TARION

PROTECTING ONTARIO'S NEW HOME BUYERS

CHANGE IS THE FOUNDATION OF GROWTH

Annual Report 2012

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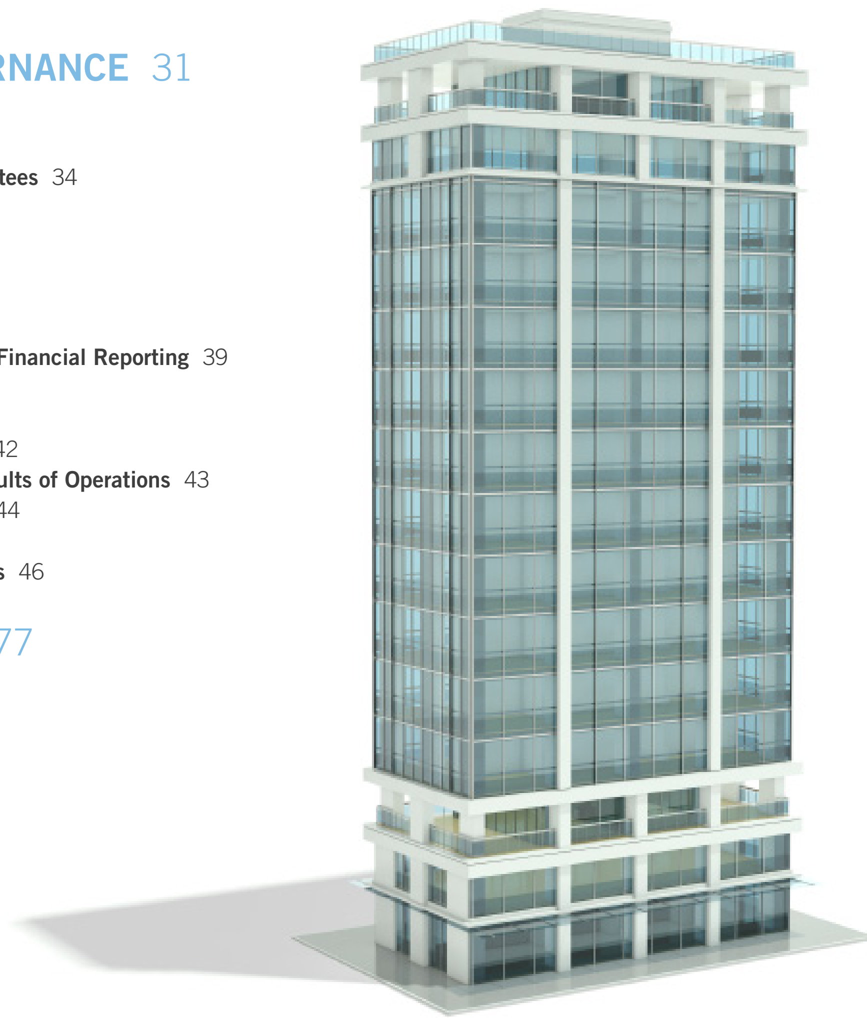


AT A GLANCE

381,181
TOTAL HOMES UNDER WARRANTY (2012)*

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

2008	456,968
2009	434,120
2010	417,735
2011	399,005

1,380
HOMES WITH A CONCILIATION INSPECTION (2012)

2008	4,979
2009	3,768
2010	1,937
2011	1,412

7.0
TOTAL CLAIMS PAID (2012) in $CAD Millions

2008	14
2009	20.9
2010	17.6
2011	8.4

$4.7 MILLION
RECOVERIES FROM BUILDERS ON A CASH BASIS (2012)*

*Previous numbers published under the accrued basis have been restated to a cash basis.

2008	5.0
2009	7.4
2010	8.0
2011	4.2

$0.2 MILLION
NET CLAIMS INCURRED (2012)

2008	26.8
2009	3.1
2010	(18.3)
2011	1.0

$184.8 MILLION
TOTAL EQUITY (2012)*

*The equity of the corporation for 2009 and 2010 have been restated under the International reporting standards ("IFRS") when it adopted IFRS in 2011.

2008	93.8
2009	117.5
2010	153.5
2011	163.2

2008	2009	2010	2011	2012
84%	84%	84%	84%	85%

HOME OWNER SERVICE ORIENTATION INDEX*

* 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.

2009	2011
78%	82%

BUILDER SERVICE ORIENTATION INDEX*

* The Builder Service Orientation Index reflects the average of opinion scores for accessibility, ability to listen to buillder needs and concerns and how easy Tarion is to do business with.

2007	2009	2011	2012
69%	72%	74%	76%

EMPLOYEE ENGAGEMENT*

* 2007–2011 results are based on a bi-annual employee opinion survey conducted by the Hay Group, where the survey consisted of 66 questions. 2012 results are based on an employee opinion survey conducted by the Hay Group, consisting of 15 questions.

ABOUT TARION

Tarion Warranty Corporation was created in 1976 to serve as the regulator of the new home building industry and administer a new home warranty plan to protect home buyers in Ontario.

Tarion administers the *Ontario New Home Warranties Plan Act* (“the Act”), which states that all new home buyers in Ontario are entitled to a limited warranty that covers defects in workmanship, water penetration and major structural defects, as well as delayed closing and deposit protection.

Tarion administers the Act by:

- 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 helping to resolve issues.
- Establishing and administering a guarantee fund that provides compensation.
- Educating new homebuyers and new homeowners about the warranty protection they are entitled to.
- Informing and educating new home builders and promoting progressive improvement in the quality of housing in Ontario.

Tarion strives to establish policies and business practices that balance the interests of its stakeholders: **NEW HOMEOWNERS, HOME BUILDERS AND THE GOVERNMENT OF ONTARIO.**

MESSAGE FROM THE CHAIR OF THE BOARD

We entered 2012 with a strong housing market, but with much uncertainty. The marketplace and media outlets were constantly speculating about if and when the housing bubble might burst. New mortgage rules passed by the federal government in July did cool the market somewhat, but enrolments continued to climb over 2011 levels, with the highest growth in condominium enrolments. Despite the uncertainty of the housing market and the economy in general, Tarion delivered strong financial results in 2012 stemming from strong investment returns and stable claims payments.

We did so while implementing the first year of a strategic plan recognizing that there would be many variables in the marketplace and knowing that Tarion would need to quickly and efficiently respond to changes in the economic environment.

The growth in the condominium market over the years was the driving force behind the Board's creation of the Condominium Task Force. In 2012, the Ministry of Consumer Services launched a review of the Condominium Act to look at ways to improve the protection provided to condominium owners. Tarion's processes provide us with unique opportunities to interact with all of the key players in the condominium process; individual unit owners, builders, condominium board members, property managers and performance auditors. Through the Condominium Task Force, Tarion provided feedback to the consultation and discussed with the Ministry the importance of educating both condominium owners and boards on their rights and responsibilities.

The Regulatory Affairs Committee was also very active in 2012. After more than three years of research and consultation with stakeholders, significant changes were made to the existing Major Structural Defect (MSD) warranty. These changes, which came into effect in July 2012, added more transparency and clarity to the MSD warranty process, more accountability for builders and better risk management for Tarion.

Tarion launched three formal public consultation processes on policy proposals that will have a significant impact on the building industry, ultimately resulting in a better customer service experience for new home buyers; a Performance Based Pricing Proposal, a Builder Core Competency Proposal and a Builder Arbitration Forum Proposal.

The Performance Based Pricing proposal seeks to base the price of enrolling homes on builder performance and risk, based on the criteria of tenure, claims, and chargeable conciliations. The Task Force will continue its work on this initiative in the coming year, expecting that initial trial scores will be delivered to builders in late 2013 and updated scores will be made public in 2015.

The Builder Education Task Force was also involved in public consultation in 2012 through Tarion's Builder Core Competency Proposal, aimed at enhancing Tarion's registration and renewal requirements. These requirements would ensure that new builder registrants have basic levels of competencies. New home builders would be required to keep themselves current in industry best practices through participation in annual professional development linked to the registrant's renewal application. Further consultation on how the policy is implemented will take place in 2013.

HARRY HERSKOWITZ
Chair of the Board

A review of the Builder Arbitration Forum (BAF) guidelines was completed in 2012. We listened to stakeholders who told us that BAF needed to be a more streamlined and cost-effective process. Changes to the BAF process will come into effect in 2013.

As part of our commitment to operate in accordance with best practices in corporate governance, the Board introduced a guideline of three consecutive one-year terms for Chairs of committees. These terms will ensure new ideas and perspectives will be engaged by the Board and that Directors continue to develop their knowledge of Board committees.

We also focused on increasing the collective skills and expertise of the Board by developing a Director Training and Development Policy and Director Orientation Policy and updating the Director Skill Matrix.

In striving for continuous improvement in our standards, five members of Tarion's Board of Directors now hold an ICD.D (Institute of Corporate Directors) designation.

I would like to take this opportunity to thank outgoing Board Members Dick Brouwer and Bob Finnigan for the many contributions they made to the Board during their tenures. I also welcome to the Board, Dan Gabriele and Leith Moore.

I would like to express my gratitude to my fellow Board Members for the leadership and direction they have shown throughout the year and would also like to thank Tarion's President & CEO Howard Bogach, his Corporate Leadership Team and all Tarion employees for their hard work and dedication to making Tarion a more effective and efficient company.

I look forward to the year ahead and continuing the excellent work we do in regulating Ontario's building industry and providing home buyers with the most comprehensive new home warranty protection in Canada.

MESSAGE FROM THE PRESIDENT AND CEO

Ontario's building industry is constantly changing. In fulfilling our role as industry regulator and administrator of the *Ontario New Home Warranties Plan Act*, Tarion must also be in a state of continual change. That is reflected in the theme of this year's report: change is the foundation of growth. It is also evident in our 2012-2014 strategic plan, which formed the basis of much of Tarion's accomplishments in 2012. The past year marked the beginning of the plan, bringing significant operational and regulatory changes designed to ensure that Tarion is able to continue to meet the needs of its stakeholders regardless of the ups and downs in the new home marketplace.

