRS standards.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Corporation's financial statements are listed below:

IFRS 9 – Financial Instruments

In November 2009, the IASB released IFRS 9, which replaces IAS 39 and *IFRIC 9 – Reassessment of embedded derivatives*. The standard introduced new reporting requirements for financial instruments with a focus on the measurement and disclosure of the fair value of such assets and liabilities. The standard becomes effective for financial years beginning on or after January 1, 2015 but the Corporation has elected to early adopt. The impact of the new standard has been quantified in Note 2(f).

IFRS 13 – Fair Value Measurement

In May 2011, the IASB released a new version of *IFRS 13 – Fair Value Measurement*. The standard includes increased disclosure requirements regarding information about Level 3 fair value measurements. The standard becomes effective for financial years beginning on or after January 1, 2013. The Corporation has reviewed the new standard and concluded that it will not have a significant impact on the financial statements.

Notes to Financial Statements
for the year ended December 31, 2011 ($CAD thousands)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 1 – Presentation of Financial Statements

Effective January 1, 2013, the Corporation will adopt the guidance in the amended *IAS 1: Presentation of Financial Statements*. The amended standard includes requirements that Other Comprehensive Income be classified by nature and grouped between those items that will be reclassified subsequently to profit or loss (when specific conditions are met) and those that will not be reclassified. Other amendments include changes to overall financial statement presentation. The Corporation has reviewed the amended standard and concluded that it will not have a significant impact on the financial statements.

IAS 17 – Leases

The IASB issued an exposure draft proposing a new accounting model for leases where both lessees and lessors would record the assets and liabilities on the statements of financial position at the present value of the lease payments arising from all lease contracts. The new classification would be the right-of-use model, replacing the operating and finance lease accounting models that currently exist. The impact of adoption of the proposed changes will be determined by the Corporation once the final lease standard is issued, which is proposed to be later in 2012.

IAS 19 – Employee Benefits

In June 2011, the IASB released a new version of *IAS 19 – Employee Benefits*. The standard eliminated the corridor method of recording gains and losses. It also adjusted the presentation of certain items arising from defined benefit plans and enhanced the disclosure requirements. The standard becomes effective for financial years beginning on or after January 1, 2013. The Corporation has reviewed the new standard and concluded that it will not have a significant impact on the financial statements.

5 KEY ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Actual amounts could differ from those estimates.

In the process of applying the Corporation's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

- Internally generated software enhancements

  Internally generated software enhancements costs are capitalized in accordance with specified criteria in IFRS.

Use of estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Valuation of warranty liabilities

  Warranty claims liabilities include estimates of costs for claims reported and in process, and provisions for claims incurred but not yet reported at the statements of financial position date where it is anticipated that costs will be incurred by the Corporation. The amount of claims liabilities equals the present value, at the statements of financial position date, of cash flows on account of claims (and related expenses) incurred before that date. The ultimate cost of outstanding claims is estimated by using actuarial valuation taking into account the Corporation's claims handling practices, actuarial assessments, the judgment of management, difference between actual and expected settlement amounts, historical precedents and trends, prevailing legal, economic, social and regulatory environments and expectations of future developments. Details of the key assumptions used in the estimates are contained in Note 14.

5 KEY ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

During the year, the Corporation made a change to the estimate of the warranty liabilities and its associated amounts recoverable from builders on defense litigation claims cases. Previously the Corporation provided for the expected amount of the total remediation claim costs and recorded an expense recovery from builders who were also involved in the claim plus any adjustments required to the related portion of the incurred but not reported claims. The warranty liabilities amounts presented in Note 14 are now stated at the actual amount expected to be paid directly by the Corporation to settle its obligations which more accurately reflects the amounts paid in the normal course of operations.

- Valuation of trade and other receivables from vendors and builders

  Trade and other receivables from vendors and builders recorded in the statements of financial position cannot directly be derived from active markets. It is measured at amortized cost less impairment. The carrying value is based on management's best estimate of recoverable value determined by considering past collection experience, financial condition of the builders, security held, legal action sought and judgments awarded. Details of the key assumptions used in the estimates are contained in Note 11.

- Revenue recognition of home enrolment fees earned

  Home enrolment fees are deferred and taken into revenue as earned based on the expected claims experience over the warranty period. The deferred portion of home enrolment fees is included in warranty liabilities. The results are subject to significant uncertainty based on the actual claims experience over the warranty period. Details of the key assumptions used in the estimates are contained in Note 14.

- Useful lives of depreciable assets

  The Corporation reviews the useful lives of depreciable assets at each reporting date. At December 31, 2011 and 2010, management assessed that the useful lives reflect the expected utility of the assets to the Corporation.

- Employee future benefits

  The costs of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Details of the key assumptions used in the estimates are contained in Note 13.

Notes to Financial Statements
for the year ended December 31, 2011 ($CAD thousands)

6 INVESTMENT INCOME

	2011	2010
Change in fair value on fixed income portfolio	$ 8,073	$ 5,331
Interest income from fixed income portfolio	9,453	8,493
Change in fair value on equity portfolio	(7,430)	8,811
Dividends from equity portfolio	3,032	2,464
Foreign exchange gains (losses)	14	(22)
Total investment income	$ 13,142	$ 25,077

7 INTEREST EXPENSE

	2011	2010
Interest on funds held as security (note 15)	$ 394	$ 163
Interest on lease obligations (note 17)	102	108
Total interest expense	$ 496	$ 271

8 EQUIPMENT AND LEASEHOLDS

Equipment and leaseholds consist of the following as at December 31, 2011 and 2010:

	Computer Equipment	Furniture and office equipment	Leasehold Improvements	Computer and office equipment under finance lease	Total
At cost					
Balance at January 1, 2011	$ 1,511	$ 1,547	$ 1,711	$ 2,590	$ 7,359
Additions	4	9	1,335	1,511	2,859
Disposals	(179)	(86)	(631)	(1,010)	(1,906)
Balance at December 31, 2011	1,336	1,470	2,415	3,091	8,312
Accumulated depreciation					
Balance at January 1, 2011	$ 1,347	$ 1,073	$ 1,082	$ 1,657	$ 5,159
Depreciation expense	67	104	202	650	1,023
Disposal	(179)	(86)	(631)	(708)	(1,604)
Balance at December 31, 2011	1,235	1,091	653	1,599	4,578
Carrying amount					
Balance at December 31, 2011	$ 101	$ 379	$ 1,762	$ 1,492	$ 3,734

In 2011, the corporation returned equipment under finance lease in order to obtain newer equipment. The remaining unamortized balance associated with the lease was written off and the Corporation recorded a charge against the lease obligation of $302.

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

8 EQUIPMENT AND LEASEHOLDS (continued)

	Computer Equipment	Furniture and office equipment	Leasehold Improvements	Computer and office equipment under finance lease	Total
At cost					
Balance at January 1, 2010	$ 1,395	$ 1,544	$ 3,046	$ 2,188	$ 8,173
Additions	116	3	59	402	580
Impairment			(1,394)		(1,394)
Balance at December 31, 2010	1,511	1,547	1,711	2,590	7,359
Accumulated depreciation and impairment losses					
Balance at January 1, 2010	$ 1,258	$ 954	$ 1,350	$ 1,198	$ 4,760
Depreciation expense	89	119	335	459	1,002
Impairment	–	–	(603)	–	(603)
Balance at December 31, 2010	1,347	1,073	1,082	1,657	5,159
Carrying amount					
Balance at December 31, 2010	$ 164	$ 474	$ 629	$ 933	$ 2,200

Impairment

In 2010, the Corporation entered into an agreement with its landlord to relocate a portion of its leased premises. The unamortized balance of leasehold improvements associated with the original lease was written off and the Corporation recorded an impairment charge of $791 on its leasehold improvements. The impairment charge is included in the depreciation and amortization expense.