For the past four years, the uncertainty of Canada's economic climate has had a significant impact on our operations and will continue to be a factor in how Tarion operates and sets strategic goals. Low interest rates continued to have a positive impact on the industry and in 2012, new home enrolments maintained a steady upward trend. Total enrolments increased to 60,932 units; five per cent ahead of expectations. We saw the greatest increase in enrolments in the high rise sector and over the past four years have seen the enrolment mix shifting from freehold to high rise as a result of Greenbelt policies that encourage building up – not out.

One of the major drivers of our ability to respond to the marketplace is Tarion's channel strategy. We are continually looking for ways to communicate more effectively with stakeholders through the channels they find most convenient to access. Under the very broad umbrella of the channel strategy, we're sharing and collecting more key information online rather than in hard copy, making sure homeowners always have the most relevant and up-to-date information. We made upgrades to all our online platforms – Tarion.com, BuilderLink and MyHome and saw a substantial growth in the number of forms that were submitted through MyHome. We've also seen an interesting development in our customer service research that showed homeowners who used MyHome have higher levels of satisfaction in their experience with Tarion than homeowners who didn't use MyHome to manage their warranty. This shows us we're on the right track.

We introduced a number of changes to the warranty in 2012 that benefit Ontario's new home buyers. Changes to what's called the addendum created more transparency and greater disclosure for buyers, allowing them to clearly see all critical dates and deadlines involved in their home purchase and the complete listing of adjustments and fees that they will be responsible for upon closing. Changes to the Major Structural Defect (MSD) warranty mean that builders have increased accountability for these claims in years three through seven. We have also taken steps to better clarify the definition of major structural defect which will also benefit consumers. These steps have also led to a $150 reduction in enrolment fees for all homes effective July 1, 2012.

We made changes internally as well, with the introduction of the new Warranty Services department. Combining the former Claims Department and Contact Centre into one department brings together the staff members who work directly with homeowners, which provides more streamlined, effective services.

We continued to find ways to enhance our outreach through the creation of the Stakeholder Relations Department. The new department brings together the various groups who are primarily responsible for communicating to all of our stakeholder groups. We conducted three formal public consultations on proposed policy changes in 2012, created a new homeowner education video, participated in speaking tours and increased our media activities. Whether we're asking for recommendations on policy changes, speaking about the dangers of illegal building or offering home buying tips, we continue to find new ways to reach out to our stakeholders and fulfill our mandate to provide public education.

HOWARD BOGACH
President and Chief Executive Officer
Tarion Warranty Corporation
Toronto

When I'm on the road, speaking at local associations or to the media, I often talk about Tarion being in the people business. We are the industry regulator and administrator of the statutory warranty, but the end product we provide is peace of mind. When purchasing a new home, Ontario buyers do so knowing there is a place to turn to for help if they need it. I am proud to work with a Board of Directors and staff who recognize the importance of our role and that every single day our activities have the ability to profoundly affect someone's life.

Looking forward to 2013, we will continue to work on the initiatives that form Tarion's three year strategic plan to balance stakeholder interests while seeking operational efficiencies. It was developed by Tarion to meet the challenges of a dynamic operating environment. We know that the changes we make today will continue to make Tarion a stronger and more efficient organization for all stakeholders in the future.

STRATEGIC INITIATIVES

CHANGE IS THE FOUNDATION OF GROWTH

Tarion introduced a new three-year strategic plan in 2012 called Balancing Stakeholder Interests While Seeking Operational Efficiencies that is paving the way for new and improved services to better serve all our stakeholders. The plan ensures Tarion continues to move in the right direction; delivering warranty services and regulating builders in an efficient and effective way, while balancing the interests of all stakeholders, including new home buyers and builders, government and employees.

The key pillars of this plan are to manage risk, enhance financial performance and efficiency, and continue to build trust and transparency. Our ultimate goal is to enhance Tarion's performance as a financially stable, operationally efficient organization that delivers valued warranty services and builder regulation.

STRATEGIC INITIATIVES ACCOMPLISHED IN 2012 INCLUDE:

1 MANAGING RISK

- Ensured sufficient capital to withstand large claims according to stress test scenarios
- Examined reinsurance in an overall risk capacity review to address possible catastrophic losses
- Implemented changes to Major Structural Defect (MSD) Policy Framework to increase builder accountability for MSD claims, promoting higher building standards
- Continued a public consultation process for Performance Based Pricing, which would act as a performance incentive by rewarding good builders with a lower enrolment fee and penalizing poor builders with a higher enrolment fee

2 ENHANCING FINANCIAL PERFORMANCE AND EFFICIENCY

- Introduced the Channel Strategy, a major project that continues to update and improve the ways we communicate with homeowners and builders
- Conducted a thorough review of how we collect, use, store, disclose and destroy data and subsequently developed a data management policy expected to come into force in 2013
- Upgraded Customer Relationship Management software to automate a number of tasks related to the common element claims process, track components related to design and field review reporting requirements and streamline the security retention and release process
- Reviewed vendor/builder agreements with a view to streamline the administration of vendor/builder rights and obligations
- Implemented a redesigned data warehouse system that centralizes data into one location and eliminates the need to pull reports from multiple sources. The new system ensures integrity, consistency, quality and accuracy of data
- Moved into the final stages of replacing Licensing and Underwriting's HomeWise 2 system with a more flexible data intake and processing system that will allow Tarion to keep pace with changing business needs. This will enable more online and self-service functionality for vendors/builders, create more streamlined processes and improve our overall operational performance

3 BUILDING TRUST AND TRANSPARENCY

- Introduced the third edition of the Construction Performance Guidelines and the first Construction Performance Guidelines for Common Elements of condominium buildings, providing greater consistency and transparency in the claims process
- Implemented amendments to Delayed Closing/Delayed Occupancy Addenda that provide greater clarity in agreements to extend or accelerate critical dates and disclosure of closing costs
- Advised the building industry that Tarion would begin moving ahead with reviews of Builder Bulletins 28, 43 and 42, relating to licensing underwriting issues and security requirements
- Began public consultation on a proposal to increase education-related requirements for new applicants and implement professional development-related renewal requirements for existing registrants
- Concluded public consultation on changes to the Builder Arbitration Forum (BAF) process intended to make it a more efficient, constructive and cost effective way for builders to challenge a warranty and chargeability assessment
- Continued to integrate a culture of service excellence by developing and delivering training focused on understanding and listening to home owners
- Continued to work toward continuous improvements in governance processes

SIGNIFICANT ACCOMPLISHMENTS IN 2012

THE CHANNEL STRATEGY

One of Tarion's most significant projects undertaken in 2012 was updating and improving the channels we use to communicate with homeowners and builders. We have been moving from a primarily paper-based organization to adopting technology that best meets our needs, and the needs of our stakeholders.

Tarion defines a channel as the way we reach out to people, and how they reach us.

The overall goal of this project is to match the ebbs and flows of the new home industry and, in doing so, be able to accept increases or decreases in work flow without affecting our ability to deliver excellent service. Improving our channels provides our stakeholders with more convenience, speed and accuracy. This initiative will span from 2012 to 2014.

2012 accomplishments include:

THE NEW TARION.COM

In 2012, guided by stakeholder feedback, we launched a re-designed website. The new Tarion.com is easier to navigate, allowing homeowners to quickly locate the information they need and also features refreshed, easy to understand content.

GOING SOCIAL

As social media becomes an ever increasing way for people to connect, Tarion looked for ways to increase its use in communicating to our stakeholders. In addition to developing a comprehensive policy to guide Tarion's entry into social media, we launched a Wikipedia page in 2012. Tarion also created the framework for a Facebook business page, YouTube channel and social media sharing capabilities for the new Tarion.com. These initiatives will launch in early 2013.

"I really like the way things are going with the new BuilderLink – it helps make things easy to track and helps us stay up-to-date."

- Thornridge Homes

"Everything was done online. **I APPRECIATE THE E-MAIL REMINDERS FOR WHEN A FORM IS DUE."** - Homeowner

INTRODUCING BUILDERLINK

Tarion's online portal that provides builders with detailed information about the warranty status of their homes was re-introduced in 2012 as BuilderLink. In addition to a completely new look and feel, the portal now does more and does it better. Enhancements include the addition of conciliation related activities for Major Structural Defect cases, a reduction in the number of steps needed to submit enrolments and an online process for submitting the Certificate of Completion and Possession. The new platform also laid the foundation for future capabilities such as online payment processing, new applications for licensing and renewals of registration.

ENHANCEMENTS TO MYHOME

MyHome is Tarion's web-based service that helps homeowners quickly and easily manage their warranty. It allows homeowners to submit warranty forms online, keeps track of correspondence and sends email reminders of key due dates for submitting forms and requesting inspections.

In the past year, Tarion made several enhancements to MyHome to provide faster and more effective service to homeowners. In response to homeowner feedback, we updated the site for ease of use and added an application so homeowners can submit Major Structural Defect and Delayed Closing/Occupancy forms.

Warranty Services undertook a number of initiatives to help promote MyHome including registering homeowners over the phone when they called Tarion's Contact Centre and updating email signatures to include information about the benefits of MyHome. Additionally, Tarion conducted a pilot project that saw staff automatically register homeowners upon receiving their information from the builder's Certificate of Completion and Possession. Homeowners were then sent a notice of their registration with log in details.

As a result, the number of MyHome users jumped from just over 29,000 in 2011 to more than 50,000 in 2012. We also saw a rise in forms submitted via MyHome. Thirty-seven per cent of all warranty forms were submitted online in 2012, up from 23 per cent in 2011.

GOING PAPERLESS: THE ONLINE CCP AND HIP

In 2012, Tarion introduced an online Certificate of Completion and Possession (CCP) and began to move toward an online Homeowner Information Package (HIP).