Finance Leases

The Corporation has leased computers and other office equipment that qualifies as a finance lease. The balance of the finance lease obligations arising from the acquisition of certain computer and office equipment are reported separately on the statements of financial position. See Note 17 for future minimum lease payments.

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

9 INTANGIBLE ASSETS

The Corporation's intangible assets are comprised of externally purchased software and applications and internally developed software enhancements.

	Software and applications	Internal software enhancements	Total
At cost			
Balance at January 1, 2011	$ 6,822	$ 5,422	$ 12,244
Additions	882	694	1,576
Disposals	(2,307)	(3,765)	(6,072)
Balance at December 31, 2011	5,397	2,351	7,748
Accumulated amortization			
Balance at January 1, 2011	$ 5,378	$ 4,362	$ 9,740
Amortization expense	627	448	1,075
Disposal	(2,307)	(3,765)	(6,072)
Balance at December 31, 2011	3,698	1,045	4,743
Carrying amount			
Balance at December 31, 2011	$ 1,699	$ 1,306	$ 3,005

	Software and applications	Internal software enhancements	Total
At cost			
Balance at January 1, 2010	$ 5,569	$ 4,614	$ 10,183
Additions	1,253	808	2,061
Balance at December 31, 2010	6,822	5,422	12,244
Accumulated amortization			
Balance at January 1, 2010	$ 4,880	$ 3,790	$ 8,670
Amortization expense	498	572	1,070
Balance at December 31, 2010	5,378	4,362	9,740
Carrying amount			
Balance at December 31, 2010	$ 1,444	$ 1,060	$ 2,504

There were no write-downs of intangible assets due to impairment during 2011 and 2010. Development costs recognized as an expense under general and administrative in the statements of comprehensive results of operations during the financial year amount to $420 (2010 - $403).

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

10 FINANCIAL INSTRUMENTS

(a) Fair value

Fair value represents the amount that would be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Corporation's cash and cash equivalents and investments are measured at fair value. The carrying value for funds held as security and accounts payable and accrued liabilities approximates fair value due to their short term nature.

The Corporation has classified the fixed income portfolio and the equity portfolio as FVTPL financial assets. Both classes of assets are reported at fair value based on quoted bid prices in active markets on the statements of financial position. The fair values of bonds and equities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at December 31.

The fair value of trade and other receivables from vendors and builders approximates carrying value; there is no external active market for this type of asset and the inputs required to value these are primarily based on the Corporation's assumptions about the credit quality of the vendors and builders, and the availability of collateral for the receivable. See Note 11 on the valuation methodology used. A discounted cash flow analysis is performed over the expected cash flows to be recovered from the vendors and builders.

The following table discloses the categories of financial instruments as at December 31:

	2011 Fair Value	2010 Fair Value	Jan. 1, 2010 Fair Value
Financial assets measured at fair value through profit or loss (FVTPL)			
Federal, provincial and municipal government bonds	$ 91,147	$ 95,599	$ 108,507
Financial institution bonds	105,508	54,087	30,049
Other corporate bonds	45,020	76,687	71,577
Treasury bills/Short-Term Notes	11,577	8,788	12,297
	253,252	235,161	222,430
Equity portfolio	117,094	104,346	90,011
	370,346	339,507	312,441
Cash and cash equivalents	2,527	2,163	2,851
	372,873	341,670	315,292
Financial assets measured at amortised cost			
Trade receivables from vendors and builders (note 11)	1,273	1,574	2,403
Total financial assets	$ 374,146	$ 343,244	$ 317,695
Financial liabilities measured at amortized cost			
Funds held as security (note 15)	$ 40,901	$ 39,950	$ 38,876
Accounts payable and accrued liabilities	7,640	7,087	8,677
Total financial liabilities	**$ 48,541**	$ 47,037	$ 47,553

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

10 FINANCIAL INSTRUMENTS (continued)

Upon the adoption of *IFRS 9 – Financial Instruments*, the Corporation was required to reclassify the $90,011 equity portfolio from available for sale to FVTPL. The investments in equity instruments are classified as a FVTPL as the portfolio does not meet the definition of financial assets at amortized cost. The table below illustrates the classification and measurement of financial assets under IFRS 9 and previous CGAAP at the date of initial application, January 1, 2010:

	Measurement category under CGAAP	Measurement category under IFRS 9	CGAAP category Carrying amount	IFRS Carrying amount
Fixed income portfolio	Held for trading	FVTPL	$ 222,430	$ 222,430
Equity portfolio	Available for sale	FVTPL	90,011	90,011
Trade receivables from vendor and builders (note 11)	Loans and receivables	Financial assets at amortized cost	2,403	2,403
Cash and cash equivalents (note 12)	Held for trading	FVTPL	2,851	2,851

Fair value hierarchy

IFRS 9 – Financial Instruments requires classifying of fair value measurements using a three-level fair value hierarchy, described below, for disclosure purposes. Each level reflects the inputs used to measure the fair values of financial assets and financial liabilities:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are based on unobservable market data.

The following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

	2011	2010	Jan. 1, 2010
Level 1 Categorization			
Cash and cash equivalents	$ 2,527	$ 2,163	$ 2,851
Equity Portfolio	117,094	104,346	90,011
Level 2 Categorization			
Treasury bills / Short-Term Notes	11,577	8,788	12,297
Bonds	241,675	226,373	210,133
Level 3 Categorization	–	–	–
Total	$ 372,873	$ 341,670	$ 315,292

During the years ended December 31, 2011 and 2010, there were no transfers among Levels 1, 2 and 3.

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

10 FINANCIAL INSTRUMENTS (continued)

(b) Market risk

To manage the risks in the investment portfolio, management regularly monitors the performance of investment managers who are required to operate within specific investment criteria related to credit quality, diversification and to maximize yield within those constraints.

Market risk is comprised of three risks that may impact the fair value of a financial instrument as described below.

- *Interest rate risk*

  Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk on its fixed income portfolio and its funds held as security. Details of the Corporation's fixed income portfolio with interest rate exposure as at December 31 are disclosed below:

	Terms to Maturity[1]					
2011	Due within one year	Due one through five years	Due five through ten years	Due ten through twenty years	Due after twenty years	Total
Government						
Federal	$ 30,937	$ 37,589	$ 706	$ 5,488	$ 9,621	$ 84,341
Yield to Maturity ("YTM")	1.1%	1.1%	2.0%	2.4%	2.3%	1.3%
Provincial	–	2,168	4,055	355	–	6,578
YTM	–	1.5%	2.2%	3.3%	–	2.0%
Treasury Bills	4,741	–	–	–	–	4,741
YTM	0.8%	–	–	–	–	0.8%
Total Government	35,678	39,757	4,761	5,843	9,621	95,660
YTM	1.1%	1.1%	2.2%	2.4%	2.3%	1.4%
Financial Institutions	–	80,586	13,183	546	10,115	104,430
YTM	–	1.8%	3.1%	4.6%	4.7%	2.3%
Other Corporate	–	18,226	13,421	1,787	11,085	44,519
YTM	–	2.1%	3.3%	4.0%	4.5%	3.1%
Short-Term Notes	6,834	–	–	–	–	6,834
YTM	1.4%	–	–	–	–	1.4%
Total Fixed Income	$ 42,512	$ 138,569	$ 31,365	$ 8,176	$ 30,821	$ 251,443
Accrued Interest	1,809	–	–	–	–	1,809
Total Fixed Income with Accrued Interest	**$ 44,321**	**$ 138,569**	**$ 31,365**	**$ 8,176**	**$ 30,821**	**$ 253,252**
YTM	**1.1%**	**1.7%**	**3.1%**	**2.9%**	**3.9%**	**2.0%**

[1] The timing of actual maturities may differ from the contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

10 FINANCIAL INSTRUMENTS (continued)

2010	Terms to Maturity[1] Due within one year	Due one through five years	Due five through ten years	Due ten through twenty years	Due after twenty years	Total
Government						
Federal	$ 11,799	$ 48,416	$ 2,023	$ 6,488	$ 7,938	$ 76,664
Yield to Maturity ("YTM")	1.3%	1.8%	2.7%	3.4%	3.6%	2.0%
Provincial	–	3,405	9,018	5,563	–	17,986
YTM	–	2.3%	3.3%	4.0%	–	3.3%
Municipal	–	–	560	–	–	560
YTM	–	–	3.9%	–	–	3.9%
Treasury Bills	7,420	–	–	–	–	7,420
YTM	1.4%	–	–	–	–	1.4%
Total Government	19,219	51,821	11,601	12,051	7,938	102,630
YTM	1.3%	1.8%	3.2%	3.7%	3.6%	2.2%
Financial Institutions	–	29,364	16,241	–	8,148	53,753
YTM	–	2.8%	3.6%	–	4.8%	3.4%
Other Corporate	1,047	24,234	24,403	5,554	20,554	75,792
YTM	1.9%	2.7%	3.8%	4.7%	5.1%	3.8%
Short-Term Notes	1,361	–	–	–	–	1,361
YTM	1.4%	–	–	–	–	1.4%
Total Fixed Income	$ 21,627	$ 105,419	$ 52,245	$ 17,605	$ 36,640	$ 233,536
Accrued Interest	1,625	–	–	–	–	1,625
Total Fixed Income with Accrued Interest	**$ 23,252**	**$ 105,419**	**$ 52,245**	**$ 17,605**	**$ 36,640**	**$ 235,161**
YTM	**1.4%**	**2.3%**	**3.6%**	**4.0%**	**4.7%**	**3.0%**

[1] The timing of actual maturities may differ from the contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.

- *Equity price risk*

  Equity price risk is the risk that the value of a financial instrument will fluctuate due to changes in equity markets. The Corporation is exposed to equity price risk on its equity portfolio. The Corporation's equity portfolio is diversified and invested in well established, active, liquid markets.

	2011		2010		January 1, 2010	
Financials	$ 32,493	28%	$ 30,930	30%	$ 26,566	30%
Energy	23,670	20%	23,126	22%	21,138	23%
Consumer Staples	13,543	12%	11,025	11%	8,826	10%
Consumer Discretionary	9,886	8%	9,827	9%	7,794	9%
Industrials	12,131	10%	9,212	9%	7,628	8%
Telecommunication	11,372	10%	7,007	7%	6,189	7%
Materials	4,906	4%	3,772	4%	2,755	3%
Information Technology	2,113	2%	2,805	3%	2,149	2%
Health Care	2,920	2%	2,687	3%	2,493	3%
Metals & Mining	1,914	2%	2,190	2%	2,441	3%
Utilities	1,611	1%	1,295	1%	1,476	2%
Service	187	0%	270	0%	175	0%
Other	348	0%	200	0%	381	0%
Total:	**$ 117,094**	**100%**	$ 104,346	100%	$ 90,011	100%

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

10 FINANCIAL INSTRUMENTS (continued)

- *Foreign currency risk*

  Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates versus the Canadian dollar. The Corporation is exposed to currency risk on its foreign currency denominated fixed-income and equity investments. As at December 31, 2011, the Corporation had approximately 9.4% (December 31, 2010 – 9.9%) of the fair value of its equity investments and approximately 0.32% (December 31, 2010 – 0.03%) of the fair value of its securities with interest rate exposure denominated in U.S. dollars. The Corporation manages its foreign currency exposure by limiting the foreign content in the investment managers' portfolio.

The table below shows the potential impact on the Statements of Comprehensive Results of Operations and Statements of financial position equity as a result of specific stress scenarios applied to financial assets and financial liabilities (excluding warranty liabilities). The analysis reflects management's view of key sensitivities. The actual results may differ from this sensitivity analysis and the difference could be material.

The stress scenarios for 2011 are:

- Interest rate risk: an asymmetrical shift of -25/+75 basis points in interest rates for all maturities. Funds held as Securities are credited at floating interest rates (Prime-2%) and are changed semi-annually to calculate the interest paid on security. The annual interest paid impact on a -25/+75 basis points change in interest rates is disclosed below.
- Equity price risk: an increase/decrease of 10% in equity market prices.
- Foreign currency risk: a strengthening/weakening of 5% in the Canadian dollar relative to the U.S. dollar.

	Carrying Amount	Interest Rate Risk		Equity Price Risk		Foreign Exchange Rate Risk	
		-25 BP	+75 BP	-10%	10%	-5%	5%
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Financial Assets							
FVTPL investments:							
Fixed income portfolio	253,252	2,709	(7,648)	–	–	–	–
Equity portfolio	117,094	–	–	(11,661)	11,661	578	(523)
Financial Liabilities							
Funds held as security	39,663	99	(297)	–	–	–	–

For the above scenarios, the Corporation has assumed that interest rates, equity prices, and currency moved independently.

10 FINANCIAL INSTRUMENTS (continued)

(c) Credit risk

Credit risk arises from the possibility of financial loss occurring as a result of a default by a counterparty on its obligation to the Corporation. Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of cash and cash equivalents, investments and trade and other receivables from vendors and builders. The carrying value of financial assets, including cash and cash equivalents, investments and trade and other receivables from vendors and builders, represents the maximum credit exposure. The Corporation has adopted the following strategies to mitigate this risk:

- The Corporation's investment policies 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.
- The Corporation only deals with counterparties believed to be creditworthy and actively monitors credit exposure, requiring minimum credit ratings of "A" for debt securities at the time an investment is purchased. At December 31, 2011, 99.2% (December 31, 2010 – 99.4%) of the debt securities have a rating of "A" or better, and 0.8% (December 31, 2010 – 0.6%) of the debt securities have a rating of BBB.
- Cash and cash equivalents and investments are placed with governments, well-capitalized financial institutions and other creditworthy counterparties.
- The Corporation assesses the builder's risk profile including financial health during the registration and renewal processes. Based on the assessment, a builder may be licensed and as disclosed in Note 15, security is obtained in the form of cash, letters of credit, and other guarantees from the builder in order to reduce the risk of financial loss related to future warranty claims from homeowners.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to daily cash requirements from settlement of claims, operating expenses and cash security releases. The settlement of claims have no fixed terms and is dependent on the timing of the repair work involved and the cash security release has no fixed terms and is contingent upon fulfilment of certain requirements (see Note 15). Liquidity risk is considered low as a significant percentage of the investment portfolio is traded in an active market and can be readily disposed of. The Corporation also has a $3,000 (December 31, 2010 - $3,000, January 1, 2010 – $3,000) line of credit it can draw on of which the amount outstanding at December 31, 2011, December 31, 2010 and January 1, 2010 is Nil.