Previously, a hard copy CCP was provided to every homeowner when they took possession of their home. This certificate included the date of possession, the names of the builder and owner and other essential information. The new process involves builders logging in to the enhanced BuilderLink, where they are able to generate a CCP form which they then complete, print and deliver to homeowners. The new process is easier to manage and ensures that records are up-to-date and consistent.

Tarion's Customer Service Standard requires builders to provide all new homeowners with a Homeowner Information Package during the pre-delivery inspection. This document describes warranty coverage in detail and the process for making a claim. The new electronic HIP will be easily accessible online and can be easily updated by Tarion, ensuring that homeowners are accessing the most recent version. The new electronic HIP will also reduce the administrative costs of printing, mailing and handling the large package of information.

As part of the transition to the new electronic HIP, Tarion created a small brochure for builders to provide to homeowners that offers a brief description of the warranty and encourages homeowners to go online to access the full HIP. A new electronic HIP will be available online in 2013.

The Channel Strategy will continue to be a focus in 2013 and 2014, with many enhancements expected to continually improve Tarion's services.

CHANGES TO THE WARRANTY

In 2012, Tarion made significant updates to the Delayed Closing/Occupancy rules and changes to the Major Structural Defect warranty.

CHANGES TO THE ADDENDUM

The revised forms, which every builder must attach to every new home purchase agreement, outline how the builder and purchaser may, at any time after signing the purchase agreement, agree in writing to extend or accelerate one or more critical dates. If this is done, the amendment must include a revised Statement of Critical Dates. The changes provide a clear and straightforward way for homeowners to see all critical dates and deadlines that are involved in purchasing a home.

The second change to the addendum was a direct result of feedback we received from homeowners. It provides better disclosure of closing adjustments by ensuring all fees and charges added to the purchase price of a home are itemized in a single document, titled "Schedule B." This new requirement allows homeowners to view all the costs associated with buying a house or condominium in one place.

INCREASING BUILDER ACCOUNTABILITY FOR MAJOR STRUCTURAL DEFECTS

After a thorough consultation process, Tarion has made significant changes to the existing Major Structural Defect (MSD) warranty. This is the seven year warranty that protects new home buyers from major defects in their home.

Previously, Tarion was responsible for MSD warranty claims in years three through seven. The changes introduced in July, 2012, put more accountability on builders since liability in years three to seven is now placed solely on the builder or may be shared between the builder and Tarion.

Under the new MSD structure, builders who are unwilling or unable to accept full responsibility for a defect may participate in a co-share liability structure with Tarion.

"Tarion changes are **GOOD FOR PURCHASERS."** - Bob Aaron

"I acknowledge Tarion's thorough work on its MSD Warranty Proposal, and have requested my Ministry's staff to continue to dialogue with Tarion to keep abreast of new developments of significant importance to consumers. I would like to thank you for forming a Consumer Advisory Council (CAC) to consider the consumer perspective in this policy proposal and all such policy proposals going forward."

- The Honourable Margarett Best, Minister of Consumer Services

If a Major Structural Defect claim is made to Tarion and the builder decides to opt for the co-share liability payment, it is reported on the builder's customer service record that is available to the public. It may also have an impact on licensing renewal and terms and conditions, similar to claims made under the one and two year warranties.

Because the builder has increased liability for the MSD warranty, Tarion reduced the associated home enrolment fee by $150.

Changes were also made to the original Major Structural Defect definition, which will lead to more consistent and transparent warranty decisions. The new definition refers to three separate tests that can apply to determine if a major structural defect has occurred:

1. The failure test determines if defects in work or materials would result in "failure of a structural load-bearing element of a building."

2. The function test examines a structural load-bearing element and its function. Any defect in work or materials that materially and adversely affects the ability of each structural load-bearing element of the building to carry, bear and resist applicable structural loads for the usual and ordinary service life of such element will be considered a major structural defect.

3. The use test requires that a defect results in a "significant portion of the home (or common elements) being materially or adversely affected." The use test is an objective standard which looks at the usual and ordinary purposes of a dwelling, or the common elements of a building.

Overall, the updates to the warranty provide greater consumer protection for home buyers, better risk management for Tarion's guarantee fund, and more transparency and clarification to the warranty assessment process.

CONSTRUCTION PERFORMANCE GUIDELINES

COMMON ELEMENT CONSTRUCTION PERFORMANCE GUIDELINES FOR CONDOMINIUMS

In the fall of 2012, Tarion introduced the first edition of the new Common Element Construction Performance Guidelines for condominiums. The guidelines, which were developed with the assistance of several acknowledged experts in engineering and field review, provide clarification on the most common and recurring issues encountered during the common elements claims process and sets realistic expectations in performance requirements for these issues. Ultimately the guidelines will lead to a better understanding of how these issues should be interpreted and which defects are covered under the warranty.

UPDATING THE EXISTING CONSTRUCTION PERFORMANCE GUIDELINES

Tarion also updated the existing Construction Performance Guidelines in 2012. The third edition of the guidelines applies to conciliations beginning on January 1, 2013. Since the guidelines were last revised in 2003, Tarion has collected input based on the most common issues encountered by Tarion staff, consumers, builders and builder service representatives who regularly use this reference manual.

"The introduction of the Common Element Construction Performance Guidelines will provide a better experience for new condominiums and we thank you on behalf of our constituents." - Mario Deo, Vice President, Canadian Condominium Institute Toronto

The extensive feedback was used to make a number of changes to the guidelines, including ninety three revisions to current items, the addition of sixteen new items, and the deletion of four items.

Both Construction Performance Guidelines are important tools in improving the consistency and transparency of the warranty process and helping homeowners and builders better understand how Tarion determines whether an item is warrantable.

CREATING THE NEW WARRANTY SERVICES DEPARTMENT

In 2012, Tarion undertook an internal restructuring with the goal of streamlining our processes and providing more efficient and effective services to our stakeholders. Combining the Claims Department and the Contact Centre into the new Warranty Services Department allowed Tarion to avoid service duplications and provide more prompt, personal service to our customers.

Existing staff were reorganized into teams by specific geographical regions. The teams, which consist of Field Claim Representatives, Claim Service Representatives and a Field Claim Manager, work together to provide builders and homeowners with a consistent Tarion contact, from the time a conciliation inspection is requested until the claim is settled. The teams are better equipped to understand issues and trends in their area and will be able to gain more experience with issues affecting multiple homes in a single area.

"Thank you for your continued interest in the repairs of our condo. **I KNOW THAT YOUR SKILL, CALMNESS AND PROFESSIONALISM MADE SURE THE TARION CONCILIATION REMAINED POSITIVE AND PRODUCTIVE."**

- Homeowner Email

ENGAGING STAKEHOLDERS

In 2012, the public consultation process continued to be an important tool for providing stakeholders with a voice during Tarion's policy development process. This initiative was enhanced in 2010 as a way of making policy development more collaborative and transparent, and to ensure that stakeholders have an increased voice. Since that time, we've seen a number of important ideas incorporated in Tarion's final proposals as a result of the sound feedback provided by our stakeholders.

In 2012, three policies were the focus of our public consultation process:

PERFORMANCE-BASED PRICING

A public consultation process was launched in April 2012 to introduce a performance based pricing model that would base the price of enrolling homes on builder performance and risk. Performance based pricing will link the cost of Tarion's service delivery and claims payments to the fees paid by builders, rewarding builders with good claims and service records with a lower fee structure and penalizing builders with poor service and claims records with a higher fee. It will also act as a monetary incentive to builders to help improve the quality of construction and after sales service. During the year, this initiative moved forward into the development phase where builders were scored based on their past service and claims records. Initial trial scores will be delivered to builders in 2013.

BUILDER CORE COMPETENCIES

In February 2012 Tarion consulted on a proposal to improve registration requirements for new applicants and implement professional development-related renewal requirements for existing registrants. The proposed changes would lead to an enhanced evaluation of a new applicant's core competencies and ensure all builders stay current in their knowledge by requiring continuing professional development. A second public consultation on proposed policies is expected in 2013.

BUILDER ARBITRATION FORUM

Public consultation on proposed changes to the Builder Arbitration Forum (BAF) process continued throughout 2012. The proposed changes are intended to streamline the BAF process, making it a more efficient, constructive and cost effective way for builders to challenge a warranty and chargeability assessment. Changes to the BAF process are expected to come into force in 2013.

> **"I experienced Tarion's warranty process firsthand when I bought my new home. This process helped answer many of the questions I had as a new home buyer. I'm now happy to serve on Tarion's Consumer Advisory Council: a group that gives Tarion feedback on a variety of issues from a consumer perspective. I hope the advice will help benefit and protect other new home buyers across Ontario."**
>
> - Nicole Lippa-Gasparro,
> Member, Consumer Advisory Council

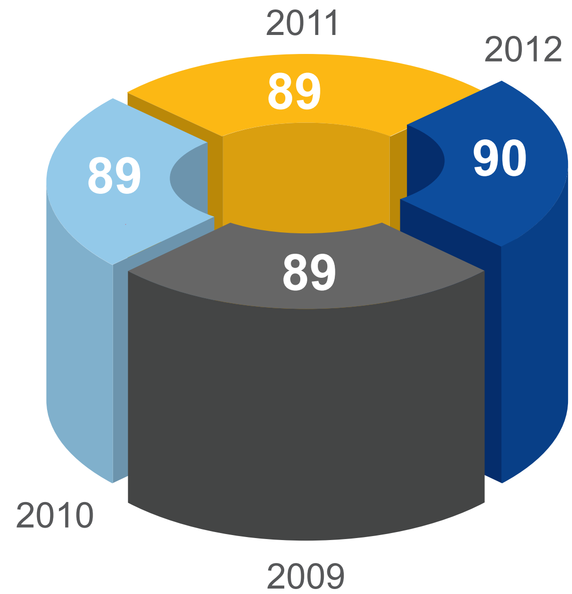
UNDERSTANDING HOMEOWNER EXPERIENCES WITH TARION

Toward the end of 2012, Tarion commissioned its annual, third-party research to measure how we are viewed by homeowners. By seeking consistent feedback, we assess customer satisfaction and determine what we need to focus on in order to continually improve. Detailed results from our 2012 homeowner survey can be found on tarion.com.