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

11 TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS

Trade and other receivables from vendors and builders consist of three types of receivables:

- Trade receivables from vendors and builders represent amounts receivable arising from warranty claims that the Corporation has paid out on behalf of vendors and builders during the remediation process. Trade receivables from vendors and builders are measured at amortized cost less impairment. Amounts receivable from registered builders are classified as financial assets. All the amounts are due immediately. Fair value of trade receivables is disclosed in Note 10.
- Amounts recoverable from vendors and builders represent the estimated amounts recoverable from vendors and builders in respect to the outstanding warranty claims recognized under the warranty liabilities. Amounts are invoiced to the vendors and builders only when the Corporation has paid out monies for the claim.
- Other receivables from vendors and builders represent other receivables such as enrolment and/or registration fees.

	2011	2010	Jan. 1, 2010
Gross trade receivables	$ 22,039	$ 34,543	$ 38,419
Less: Allowance for impairment	(20,766)	(32,969)	(36,016)
Trade receivables	1,273	1,574	2,403
Amounts recoverable from vendors and builders	2,169	6,648	8,853
Other receivables from vendors and builders	621	569	357
	$ 4,063	$ 8,791	$ 11,613

Before accepting registration for any vendor and builder, the Corporation undergoes an underwriting process that typically includes obtaining an external credit score to assist in assessing the applicant's credit quality, an assessment of the applicant's construction expertise, the applicant's business acumen and where applicable, the merits of the applicant's proposal to construct a building or project. Terms and conditions of registration vary from applicant to applicant but typically include limits on the volume and type of new home construction, and a requirement to provide security and/or indemnitors. Assessments are revisited annually at registration renewal time or earlier if additional risk factors surface

There are three vendors and builders each of whom represent more than 5% of the balance of trade receivables net of allowances as at December 31, 2011 (December 31, 2010 – none, January 1, 2010 – none). However, due to trade receivables being almost fully reserved, the overall net exposure to these vendors and builders as at December 31, 2011 is only $375.

As described in Note 15, the Corporation obtains security from builders to minimize its financial losses from future warranty claims. At December 31, 2011 there is $1,503 (December 31, 2010 - $2,396, January 1, 2010 -$4,254) of cash and non-cash security held associated with the trade and other receivables from vendors and builders.

Unregistered vendors and builders

Warranty coverage is also available for homes which were built by unregistered builders. However, under the Act, unregistered builders are deemed to be building illegally and are subject to prosecution and are required to indemnify the Corporation for any financial loss the Corporation incurs with respect to the homes the unregistered vendors and builders built. Included in the total trade and other receivables from vendors and builders as at December 31, 2011 are amounts recoverable from unregistered vendors and builders of $205 (December 31, 2010 - $175, January 1, 2010 - $959).

for the year ended December 31, 2011 ($CAD thousands)

11 TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS (continued)

Aging of past due but not impaired

In assessing the impairment of the Trade and other receivables from vendors and builders, the Corporation individually assesses accounts that are greater than $50 or greater based on the credit history of the vendor/builder, its financial condition, security held, legal action sought and judgment awarded. For accounts less than $50, a general recovery rate is applied.

The rate used depends on the account status as to whether it is in collection litigation or active collection. The recoverability rates are based on trailing averages. As at December 31, 2011 and 2010, a 1% change in these rates would have an impact of $18. These rates are recalculated annually and assessed for reasonability.

Actual recovery on these balances may differ if the financial health of the vendor/builder changes, if the guarantors/indemnitors financial situation changes and/or if the court or tribunal's decision differs from that of the Corporation. The objective evidence of impairment for the amounts recoverable from builders includes the Corporation's past collection experience, financial condition of the builders, security held, legal action sought, and judgments awarded.

As at December 31, 2011, the trade and other receivables from vendors and builders includes $758 (December 31, 2010 - $1,065, January 1, 2010 - $1,486) that are greater than 90 days past due but not considered to be impaired. The Corporation considers registered builders who have past due but not impaired balances to be able to pay their debts as they fall due. The Corporation does not hold any collateral over these balances except for cash and non-cash securities as noted above, but does have credit enhancement in the form of indemnities for the balances of which have been reflected in the recoverable amounts.

	2011	2010	Jan. 1, 2010
1 to 90 Days	$ 515	$ 509	$ 917
90 to 360 Days	293	267	483
Over 360 Days	465	798	1,003
	$ 1,273	$ 1,574	$ 2,403

Movement in Trade receivables

	2011	2010
Gross Trade Receivables		
Beginning of year	$ 34,543	$ 38,419
New Bills Issued	7,036	12,482
Write-offs Processed	(14,855)	(7,910)
Recoveries	(4,685)	(8,448)
End of year	22,039	34,543
Allowance for Doubtful Accounts		
Beginning of year	(32,969)	(36,016)
Impairment Losses Recognized (net of recoveries)	(2,652)	(4,863)
Write-offs Processed	14,855	7,910
End of year	$ (20,766)	$ (32,969)
Trade Receivables, End of year	**$ 1,273**	$ 1,574

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

12 CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, cash and cash equivalents include cash at the bank and on hand and investments in short term deposits with a maturity of up to three months on the date of purchase, net of outstanding bank overdrafts. At December 31, 2011, cash and cash equivalents was solely cash at the bank and on hand of $2,527 (December 31, 2010 – $2,163, January 1, 2010 – $2,851) with no short term deposits or bank overdrafts payable on demand. There are no restrictions, pledges or limitations to the use of the cash and cash equivalents. Cash at bank earns interest at floating rates based on prime less 2.5%. At December 31, 2011, the Corporation had available $3,000 (December 31, 2010 – $3,000, January 1, 2010 – $3,000) of undrawn committed line of credit.

13 EMPLOYEE FUTURE BENEFIT PLANS

The Corporation's Pension Plan is comprised of a defined benefit provision ("DB Plan") which is closed to further contributions, and a defined contribution provision ("DC Plan").

In addition, the Corporation provides other post–employment benefits ("OPEB"), primarily health and dental coverage, on an unfunded basis.

Defined contribution plan

The DC Plan is open to all full–time employees of the Corporation, subject to meeting certain eligibility conditions. Under the terms of the DC Plan, employees contribute a percentage of eligible employee earnings per year. The Corporation makes contributions for each contributing employee in amounts that vary dependent upon the employee's age and the number of years of eligible service.

There also exists a Supplementary Executive Retirement Plan ("SERP") for senior management. The purpose of the SERP is to offset the limitation on contributions otherwise payable under the registered pension plan resulting from the application of the maximum contribution limits specified under the Income Tax Act (Canada). The SERP provides only for benefits in excess of those payable under the Registered Plan.