Questionnaires were sent to more than 40,000 consumers in their first year of possession* as well as almost 11,200 additional consumers in their second through seventh year of possession.** A total of 7,814 responses were received. Most measures were tracked against similar surveys conducted during previous years.

Overall results from the survey of homeowners in their first year of warranty coverage were consistent year over year with a few changes emerging based on builder size or type. For example, those who purchased from medium builders reported increased satisfaction in several areas and those who purchased from large "production" builders reported reduced satisfaction.

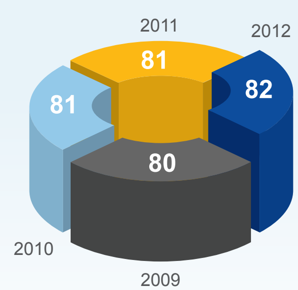
- Increasing by two per cent, a large majority of homeowners (87 per cent) in their first year of possession have a favourable impression of Tarion. Results across individual categories (hi-rise, large, medium and small) were stable.
- Most homeowners view Tarion as accessible (90 per cent), able to listen to their needs and concerns (82 per cent), easy to do business with (83 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 (79 per cent). Being seen as "easy to do business with" is the only one of these measures that improved statistically in comparison with the previous year's results (all others remain stable).



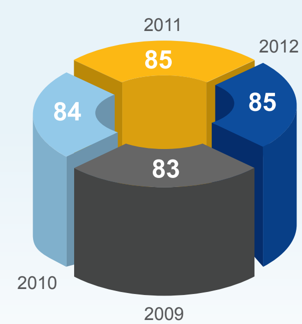
TARION IS ACCESSIBLE (%)

* Homeowners took possession of their home between October 1, 2011 and September 30, 2012. Results are accurate to within +/- 1.2% 19 times out of 20.

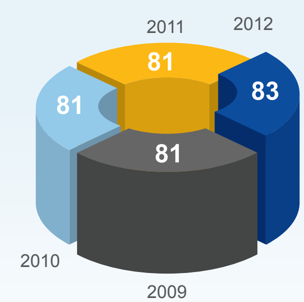
**Homeowners took possession of their home between October 1, 2005 and September 30, 2011. Aggregate results are accurate to within +/- 3.1%, 19 times in 20. Margins of error are higher for individual years of coverage ranging between +/- 6.7% and +/- 10.1%.



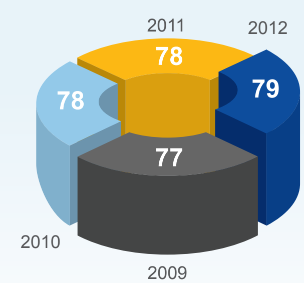
TARION LISTENS AND UNDERSTANDS (%)



TARION HELPS HOMEOWNERS UNDERSTAND THEIR WARRANTY RIGHTS AND OBLIGATIONS (%)



TARION IS EASY TO DO BUSINESS WITH (%)



TARION MAKES SURE NEW HOME BUILDERS FULFILL THEIR WARRANTY OBLIGATIONS (%)

Satisfaction levels continue to be significantly higher among buyers who register to use **TARION'S MYHOME WARRANTY SERVICE PORTAL** compared to non-users.

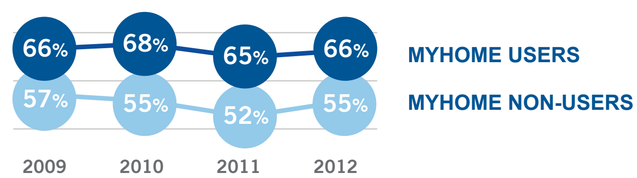
- Satisfaction levels continue to be significantly higher among buyers who register to use Tarion's MyHome warranty service portal compared to non-users of this service. Further, an increasing number of homebuyers registering to use MyHome contribute to the rise in overall satisfaction when interacting with Tarion.
- 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 percent reporting having had one in 2012 and 2011 vs. five percent in 2010, and seven percent in 2009.

Results of the survey among homeowners in their second through seventh year of warranty coverage followed the same trends as the 2011 results. Overall, homeowners in their first or second year of coverage are most favourable toward Tarion.

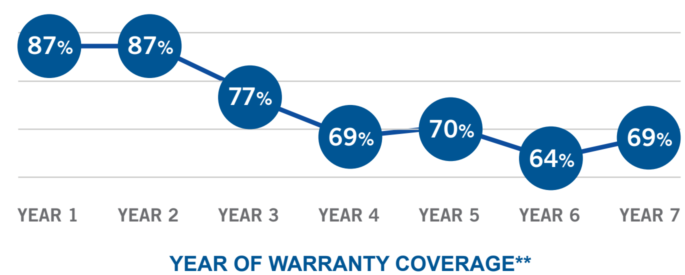
- Eighty-four per cent of homeowners in their second through seventh year of warranty coverage viewed us as accessible and when asked if we were easy to do business with, results ranged from 93 per cent among those in year two of the warranty to 77 per cent among those in year six.
- Longer-term trends are emerging among homeowners in their second through seventh year of warranty coverage, which are showing a long-term trend of positive, slow-and-steady improvements on these traits.

**Homeowners took possession of their home between October 1, 2005 and September 30, 2011. Aggregate results are accurate to within +/- 3.1%, 19 times in 20. Margins of error are higher for individual years of coverage ranging between +/- 6.7% and +/- 10.1%.

MYHOME – HIGHLY SATISFIED WITH TARION INTERACTIONS



FAVOURABLE IMPRESSION OF TARION



BUILDING TRANSPARENCY

CONNECTING WITH THE INDUSTRY

Tarion President and CEO Howard Bogach visited a number of regions throughout Ontario in 2012 to connect with homeowners and builders. These events presented valuable opportunities to listen to the unique challenges that occur in different areas of the province, and provide these communities with regular updates from Tarion. Each community shared a different perspective on the new home building industry, which helps Tarion better understand how we can best support builders and protect consumers.

Howard Bogach featured on Thunder Bay Television News, discussing local home building issues.

At many of these events, Howard Bogach worked with Ontario Home Builders' Association (OHBA) President Doug Tarry, meeting members of the local media to talk about local home building issues and how Tarion and the OHBA are working to combat illegal building and improve the home buyer experience.

Tarion's Stakeholder Relations team supports builders by keeping them regularly informed of new initiatives in the industry, providing guidance on after sales service issues, and facilitating the sharing of best practices within the new home building industry. Dedicated builder relations representatives respond to emails, phone calls and visit builders on-site, offering technical and administrative advice to help builders understand their warranty requirements. In 2012, members of Tarion's Stakeholder Relations team attended 116 events at 28 local home building associations throughout the province.

BREAKING GROUND

The Breaking Ground newsletter is Tarion's builder-focused publication for important industry related information. In 2012, 14 editions of Breaking Ground were emailed to almost 6,400 members of Ontario's building industry. The newsletters included regularly scheduled editions and alerts designed to quickly bring builders up-to-date on important issues.

"Collaborating with Tarion to visit local home building associations has been a very positive experience for OHBA. We were able to collectively provide updates and discuss important issues, like illegal building. We also had a chance to meet with local media members to talk about the building industry and our combined efforts to continually improve the new homebuyer experience." - Doug Tarry, President, Ontario Home Builders' Association

REACHING OUT TO HOMEOWNERS

In 2012, Tarion expanded its education efforts to new homebuyers and owners. Since 2008, Tarion has published a regular column in the Toronto Sun under the byline of President and CEO Howard Bogach which highlights issues of relevance to new homebuyers and owners of homes under warranty. This past year, the column has also been regularly featured in the Ottawa Capital City News and the Collingwood Enterprise Bulletin.

Articles about Tarion's Awards of Excellence were featured in many communities throughout the province. Journalists from the National Post, Toronto Sun, and Ottawa Sun wrote pieces encouraging homeowners to fill out their Tarion surveys with many more media outlets reporting on award recipients.

Throughout the year, Tarion employees participated in interviews with many industry-related publications such as the Condo Voice, Condo Business Magazine, Condominium Manager Magazine, Canadian Underwriter and the Law Times. These interviews help promote understanding of Tarion's mandate and new initiatives.


Homes-Extra.ca

When 'pitching in' is a really bad idea

Getting involved in the construction of your new home may affect your warranty

GAME CHANGERS

An Interview with Howard Bogach

While visiting local home building associations throughout the province, President and CEO Howard Bogach invited members of the local media to discuss issues in Ontario's home building industry such as warranty coverage and the dangers of illegal building. Interviews were featured in local newspaper articles as well as on radio and television newscasts.

ADVERTISING

Tarion places corporate advertising in targeted sections of online publications, newspapers and magazines. The advertising campaign encourages new home buyers to visit tarion.com for information about the warranty coverage they are entitled to.

ONLINE VIDEO LIBRARY

We continued to expand our collection of online videos in 2012 with the addition of *Maintaining Your New Home*. This video discusses the importance of home maintenance, provides valuable tips and demonstrates various seasonal home maintenance tasks.

As more homeowners turn to our online resources to help them manage their warranty, short, relevant videos will play an increasing role in how we communicate that information.

LOOKING AT HOW WE COMMUNICATE

The 2011 Ombudsperson Report recommended that Tarion review the written correspondence sent to stakeholders in an effort to make it clearer, easier to understand, and more transparent. In 2012, Tarion reviewed several communication pieces to see how we could best meet the recommendation. New Warranty Assessment Reports and Decision Letters were created that are easier to read and understand. Tarion's Consumer Advisory Council will review the new templates to provide feedback on the changes before they begin circulation in 2013.

SERVICE AND SUPPORT

WARRANTY PROGRAM

New homebuyers 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. The fee ranges from $350.00 to $1,500.00 (plus HST). The warranty provides excellent value and remains with the home for seven years, even if the home is sold during this period. While the vast majority of builders are able to resolve any issues that arise to the satisfaction of new homebuyers, 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.

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 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*.

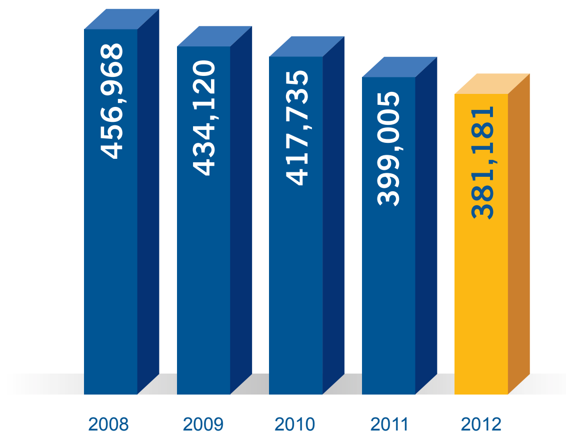
HOMEOWNER PROTECTION

While many notable changes occurred at Tarion in 2012, we continued to offer the range of warranty services that Tarion has been refining for more than 35 years. In 2012, there were 48,324 new home possessions that fell under Tarion's regulation.

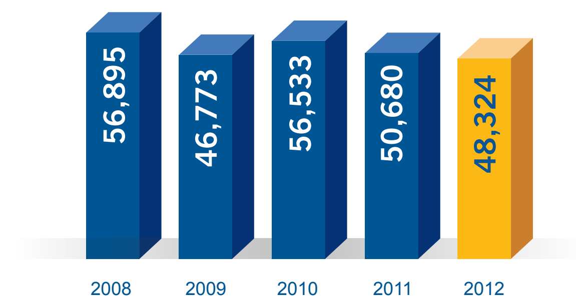
When a homeowner is unable to resolve an issue with his or her builder and Tarion determines that the item is covered under the statutory warranty, we will work directly with the purchaser to resolve the matter. Claims paid reflect payments made to homeowners or amounts paid to repair defects, where the homeowner and the builder could not resolve a dispute.

In 2012, Tarion paid out 493 claims totaling $7 million. Claim payments in 2012 were marginally lower than in 2011, but on par with 2011 when examined on a per claim basis.

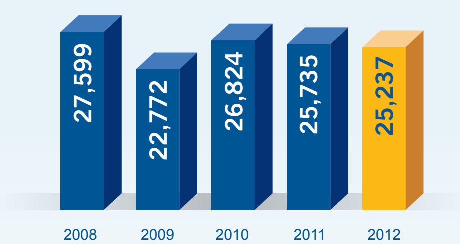
WARRANTY SERVICES STATISTICS



TOTAL HOMES UNDER WARRANTY

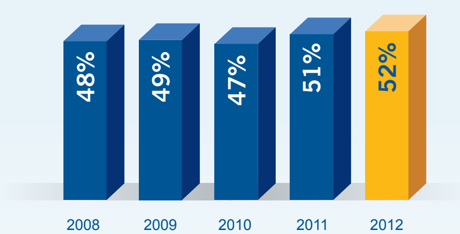


NEW HOME POSSESSIONS

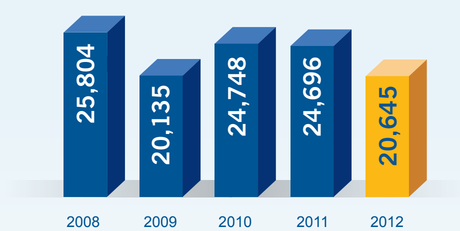


NUMBER OF 30-DAY FORMS SUBMITTED*

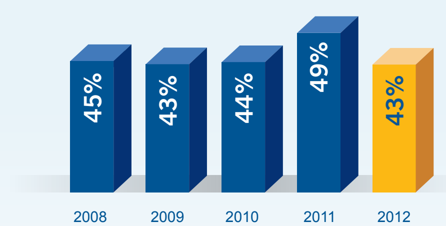
*The number of forms received in 2011 and 2012 are calculated on a per home basis.



PERCENTAGE OF HOMES FOR WHICH 30-DAY FORMS WERE SUBMITTED



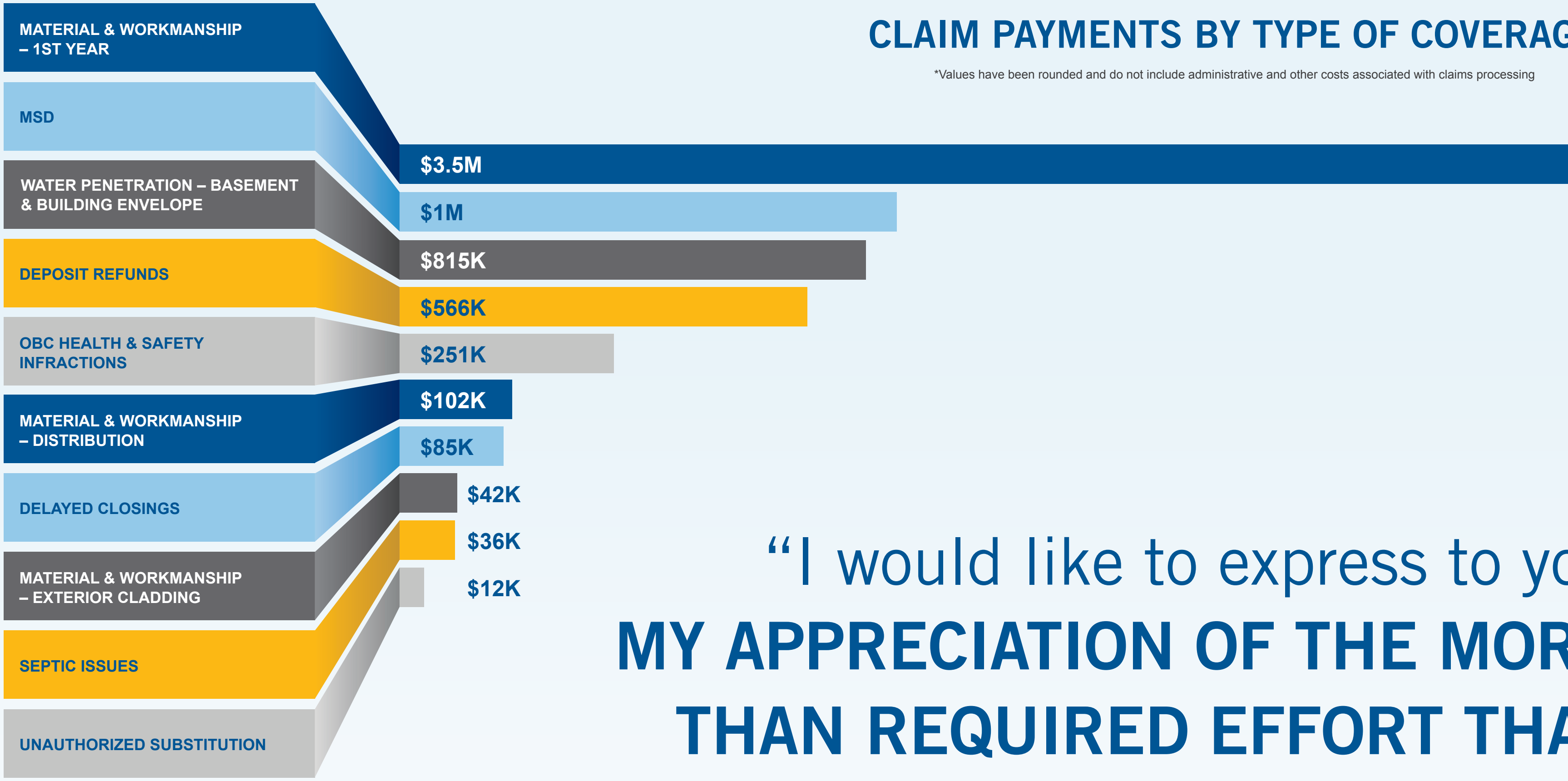
NUMBER OF YEAR-END FORMS SUBMITTED*



PERCENTAGE OF HOMES FOR WHICH YEAR-END FORMS WERE SUBMITTED

CLAIM PAYMENTS BY TYPE OF COVERAGE

*Values have been rounded and do not include administrative and other costs associated with claims processing

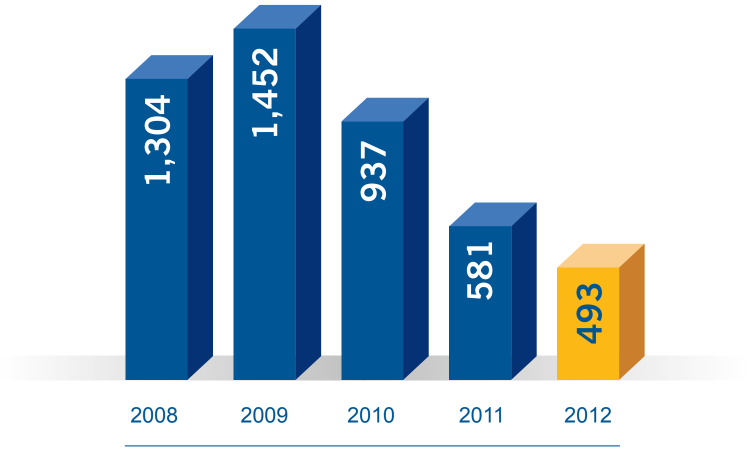


"I would like to express to you **MY APPRECIATION OF THE MORE THAN REQUIRED EFFORT THAT THE FIELD CLAIM REPRESENTATIVE PUT FORTH** to get my Tarion claim resolved with the builder...He is patient, professional and always ensured that my interests were looked after. He is an excellent Tarion representative. You are lucky to have him on staff."