Defined benefit plan and other post–employment benefits

The DB Plan is fully vested and closed to new employees effective January 1, 1999. Plan participants who elected not to convert to the defined contribution provision retained their DB pensions earned to date. For service subsequent to December 31, 1998, all members of the Pension Plan participate on a defined contribution basis.

The DB Plan and OPEB are subject to periodic actuarial valuations. The Corporation has a December 31 measurement date. A valuation of the accrued pension benefit obligation was performed as at January 1, 2010 and a valuation of the OPEB was performed as of December 31, 2011. The next valuation of the accrued pension benefit obligation is expected to be performed as at January 1, 2013 and the valuation of the OPEB will be performed as at December 31, 2014.

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

13 EMPLOYEE FUTURE BENEFIT PLANS (continued)

The amounts recognized in the statements of financial position for employee future benefits liabilities at the statements of financial position date are as follows:

	2011			2010			January 1, 2010		
	DB Plan	OPEB	Total	DB Plan	OPEB	Total	DB Plan	OPEB	Total
Fair value of pension assets	$ 4,074	$ –	$ 4,074	$ 4,138	$ –	$ 4,138	$ 3,748	$ –	$ 3,748
Present value of the defined benefit obligation	(5,042)	(3,925)	(8,967)	(4,166)	(4,028)	(8,194)	(3,793)	(3,038)	(6,831)
Net defined benefit obligation	(968)	(3,925)	(4,893)	(28)	(4,028)	(4,056)	(45)	(3,038)	(3,083)
Unamortized past service costs	–	537	537	–	614	614	–	690	690
Accrued liability	$ (968)	$ (3,388)	$ (4,356)	$ (28)	$ (3,414)	$ (3,442)	$ (45)	$ (2,348)	$ (2,393)
Employer contributions	$ –	$ 53	$ 53	$ 479	$ 17	$ 496	$ –	$ –	$ –
Employee contributions	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Benefit payments and transfers to other plans	$ 22	$ 53	$ 75	$ 300	$ 17	$ 317	$ –	$ –	$ –

The present value of the SERP obligation as at December 31, 2011 is $197 ($169 at December 31, 2010 and $84 at January 1, 2010), which is included in the OPEB amounts in the table above. The benefit payments to the SERP for the year ended December 31, 2011 were $35 (Nil in 2010).

Employer contributions to the DC Plan in December 31, 2011 were $1,014 ($991 in 2010). Employee contributions to the DC Plan in 2011 were $584 ($593 in 2010).

Historical funding table

The employee benefits amounts for the current and previous periods are as follows:

	2011	2010	Jan. 1, 2010
Fair value of pension assets	$ 4,074	$ 4,138	$ 3,748
Accrued benefit obligation, pension plan	(5,042)	(4,166)	(3,793)
Deficit	(968)	(28)	(45)
Accrued benefit obligation, OPEB	(3,728)	(3,859)	(2,954)
Accrued benefit obligation, SERP	(197)	(169)	(84)
Net employee benefits obligation reported	$ (4,893)	$ (4,056)	$ (3,083)
Experience adjustments on employee future benefits liabilities	$ (11)	$ (912)	$ –
Experience adjustments on pension assets	$ (310)	$ (39)	$ –

As of December 31, 2011, the current liabilities are $18 ($18 as of December 31, 2010) with respect to the OPEB plan. There are no current liabilities with respect to the other plans.

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

13 EMPLOYEE FUTURE BENEFIT PLANS (continued)

The movements in the present value of accrued benefit obligation are as follows:

	2011			2010		
	DB Plan	OPEB	Total	DB Plan	OPEB	Total
Opening balance	$ (4,166)	$ (4,028)	$ (8,194)	$ (3,793)	$ (3,038)	$ (6,831)
Current service cost	–	(369)	(369)	–	(324)	(324)
Past service cost	–	–	–	–	–	–
Interest costs	(229)	(239)	(468)	(237)	(207)	(444)
Benefit payments	22	53	75	300	17	317
Actuarial gain/loss	(669)	658	(11)	(436)	(476)	(912)
Curtailments/settlements	–	–	–	–	–	–
Accrued pension obligation, end of year	$ (5,042)	$ (3,925)	$ (8,967)	$ (4,166)	$ (4,028)	$ (8,194)

The movements in the fair value of plan assets are as follows:

	2011			2010		
	DB Plan	OPEB	Total	DB Plan	OPEB	Total
Opening balance	$ 4,138	$ –	$ 4,138	$3,748	$ –	$ 3,748
Contributions by employer	–	53	53	480	17	497
Expected return on plan assets	268	–	268	249	–	249
Actuarial gains/(losses)	(310)	–	(310)	(39)	–	(39)
Benefits paid	(22)	(53)	(75)	(300)	(17)	(317)
Curtailments/settlements	–	–	–	–	–	–
Plan assets, end of year	$ 4,074	$ –	$ 4,074	$ 4,138	$ –	$ 4,138

The major categories of plan assets at the end of the reporting period for each category are as follows:

	Fair Value of DB Plan Assets	
	2011	2010
Canadian equity securities	35%	36%
International and US equity securities	28%	26%
Bonds	31%	34%
Cash	6%	4%
	100%	100%

The overall expected rate of return on the DB assets for 2011 and 2010 is 6.50% and it is a weighted average of the expected returns of various categories of plan assets held. The actual return on plan assets of the DB Plan was $(42) (actual return in 2010 was $211).

A discount rate of 4.5% per annum and 4.75% per annum was used for the disclosures at December 31, 2011 for the DB and OPEB respectively. Specifically, the discount rate was determined as the single discount rate that would produce the present value of obligations determined by discounting the plans cash flows using Corporate AA spot rates at December 31, 2011.

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

13 EMPLOYEE FUTURE BENEFIT PLANS (continued)

The amounts recognized in the statements of comprehensive results of operations in respect of the employee benefits liabilities are as follows:

	2011			2010		
	DB Plan	OPEB	Total	DB Plan	OPEB	Total
Current service costs	$ –	$ 369	$ 369	$ –	$ 324	$ 324
Interest costs	229	239	468	237	207	444
Expected return on plan assets	(268)	–	(268)	(249)	–	(249)
Curtailment/settlements	–	–	–	–	–	–
Amortization of past service costs	–	77	77	–	76	76
Net expense	$ (39)	$ 685	$ 646	$ (12)	$ 607	$ 595
Actuarial gains/(losses) charged to Other Comprehensive Income	**$ (979)**	**$ 658**	**$ (321)**	$ (475)	$ (476)	$ (951)

The net expense for the SERP in 2011 was $62 ($84 in 2010). The net expense for the DC Plan in 2011 was $1,014 ($991 in 2010).

Service cost is reported as part of the Corporation's total salaries & benefit expense in the statements of comprehensive results of operations.

Significant assumptions

The overall expected rate of return on assets is determined based on market expectations prevailing on that date, applicable to the period over which the obligation is to be settled. The expected rate of return of 6.50% was used in 2011 and 2010. The discount rate was determined with reference to market interest rates of AA corporate bond yields.

Notes to Financial Statements
for the year ended December 31, 2011 ($CAD thousands)

13 EMPLOYEE FUTURE BENEFIT PLANS (continued)

The principle actuarial assumptions used in determining the pension benefit obligation for the Corporation's plans are as follows:

	2011		2010	
	DB Plan	OPEB	DB Plan	OPEB
Expected rate of return on pension assets	6.50%	N/A	6.50%	N/A
Accrued benefit obligation as of December 31				
Discount rate	4.50%	4.75%	5.50%	5.75%
Salary increase	3.50%	N/A	3.50%	N/A
General inflation	2.50%	2.50%	2.50%	2.50%
Benefit cost for the period:				
Discount rate	5.50%	5.75%	6.50%	6.50%
Salary increase	3.50%	N/A	4.00%	N/A
General inflation	2.50%	2.50%	2.50%	2.50%
Assumed health care cost trend rates at December 31				
Initial health care cost trend rate	N/A	8.00%	N/A	7.50%
Cost trend rate declines to	N/A	5.00%	N/A	5.00%
Year that the rate reaches the rate it is assumed to remain at	N/A	2018	N/A	2016

Sensitivity analysis for OPEB

Assumed health and dental care cost trend rates have a significant effect on the amounts reported for the health and dental care plans. A one-percentage change in assumed health and dental care cost trend rates would have the following impact on the employee future benefits and the related costs for 2011 and 2010:

2011	Valuation Assumptions	1% change Increase	1% change Decrease
Total of service and interest cost at 5.75% per annum:	$ 545	$ 159	$ (117)
Accrued benefit obligation as at December 31, 2011 at 4.75% per annum:	$ 3,728	$ 1,035	$ (762)

2010	Valuation Assumptions	1% change Increase	1% change Decrease
Total of service and interest cost at 6.5% per annum:	$ 446	$ 126	$ (93)
Accrued benefit obligation as at December 31, 2010 at 5.75% per annum:	$ 3,859	$ 903	$ (697)

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

14 WARRANTY LIABILITIES

The determination of the Corporation's warranty 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 reviews are performed by management and reviewed by our appointed actuary to assess whether warranty claims liabilities recorded for homes and condominiums, and deferred home enrolment fees are adequate relative to future claims and related administration costs to administer claims.

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

	2011	2010
Change in provisions, net of reversals	$ 356	$ (13,866)
Recoveries	654	(4,406)
Net claims incurred for the year	**$ 1,010**	$ (18,272)

	2011	2010	Jan.1, 2010
Deferred home enrolment fees, beginning of year	$ 117,805	$ 99,955	$ 95,253
Fees received	54,397	47,542	33,885
Fees earned	(31,822)	(29,692)	(29,183)
Deferred home enrolment fees, end of year	**140,380**	117,805	99,955
Warranty claims liabilities, beginning of the year	32,811	64,296	73,675
Change in claims outstanding	(683)	(4,701)	14,294
Changes due to assumptions			
(such as: risk, inflation & discount rate)	1,039	(9,165)	(2,678)
Claims paid	(8,423)	(17,619)	(20,995)
Warranty claims liabilities, end of year	**24,744**	32,811	64,296
Warranty liabilities, end of year	**$ 165,124**	$ 150,616	$ 164,251

Warranty coverage and policy

The warranty coverage begins when the home is enrolled, providing deposit protection and compensation for delayed closing and occupancy. Once the new owner takes possession of the home, there are three periods of warranties: one-year, two-year and seven-year warranty, each with different indemnity scopes and limits of settlement covering defects that are prescribed under the Act.

14 WARRANTY LIABILITIES (continued)

Significant warranty claims liability risk and assumptions

The market in which the Corporation participates is unique. The Corporation is the sole provider for warranty coverage on new homes in the province of Ontario. The Corporation was designated in 1976 by the Government of Ontario to administer the Act. The primary objectives of the Act include consumer protection, builder regulation and homeowner and builder education. An overview of the Corporation's risk management framework and assumptions with regards to the warranty liabilities are summarized below.

Insurance risk

As the administrator of the Act, the Corporation is exposed to insurance risk similar to a normal property and casualty insurance company. The insurance risk is the risk of loss arising from defects of new homes if the builders have failed to perform their first and second year warranty obligations to the new homeowners, or the homes have warrantable major structural defects during the three to seven years of the warranty. The Corporation is primarily concerned with the possibility of the warrantable event occurring and the uncertainty of the amount of the resulting claim.

Insurance risks are managed through the Corporation's builder regulation and licensing strategy. Annual licensing assessments are performed on new and existing registered builders to verify that they have the technical experience, customer service capabilities and financial capacity required to build new homes in compliance to the terms and conditions of the Act.

The Corporation also maintains a proactive claims management program to ensure the adequacy of the warranty liabilities and claims:

- Collection of home enrolment fees from builders prior to construction of each home to help discharge the related liabilities;
- Obtains securities in the form of cash, letters of credit and other guarantees from the builders during the registration and renewal process to reduce risk of financial loss related to the claims;
- Experienced claims service representatives work closely with homeowners and builders to assess the adequacy of the claims in accordance to the Act;
- Processes exist to ensure that all claims are captured, reviewed and updated on a timely basis with a realistic assessment of the ultimate settlement costs;
- Engage qualified actuaries annually to review and assess the adequacy of the warranty liability and the provisioning process; and.
- The appointed actuary determines assumptions used to measure warranty liabilities in accordance with the process recommended by the Canadian Institute of Actuaries. Management reviews the assumptions recommended by the actuary.

The establishment of warranty liabilities is based on established actuarial practice, management judgment and experience. Actual settlements may also differ significantly from the estimates of these liabilities due to the measurement uncertainty involved in establishing assumptions for such variables as 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 Corporation is exposed to claims provisioning risks in the process of administering the Act:

14 WARRANTY LIABILITIES (continued)

- Future claims adjustment cost

This assumption reflects the costs generally related to claims administration including claims staff salaries, a related share of facilities overhead and rent that are not allocated to individual claim files. An actuarially estimated cost percentage of the future claim cost is applied to the outstanding claims at the end of the reporting period. This assumption is reviewed annually by the Corporation's actuary

- Incurred but not reported claims

Actual claim settlements may differ from estimated claim settlements. These claims are estimated based on historical patterns of fluctuations in claim estimates and settlements. In general, the longer the period of time between the incidence of loss and the settlement of the related claim, the greater the potential for actual settlement amounts to differ from the recorded estimates. The impact of changes in incurred but not reported claims is set out in the sensitivity analysis on page 74.

- Adverse deviation

The liability has inherent measurement uncertainty that arises because:

(i) actual investment returns may differ from the discount rate used in actuarial calculations; and

(ii) actual claims settlements may occur for amounts or at times that differ from estimates (claim risk) – this risk of loss can occur due to actual experience differing from the experience assumed. The developments of assumptions for future claims are based on the Corporation's experience and known cases or potential issues. Such assumptions require a significant amount of professional judgment; therefore, actual experience may be materially different than the assumptions made by the Corporation. Home builder payment patterns, renewals, withdrawals and surrender activities, can be influenced by many factors including market and general economic conditions. Their behavior also has an impact on assessing future claims. The impact of changes in adverse deviation is set out in the sensitivity analysis on page 74.

Recovery risk

In the normal course of managing the warranty program, the Corporation reduces exposure to claims by seeking recovery from builders for certain warranty related issues. The ability to seek recovery does not discharge the Corporation's responsibility to manage warranty issues. Failure by a builder to uphold its obligation could result in legal action by the Corporation. Consequently, allowances are established for amounts deemed uncollectible. This risk is managed by obtaining security from the builders at time of registration or renewal, as disclosed in Note 15, and the Corporation's proactive collection process. The impact of changes in recovery risk is set out in Note 11.