- Homeowner

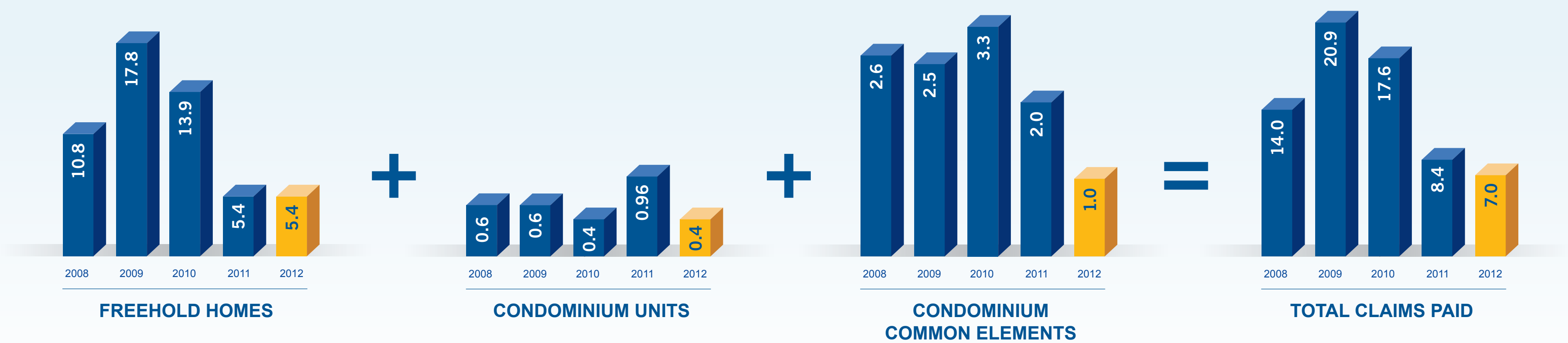
The number of claims and claims payments from 2011 to 2012 was relatively stable, especially in comparison to the steep reduction in 2011, from the 2009 and 2010 years. The decreased claims activity in the past two years is driven by a number of factors including a decrease in new home possessions and a positive trend - that more claims are now being resolved directly between homeowners and builders without requiring a claim being paid out by Tarion. Tarion has implemented several initiatives to increase the likelihood of a resolution. These include earlier communication with builders and homeowners and a higher conciliation fee structure that encourages resolution.

Other contributing factors include the growth of condominium units in relation to freehold homes, as condominium units have historically lower claim rates than freehold homes.



NUMBER OF CLAIMS PAID

CLAIMS PAID ($ MILLIONS)*



* Values have been rounded

CUSTOMER SERVICE

Integrated into the newly formed Warranty Services department, Tarion's Customer Service Centre is the first line of contact for homeowners or homebuyers when they have questions or a concern.

In 2012, Tarion responded to an increasing number of enquiries including more than 98,000 telephone calls and approximately 29,000 emails from homeowners and builders. Most commonly, callers are enquiring about warranty coverage, the claims process or the status of a specific claim. An additional 2,400 homeowners and builders visited Tarion throughout the year to drop off warranty forms and other documents or to meet in person with Tarion representatives regarding a question or issue.

"Your representatives have done **A GREAT JOB IN ANSWERING ALL OF OUR QUESTIONS."** - Homeowner

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. These appeals are conducted through an independent process administered by the Ontario Licence Appeal Tribunal (LAT).

In 2012, 102 homeowner appeals were filed with LAT. Of those 102, most were settled and only 22 proceeded to a hearing. Tarion's assessment was upheld in 16 cases, overturned in four cases and upheld in part in two cases.

When Tarion issues a proposal to refuse or revoke a builder's licence, builders may also appeal the proposal to LAT. In 2012, 21 builder appeals were filed with LAT and 18 appeals were resolved. Of the 18 appeals resolved, Tarion withdrew its notice of proposal in 12 cases either because the builder complied with the proposed terms and conditions of registration or because a settlement was reached with the builder that resolved the issues before the LAT hearing. In five cases the builder withdrew the appeal or application for registration prior to the LAT hearing and in one case the appeal was dismissed by LAT without a hearing.

TARION'S NEW HOME BUYER OMBUDSPERSON OFFICE

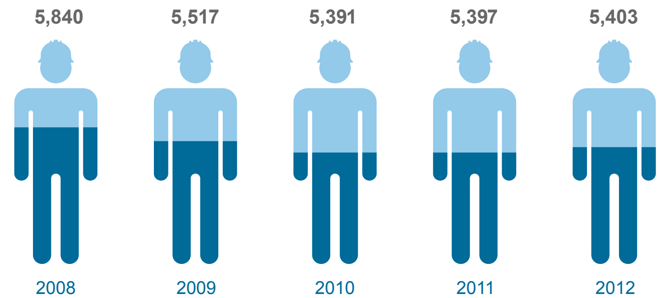
Homeowners who feel they have not been treated fairly by Tarion can turn to our New Home Buyer Ombudsperson Office. The Ombudsperson Office receives, investigates and seeks to resolve complaints from homeowners, providing an objective perspective for consumer concerns to determine whether a decision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

The Ombudsperson Office makes recommendations related to specific complaints and systemic concerns. A summary of activities, case studies, observations, and recommendations for process improvement and/or policy changes based on the previous year's activity can be found in the Ombudsperson Annual Report. In 2012, the Ombudsperson Office Annual Report outlined two recommendations. Tarion accepted all recommendations, and developed and implemented an action plan to update policies or processes according to the recommendations.

For more information about the New Home Buyer Ombudsperson Office or for a copy of the 2012 Ombudsperson Annual Report visit www.tarion.com.

LICENSING & UNDERWRITING

Tarion is the regulator of new home builders and as such is responsible for licensing all new home builders in Ontario and ensuring they have the technical competence, customer service capabilities and financial capacity required to build new homes.



BUILDERS REGISTERED

We also look at how past conduct reflects on the builder's honesty and integrity. Builder licensing reviews occur annually and involves establishing 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 licence 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 so 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 the builder is audited by Tarion for compliance; and/or
- The builder's licence is revoked.

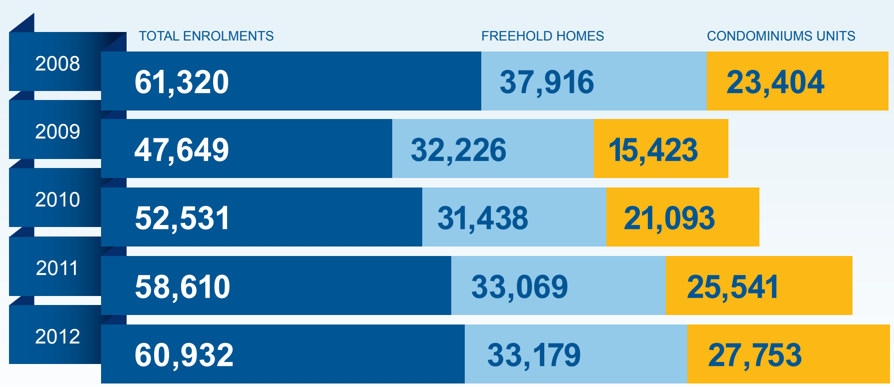
In some cases, Tarion may require builders to post security in the form of surety bonds, letters of credit, deposit trust agreements, cash or indemnity agreements. In line with the costs and risks associated with each type of project, security amounts are higher for condominium construction than for freehold homes. The increasing number of condominiums enrolled with Tarion as compared to freehold enrolments has resulted in a corresponding increase in the size of Tarion's security portfolio from $2.2 billion at the end of 2011 to $2.3 billion at the end of 2012, primarily attributable to surety bond growth.

Builder registrations have remained relatively stable since 2011, with a small increase to 5,403 registered builders in 2012. Throughout the year, 19 builders were denied licences and Tarion refused to renew the registrations of nine builders.

ENROLMENTS

2012 continued to be a strong year for new home enrolments, continuing the upward trend seen in 2010 and 2011. Given the uncertainty of Ontario's new home market and the cooling in new home sales that took place in 2012, there was speculation that enrolments would also decrease. But while enrolments do follow the trend of sales, they do so with a time lag of about a year or two, or more in the case of large condominium projects. Total 2012 enrolments were up four per cent over 2011, but showed slower growth than the 12 per cent increase seen from 2010 to 2011. The freehold market was relatively stable, while condominium enrolments increased almost nine per cent over 2011.

NEW HOME ENROLMENTS



ENFORCEMENT

Illegal building is a concern across Ontario, putting homeowners at risk and hurting the reputation of the building industry. When a builder fails to register with Tarion or enrol a home with Tarion, purchasers are typically unaware of their right to new home warranty coverage. In addition, illegally built homes often do not meet Ontario Building Code standards and can leave homeowners living in unsafe and substandard conditions.

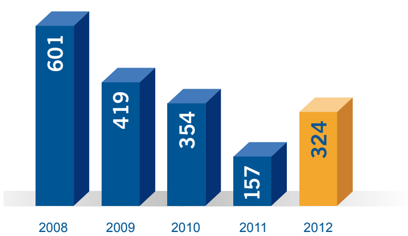
The Tarion Enforcement team tracks down, charges and prosecutes illegal builders. In 2012, the efforts of this group, which consists primarily of former police officers, led to 69 convictions in provincial courts and fines of $262,000 including victim fine surcharges.

During the year, Tarion's enforcement team completed the implementation of an intelligence based software system. Along with a dedicated intelligence analyst, it improves the speed and accuracy of detecting illegal building activity across the province by identifying high-risk builders, including repeat offenders and builders who have either had their licences revoked or refused by Tarion. It also alerts Tarion to builders who obtain a building permit but do not include a vendor/builder number on the permit. Since implementing the new software, there has been a significant increase in the number of files that have been flagged to Tarion's enforcement team.