Credit risk

The Corporation assesses the builders' risk profile including financial health during the registration and renewal processes. Based on the assessment, a builder may be licensed and as disclosed in Note 15, security is obtained in the form of cash, letters of credit, and other guarantees from the builder in order to reduce the risk of financial loss related to future warranty claims from homeowners.

for the year ended December 31, 2011 ($CAD thousands)

14 WARRANTY LIABILITIES (continued)

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with warranty liabilities. The Corporation is exposed to daily cash requirements from settlement of claims, cash security releases and operating expenses. Liquidity risk is considered low as the majority of its investment portfolio are traded in a highly liquid market and can be readily converted to cash. The Corporation also has a $3,000 line of credit that it can draw on and current cash equivalents of $2,527 (December 31, 2010 - $2,163, January 1, 2010 - $2,851).

Concentration of insurance risk

The Corporation's exposure to concentration of insurance risk is mitigated by the establishment of a diversified portfolio of competent builders through the Corporation's strong regulating and licensing strategy. Builders' registration and renewals are assessed annually. The table below shows the warranty claim liabilities by claim types:

	2011	2010	Jan.1, 2010
Freehold	**$ 3,187**	$ 4,753	$ 12,880
Condominiums			
High-rise	**5,146**	11,715	16,863
Low-rise	**357**	144	722
Non-case specific	**2,259**	3,443	11,909
Total claims	**$ 10,949**	$ 20,055	$ 42,375
Impact of changes in assumptions	**13,795**	12,756	21,921
Total warranty provision	**$ 24,744**	$ 32,811	$ 64,296

Market risk

Market risk is the risk that the fair value or future cash flows of the warranty liabilities will fluctuate because of changes in market prices. This risk is comprised of:

- Interest rate risk

Interest rate risk is the risk that the value of future cash-flows of a financial instrument will fluctuate because of changes in market interest rates. Warranty claims liabilities are discounted to reflect the time value of money over the periods between the statements of financial position date and settlement date based on accepted actuarial practice. The discount rate used is based on market yield of the fixed income portfolio supporting the warranty liabilities. The impact of changes in interest rate is set out in the sensitivity analysis on page 74.

- Inflation rate

The cost to resolve claims are subject to inflationary pressure. The Corporation used the Construction Price Index as the basis of inflationary index, adjusted by expected economic and housing industry implications based on management's past experiences and expertise. The impact of changes in inflation rate is set out in the sensitivity analysis on page 74.

for the year ended December 31, 2011 ($CAD thousands)

14 WARRANTY LIABILITIES (continued)

Sensitivity analysis on warranty claims

The following table illustrates the assumptions used in developing the adequate warranty claim liability required for the statements of financial position:

	2011	2010	Jan.1, 2010
Discount rate	**2.0%**	3.0%	3.1%
Inflation rate	**2.5%**	2.5%	1.9%
Future claims adjustment costs	**26.0%**	24.0%	27.0%
Incurred but not reported claims	**$ 6,762**	$ 3,700	$ 3,700
Adverse deviation	**$ 2,686**	$ 3,961	$ 7,643
Discount	**$ (257)**	$ (606)	$ (1,863)

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact to warranty claim liabilities, statement of comprehensive results of operations and equity.

	Change in Assumption	Impact on warranty liability		Impact on comprehensive results of operations		Impact on equity	
		Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate	1.0%	$ (493)	$ 510	$ 493	$ (510)	$ 493	$ (510)
Inflation rate	1.0%	$ 297	$ (292)	$ (297)	$ 292	$ (297)	$ 292
Future claims adjustment costs	1.0%	$ 197	$ (197)	$ (197)	$ 197	$ (197)	$ 197

Maturity Profile

The table below summarizes the maturity profile of the warranty claim liabilities. The maturity profiles are determined based on estimated timing of net cash outflows from the recognized warranty liabilities.

Warranty Liability	Due within one year	Due two through five years	Total
January 1, 2010	$ 32,560	$ 31,736	$ 64,296
2010	$ 15,381	$ 17,430	$ 32,811
2011	$ 12,837	$ 11,907	$ 24,744

14 WARRANTY LIABILITIES (continued)

Sensitivity analysis on deferred home enrolment fees

As home enrolment fees are collected, they are deferred and taken in to revenue over the period of the warranty that the fees cover. The rate at which these fees are recognized in revenue is based on the pattern of incurrence of claim costs over the warranty period, or 'earning pattern'. Shifts in claims patterns affect the earning pattern. The analysis below is performed for reasonably possible movements in the earning pattern with all other assumptions held constant, showing the impact to warranty liabilities, statement of comprehensive results of operations and equity.

	Change in Assumption	Impact on warranty liability		Impact on comprehensive results of operations		Impact on equity	
		Accelerated	Decelerated	Accelerated	Decelerated	Accelerated	Decelerated
Earning Pattern	2.5%	$ (7,139)	$ 7,023	$ 7,139	$ (7,023)	$ 7,139	$ (7,023)

Notes to Financial Statements
for the year ended December 31, 2011 ($CAD thousands)

14 WARRANTY LIABILITIES (continued)

Claim history

Claims are classified, managed, analyzed and reserved for based on specific known cases and potential cases and the liability is adjusted for adverse deviation.

The following table illustrates the past experience related to the claims the Corporation has settled:

Estimate of cumulative claims	All Prior Years' Claims with Outstanding Liability	2007	2008	2009	2010	2011	Total
All Prior Years' Claims with							
Outstanding Liability	82,546						
At end of occurrence year		14,670	29,552	26,646	16,063	**6,425**	
One Year Later		16,712	22,426	20,848	12,539		
Two Years Later		15,832	21,126	19,255			
Three Years Later		12,360	20,448				
Four Years Later		12,053					
Current estimate of cumulative claims	82,546	12,053	20,448	19,255	12,539	**6,425**	153,266
Claims Paid							
All Prior Years' Claims with							
Outstanding Liability	80,328						
At end of occurrence year		5,521	7,833	9,989	5,721	**3,628**	
One Year Later		4,083	7,944	6,831	3,513		
Two Years Later		1,640	3,862	621			
Three Years Later		572	194				
Four Years Later		36					
Cumulative claims paid	80,328	11,853	19,833	17,441	9,234	**3,628**	142,317
Reconciliation to the Statements of Financial Position							
Current provision before discounting	2,218	200	614	1,814	3,305	**2,797**	10,948
Actuarial reserves							14,053
Discounting							(257)
Present value recognized on the statements of financial position							**24,744**

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

15 FUNDS HELD AS SECURITY

The Corporation receives security in the form of cash, letters of credit and other guarantees, from builders in order to reduce the risk of financial loss related to future warranty claims from homeowners. The funds held as security do not have any fixed contractual maturities and are to be returned to the builders or released only upon satisfactory completion of certain requirements, such as there being no or minimal deposit or financial loss risk and the completion of outstanding warranty obligations under the Act, the timing of completion of which cannot be reasonably estimated.

Security received in cash is invested as part of the Corporation's investment portfolio. As at December 31, 2011, December 31, 2010 and January 1, 2010, the funds held as security of $40,901, $39,950 and $38,876, respectively, presented on the statements of financial position as a liability are the potentially refundable security deposits received in cash, including cumulative accrued interest thereon to December 31, 2011 of $1,238 (December 31, 2010 - $1,318, January 1, 2010 - $1,917). Letters of credit and other guarantees are available to be drawn upon to settle known claims. Such drawn amounts would reduce the amounts recoverable from builders in the statements of financial position.

During the year, the Corporation incurred interest of $394 (2010 - $163) on cash security deposits. Interest is calculated based on Prime less 2%, adjusted every sixth month (generally April and October).

16 CAPITAL MANAGEMENT

The Corporation's capital consists of the surplus. Although there is no external regulatory requirements imposed on the Corporation's capital, management has adopted a capital management framework modeled after the framework used in the property and casualty insurance industry in Canada and modified to reflect the Corporation's circumstances including its inability to raise capital in traditional ways. This framework incorporates the business requirements for sufficient capital throughout the variations of the new home building cycle, including possible losses from a future catastrophic event. It also reflects the relatively high risk profile of the Corporation's warranty operations, including the high level of measurement uncertainty inherent in its warranty liabilities due to the long warranty period of up to seven years and to other factors explained in Note 14. The Corporation is not subject to any externally imposed capital requirements under the Act or otherwise.

In applying the framework, the total equity of the Corporation as at December 31, 2011 and 2010 has been determined by management to be sufficient to cover possible losses from a future catastrophic event as further supported by the annual dynamic capital adequacy testing performed by the Corporation's appointed actuary during the year.

for the year ended December 31, 2011 ($CAD thousands)

17 PROVISIONS, CONTINGENCIES, COMMITMENTS AND GUARANTEES

In the normal course of business, the Corporation is a party to a number of lawsuits as the administrator of the Act.

To the extent that lawsuits relate to disputes of warranty coverage, provisions for loss are included in the warranty liabilities on the statements of financial position. Other lawsuits are at various stages of legal proceedings, the outcome of which are currently not determinable and are not expected to have a significant impact on the Corporation's financial position. Accordingly, no provision for any liability has been made in these financial statements as at December 31, 2011, December 31, 2010 and January 1, 2010.

In the normal course of operations, the Corporation executes agreements that provide for indemnification to third parties in transactions such as service agreements, leases and purchases of goods. Under these agreements, the Corporation agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Corporation in relation to the agreement. In addition, the Corporation has also agreed to indemnify its directors and certain of its officers and employees in accordance with the Corporation's by-laws.

These indemnification provisions will vary based on the nature and terms of the agreements. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation could be required to pay as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made significant payments under such indemnification agreements. Accordingly, no amounts have been accrued related to these agreements as at December 31, 2011, December 31, 2010 and January 1, 2010.

Operating lease commitments

The Corporation has entered into commercial leases on premises and other miscellaneous equipment which are recognized and reported as part of general and administrative costs in the statements of comprehensive results of operations. For 2011, the Corporation recognized minimum lease payments of $679 (December 31, 2010 - $716, January 1, 2010 - $697) in the statements of comprehensive results of operations. These leases have an average life of between three years with renewal option included in the miscellaneous equipment contracts. There are no restrictions placed upon the Corporation by entering into these leases. The future minimum annual lease payments under operating lease for the next five years and thereafter as follows:

	2011	2010
Operating lease	Minimum lease payments	Minimum lease payments
Within one year	$ 754	$ 753
Between one and five years	3,078	3,031
More than five years	3,572	4,353
Present value of minimum lease payments	$ 7,404	$ 8,137

for the year ended December 31, 2011 ($CAD thousands)

17 PROVISIONS, CONTINGENCIES, COMMITMENTS AND GUARANTEES (continued)

Finance lease obligations

The Corporation has leased computers and other office equipment that qualifies as a finance lease. The balance of the finance lease obligations arising from the acquisition of certain computer and office equipment are reported separately on the statements of financial position. The total value of these obligations as at December 31, 2011 is $1,446 (December 31, 2010 - $834, January 1, 2010 - $991). Interest expense of $102 was incurred during 2011 (2010 - $108) on the leases and is reported in the statements of comprehensive results of operations. These leases have renewal options for either single or multi-years. They may contain purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments and the present value of the net minimum lease payments under the finance leases are as follows:

	2011		2010		January 1, 2010	
	Minimum lease payments	Present value minimum payments	Minimum lease payments	Present value minimum payments	Minimum lease payments	Present value minimum payments
Within one year	$ 683	$ 604	$ 435	$ 375	$ 514	$ 431
Between one and five years	901	842	492	459	593	560
More than five years	–	–	–	–	–	–
	1,584	1,446	927	834	1,107	991
Less amounts representing finance charges	138	–	93	–	116	–
Present value of minimum lease payments	$ 1,446	$ 1,446	$ 834	$ 834	$ 991	$ 991

Lease inducements

The Corporation received various forms of lease inducements for its current Corporate offices including reduced rent and leasehold improvements. These lease inducements are amortized over the term of the lease agreements and offset against rent expenses on the statements of comprehensive results of operations. The amortized benefits in December 31, 2011 were $181 (December 31, 2010 - $38).

As of December 31, 2011, the total unamortized lease inducements reported on the statements of financial position is $1,383, (December 31, 2010 - $221, January 1, 2010 - $260).

Notes to Financial Statements

for the year ended December 31, 2011 ($CAD thousands)

18 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010	Jan.1, 2010
Trade and supplier accruals	$ 1,917	$ 1,586	$ 3,987
Amounts due to vendors and builders	1,547	1,466	1,383
Employee bonus	2,949	3,197	2,402
Deferred revenue	106	144	206
Other liabilities	1,121	694	699
Total accounts payable and accrued liabilities	$ 7,640	$ 7,087	$ 8,677
Expected to be settled within one year	$ 6,093	$ 5,621	$ 7,294
Expected to be settled in more than one year	1,547	1,466	1,383
Total accounts payable and accrued liabilities	$ 7,640	$ 7,087	$ 8,677

19 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Corporation provides a broad range of services to home owners and builders based on its mandate to administer the Act. Accordingly, the Corporation may enter into transactions with builders related with the Corporation's Board of Directors through a relationship of principal, director, officer and/or guarantor.

As at December 31, 2011, there are no collection and litigation account receivables and cash securities recognized due from related parties. Letters of credit and other guarantees lodged by related parties are recognized in the financial statements only to the extent they are expected to be drawn upon to settle known claims. Transactions between related parties are made at normal market prices.

Effective April 7, 2009, the Corporation pays an oversight fee to the Government of Ontario for each calendar year. The fee is calculated based on the estimated number of enrolments by home purchasers in the Act during the fiscal year of the Government of Ontario (April 1 to March 31) at five dollars per enrolment. The Corporation is required to pay an amount not less than $200 and not more than $300 per annum. In 2011, the Corporation incurred a fee of $254 (December 31, 2010 - $316, January 1, 2010 - $200).

Compensation for key personnel

Key management of the Corporation are members of the board of directors, as well as members of the Corporate leadership team. Key management personnel remuneration includes the following expenses:

	2011	2010
Short-term employee benefits	$ 4,094	$ 4,438
Board of director fees	407	357
Post-employment benefits	358	359
	$ 4,859	$ 5,154