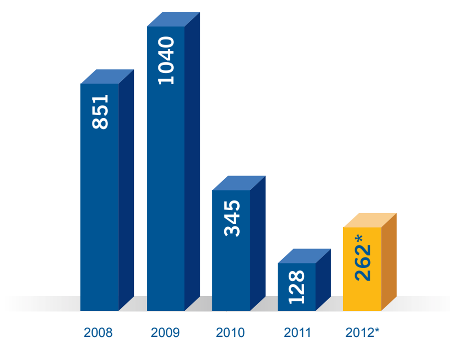
Recognizing the underground economy in Ontario is much larger than just illegal building activities, Tarion's enforcement team collaborates with various agencies and levels of government to share information. If a builder is not licensed with Tarion, they may also be engaging in other activities associated with the underground economy, such as hiring untrained or unskilled workers, evading taxes and not adhering to health and safety regulations.

Tarion also continues to work with Ontario's 426 municipalities. The building permit information shared with Tarion plays a significant role in identifying illegal building activities.

ENFORCEMENT ACTIVITY

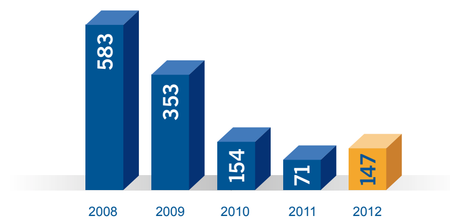


NEW INVESTIGATIONS

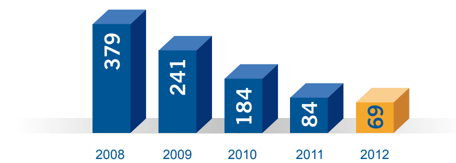


FINES LEVIED ($ THOUSANDS)

*2012 fine amounts include victim fine surcharges



CHARGES LAID



CONVICTIONS

"Ontario's building official community is pleased to share building permit information with Tarion, used to identify illegally built homes. Ultimately OBOA and Tarion are working toward the same goal; ensuring home owners purchase safe, legally built homes that are constructed according to the Ontario Building Code." - Leo Cusumano, President, Ontario Building Officials' Association

TRACKING COMPLAINT TRENDS

Since 2011, Tarion has been reviewing how complaints about staff, service and warranty process are tracked and reported throughout the organization. Prior to that point, only data tracked from the Customer Services department was reported in annual reports.Through the review, additional intake points for complaints were identified and in addition to complaints originating from Customer Services, we were able to report on complaints received by Field Claim Managers, the Office of the President and CEO and the Stakeholder Relations department. In 2012, a total of 436 complaints were received.

Tarion recognizes the need to develop a more consistent and comprehensive complaints tracking system, and in 2012 developed customer service enhancements to help achieve this goal including upgrades to MyHome that will allow homeowners to submit complaints and compliments online. A new application for submitting complaints and compliments directly through Tarion.com was also developed. Both initiatives are expected to be implemented in 2013.

These new, easy and transparent ways for homeowners to raise concerns will help Tarion establish a more long-term and comprehensive understanding of our complaint activities.

REWARDING EXCELLENCE IN CUSTOMER SERVICE

Exceptional customer service is the cornerstone of building a positive experience with homeowners. Tarion recognizes this through our annual Awards of Excellence.

The awards are based on the results of customer service satisfaction surveys sent to all homeowners who have taken possession of a home in the previous year. Survey questions focus on homeowner satisfaction with their builder, covering every stage in the homeowner-builder relationship from signing the agreement of purchase and sale, through construction and the pre-delivery period to after-sales service.

The 2012 Awards of Excellence were based on the results of 6,800 surveys completed by homeowners.

"It is wonderful to be recognized by the industry and by peers, but to be recognized by our customers is the ultimate honour."

- Niall Haggart, Executive Vice President, The Daniels Corporation

IN 2012, AWARD RECIPIENTS INCLUDED:

HIGH-RISE CATEGORY:
The Daniels Corporation - Toronto

LARGE VOLUME CATEGORY:
Fusion Homes - Guelph

MEDIUM VOLUME CATEGORY:
Wrighthaven Homes Limited - Elora

SMALL VOLUME CATEGORY:
Cedarstone Homes Limited - Ashton

ON THE HORIZON

As Tarion enters the second year of its three year plan, it will remain focused on building trust and transparency, managing risk and enhancing financial performance and efficiency. Many of the projects and changes that began in the past year will continue as multi-year initiatives designed to make Tarion a more efficient and effective organization.

The Channel Strategy will continue to be an important part of ensuring that Tarion meets the changing needs of its stakeholders and continues to offer high levels of service regardless of the ebbs and flows of the marketplace. Enhancements to BuilderLink and MyHome, such as online scheduling, payment and registration will be implemented in 2013 and Tarion will increase its social media presence to better communicate with stakeholders.

Tarion will move forward with the initiatives that were part of the public consultation process in 2012 by implementing changes to the Builder Arbitration Forum, preparing builders for the implementation of the performance based pricing model, and further consulting with stakeholders on builder core competencies.

Enhancing core competencies will also be a focus within the organization as Warranty Services staff continue to work toward obtaining a Building Code Identification Number. By the end of 2013, all Field Claim Representatives will have completed the Part 9 Building Code course and will enroll in further courses related to legal processes and large buildings.

Recognizing that illegal building continues to be an industry-wide issue that puts homeowners at risk, Tarion will undertake a jurisdictional review of illegal building detection and enforcement in 2013, examining best practices on how to combat these illegal activities.

These initiatives will be implemented as part of Tarion's three year plan to balance stakeholder interests while seeking operational efficiencies. Tarion will continue to seek opportunities to increase financial stability and operationally efficiencies while meeting the changing needs of our stakeholders.

CORPORATE GOVERNANCE

CORPORATE LEADERSHIP TEAM

HOWARD BOGACH
President and Chief Executive Officer

DAVID J. GUINEY
Chief Operating Officer

PETER BALASUBRAMANIAN
Vice President, Warranty Services

JOHN E. BECEVELLO
Vice President, Licensing and Underwriting

EILEEN M. HOLDEN
Vice President, Human Resources

EDMOND F. LEE
Vice President and Chief Financial Officer

KAREN MORTFIELD
Vice President, Stakeholder Relations

LESLEY ROSS
Deputy Corporate Secretary

TIM P. SCHUMACHER
Vice President, General Counsel and Corporate Secretary

SUZANNE M. TIFFIN
Vice President, Channel Strategy

BILL R. WALLACE
Vice President and Chief Information Officer

BOARD OF DIRECTORS

HARRY HERSKOWITZ
Chair, Partner
Delzotto, Zorzi LLP
Toronto

CHRISTOPHER S. SPITERI, ICD.D
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

DEBORAH BROWN, ICD.D
Director of Operations
Ministry of Government Services
Toronto

ROBERT COOPER
President
Alterra Group of Companies
Toronto

SANDY EWEN
Principal
Developer Surety Consulting
Uxbridge

DANIEL GABRIELE
Vice President
Marz Homes
Stoney Creek

FRANK GIANNONE, ICD
President
Fram Building Group
Mississauga

BRIAN K. JOHNSTON, CPA, CA
Chief Operating Officer
Mattamy Homes
Oakville

HAROLD LEVY
Corporate Director
Toronto

MICHAEL LIO, ICD.D
Principal
Lio & Associates
Toronto

PETER OAKES, MBA, CPA, CA, ICD.D
Corporate Director
Toronto

LYNN PETERSON
Corporate Director
Thunder Bay

PETER SATURNO
President
Midhaven Homes
Oshawa

LEITH MOORE
(Associate Member)
Sorbara Group of Companies
Toronto
President, Ontario Home Builders' Association

LEA RAY, CPA, CA, ICD.D
(Associate Member)
Corporate Director
Toronto

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 Corporation and to ensure that the Corporation acts in the best interest of the company having regard to its mandate and 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 the by-laws of the Corporation, 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 persons appointed by the Ministry of Consumer Services, as well as an individual with a financial background. The 2012 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 the Corporation'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 policies of the Corporation and regulatory requirements. A management risk sub-committee also identifies emerging issues and reports to the Audit Committee.

STRATEGIC PLANNING

The Board engages in a strategic planning process each year which takes into account business policy initiatives and opportunities, as well as operational and financial risks. Throughout the year, the Board reviews corporate performance against the Company's 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.

RESPONSIBILITIES OF THE COMMITTEES OF THE BOARD

Audit Committee

LEA RAY, CPA, CA, ICD.D, Chair
ROBERT COOPER, Vice Chair
SANDY EWEN
BRIAN K. JOHNSTON, CPA, CA
PETER OAKES, MBA, CPA, CA, ICD.D

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

MARK BASCIANO, Chair
DEBORAH BROWN, ICD.D, Vice Chair
FRANK GIANNONE, ICD
HARRY HERSKOWITZ
MICHAEL LIO, ICD.D
LYNN PETERSON
PETER SATURNO
CHRIS SPITERI, ICD.D (ex-officio)

The Governance Committee provides recommendations to the Board with respect to governance matters affecting the Corporation. 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 of the Corporation, 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 the business issues of the Corporation.

Human Resources & Compensation Committee

MICHAEL LIO, ICD.D, Chair
FRANK GIANNONE, ICD, Vice Chair
ROBERT COOPER
HARRY HERSKOWITZ (ex-officio)
BRIAN K. JOHNSTON, CPA, CA
HAROLD LEVY
PETER SATURNO

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.

Investment Committee

BRIAN K. JOHNSTON, CPA, CA, Chair
PETER OAKES, MBA, CPA, CA, ICD.D, Vice Chair
ROBERT COOPER
SANDY EWEN
LEA RAY, CPA, CA, ICD.D

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

Regulatory Affairs Committee

HARRY HERSKOWITZ, Chair
DEBORAH BROWN, ICD.D, Vice Chair
MARK BASCIANO
ROBERT COOPER
PETER SATURNO
CHRIS SPITERI, ICD.D (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 effecting of each proposed regulation change; evaluates the adequacy and effectiveness of current or proposed legislation or regulations to ensure compliance with the mandate of the Corporation; and ensures that Tarion is meeting its regulatory obligations and responsibilities as set out in its Mandate.

Consumer Committee

CHRIS SPITERI, ICD.D, Chair
DEBORAH BROWN, ICD.D, Vice Chair
MARK BASCIANO
DANIEL GABRIELE
FRANK GIANNONE, ICD
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 eight 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.

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 Council met three times in 2012.

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.

The Nominations Committee interviews individuals nominated by the industry based on the identified skill set determined by the Board's annual review of a Directors Skill Matrix. Following the interview process, nominees are recommended to the Governance Committee and to the Board of Directors to fill identified vacancies.

Builder Education Task Force

The Builder Education initiative is working towards enhanced education requirements for both new and existing builders as a condition of registration with Tarion. A Board of Directors appointed task force is developing the strategy and procedures to enable Tarion to achieve the objective. In 2012, the project completed its initial stakeholder consultation phase. In 2013, it will work to develop proposed policies and procedures for the enhanced registration requirements and publish a paper on the subject for public consultation. The Task Force is composed of seven Directors and two representatives from the Ontario Home Builders Association.

Condominium Task Force

The Condominium Task Force is composed of three Directors and one industry appointee 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 in the province and in quantifying and taking steps to minimize the degree of risk being assumed by Tarion.

Performance Based Pricing Task Force

The purpose of the Performance Based Pricing (PBP) initiative is to introduce a way of better matching the cost of Tarion's services/claims to the fees for individual builders and by doing so improve the quality of construction/after sales service of builders through this monetary incentive. The PBP proposal is also to reward builders with "good" performance and penalize builders with "poor" performance. After successful stakeholder consultations in 2012, the project has entered its development phase. The first of two trial iterations of PBP will be executed in 2013 with all builders receiving their scores in the latter half of 2013.

DIRECTORS' ATTENDANCE

DIRECTOR	BOARD OF DIRECTOR MEETINGS	COMMITTEE MEETINGS
Harry Herskowitz	8 of 8	7 of 7
Mark Basciano	8 of 8	9 of 11
Howard Bogach	8 of 8	24 of 24
Dick Brouwer*	2 of 2	2 of 2
Deborah Brown	8 of 8	10 of 12
Robert Cooper	8 of 8	7 of 8
Sandy Ewen	8 of 8	9 of 9
Daniel Gabriele*	6 of 6	3 of 3
Frank Giannone	8 of 8	10 of 10
Brian Johnston	7 of 8	5 of 13
Harold Levy	8 of 8	7 of 8
Michael Lio	8 of 8	14 of 14
Peter Oakes	8 of 8	8 of 9
Lynn Peterson	8 of 8	6 of 6
Lea Ray	8 of 8	8 of 9
Peter Saturno	5 of 8	7 of 11
Christopher Spiteri	8 of 8	13 of 13
Bob Finnigan*	2 of 2	N/A
Leith Moore*	3 of 4	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 2012.
2. The number of Board and of Board Committee meetings held by the Corporation during 2012 was as follows:

Board of Directors – 8 meetings
Audit Committee – 5 meetings
Governance Committee – 4 meetings
Investment Committee – 4 meetings
Human Resources & Compensation Committee – 4 meetings
Regulatory Affairs Committee – 3 meetings
Consumer Committee – 4 meetings

Total – 32 meetings

*Reflects partial terms of office

FINANCIALS

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FOR THE YEAR ENDED DECEMBER 31, 2012

2012 FINANCIAL COMMENTARY

Tarion delivered exceptional financial results in 2012 with a bottom line of $21.6M as a result of strong investment returns and favourable claims experiences, net of recoveries.

While there remained uncertainty in the Ontario housing market in 2012, and a cooling of new home sales, in 2012, enrolment levels continued to be strong, especially in the condominium category. The number of enrolments was higher by 4 per cent compared to 2011, boosted by the higher numbers of condominiums enrolled.

The investment portfolio reached a milestone at the end of 2012 with a fair value of $410M due to investment of positive operating cash flow, and a rebound in the equity market. Despite on-going domestic and international fiscal and political challenges, 2012 was considered a good year for the capital markets relative to 2011. Both domestic and foreign equities had strong returns compared to last year while the fixed income portfolio produced moderate returns in an environment of low yields. Our investment managers took a defensive position to protect the Fund against the possibility of interest rate increases. Total investment income of $24.5M, before management fees, compared favorably to $13.1M in 2011 with the increase primarily driven by robust equity returns.

Claims experience in 2012 was favourable and remains on the low side relative to historic levels. Recoveries were also favourable as a result of the resolution of one large litigated collection case and the expected recovery of some claims cases with full security.

The Corporation undertook several strategic initiatives during the year, which marked the first year of its three-year strategic plan of *Balancing Stakeholder Interests While Seeking Operational Efficiencies*. The Corporation was able to manage its operating expenses effectively despite embarking on a number of projects during the year that will mitigate future claims exposures such as the major structural defect coverage change and improve service delivery efficiency for both homeowners and builders under Channel Strategy initiatives. Total 2012 operating expenses of $38.0M reflected a 3.0 per cent increase over 2011, due in part to amortization costs of previous years' software upgrades.

With the strong financial results, Tarion's capital continues to strengthen and compares favourably to its internal capital management framework supporting the Corporation's mandate of administering the Ontario New Home Warranties Plan Act in the interests of all stakeholders.

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 auditor has audited 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 auditor and has reported to the Board of Directors, which has approved the financial statements.

HOWARD BOGACH
President & Chief Executive Officer
April 25, 2013

EDMOND LEE
Vice President & Chief Financial Officer
April 25, 2013

INDEPENDENT AUDITOR'S REPORT

Deloitte LLP
Brookfield Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

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TO THE DIRECTORS OF TARION WARRANTY CORPORATION

We have audited the accompanying financial statements of Tarion Warranty Corporation, which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive results of operations, statement of changes in equity and statement of cash flows for the year then ended, 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 audit. We conducted our audit 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 judgement, 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 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, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
April 25, 2013

APPOINTED ACTUARY'S REPORT

Ernst & Young LLP
Insurance and Actuarial Advisory Services
Ernst & Young Tower,
222 Bay Street, P.O. Box 251
Toronto, ON M5K 1J7 Canada

Tel: 416-941-7751
Email: liam.mcfarlane@ca.ey.com
www.ey.com

TO THE DIRECTORS OF TARION WARRANTY CORPORATION:

I have valued the warranty liabilities of Tarion Warranty Corporation for its Statement of Financial Position as at December 31, 2012 and their change in the Statement of Comprehensive Results of Operations for the year ended December 31, 2012 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 25, 2013

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 2012 ($CAD thousands)

	NOTES	2012	2011
ASSETS			
Equipment and leaseholds	4	**$ 3,331**	$ 3,734
Intangible assets	5	**3,693**	3,005
Trade and other receivables from vendors and builders	6	**4,932**	4,063
Prepaid expenses and other assets	7	**1,082**	389
Investments	8	**409,529**	370,346
Cash and cash equivalents	9	**2,764**	2,527
TOTAL ASSETS		**$ 425,331**	$ 384,064
EQUITY AND LIABILITIES			
EQUITY		**$ 184,789**	$ 163,214
LIABILITIES			
Employee future benefits liabilities	10	**5,993**	4,356
Warranty liabilities	11	**183,981**	165,124
Funds held as security	12	**41,033**	40,901
Lease obligations and inducements	13	**2,479**	2,829
Accounts payable and accred liabilities	14	**7,056**	7,640
Total liabilities		**240,542**	220,850
TOTAL EQUITY AND LIABILITIES		**$ 425,331**	$ 384,064

See accompanying notes to financial statements.

Approved by the Board of Directors

HARRY HERSKOWITZ
Director and Chair of the Board

LEA RAY
Director and Chair of Audit Committee

STATEMENT OF COMPREHENSIVE RESULTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2012 ($CAD thousands)

	NOTES	2012	2011
REVENUE			
Home enrolment fees earned		**$ 33,607**	$ 31,822
Builders' registration and renewal fees		**3,165**	3,286
Investment results			
Investment income	15	**24,474**	13,142
Investment management fees		**(1,030)**	(985)
Other revenue		**612**	717
		60,828	47,982
EXPENSES			
Net claims incurred	11	**191**	1,010
Salaries and benefits		**23,790**	23,376
General and administrative		**11,013**	10,943
Depreciation and amortization	4, 5	**2,690**	2,098
Interest expense	16	**510**	496
		38,194	37,923
EXCESS OF REVENUE OVER EXPENSES		**22,634**	10,059
OTHER COMPREHENSIVE RESULTS OF OPERATIONS			
Actuarial losses for employee future benefits	10	**(1,059)**	(321)
TOTAL COMPREHENSIVE RESULTS OF OPERATIONS FOR THE YEAR		**$ 21,575**	$ 9,738

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2012 ($CAD thousands)

	2012	2011
SURPLUS		
Beginning of year	$ 164,486	$ 154,427
Excess of revenue over expenses for the year	22,634	10,059
END OF YEAR	187,120	164,486
ACCUMULATED ACTUARIAL LOSSES FOR EMPLOYEE FUTURE BENEFITS		
Beginnning of the year	(1,272)	(951)
Change during the year	(1,059)	(321)
END OF YEAR	(2,331)	(1,272)
TOTAL EQUITY, END OF YEAR	$ 184,789	$ 163,214

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012 ($CAD thousands)

	2012	2011
NET INFLOWS (OUTFLOWS) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Home enrolment fees received	$ 53,569	$ 54,397
Builders' registration and renewal fees received	3,165	3,286
Payments to employees for salaries and benefits	(23,160)	(22,872)
Payments to suppliers for general and administrative expenses	(10,960)	(10,550)
Claims payments	(6,985)	(8,423)
Securities receipts from builders, net of releases	120	1,032
Recoveries for claims and conciliation fees	3,844	4,685
Interest expenses	(498)	(474)
Other settlement and fees received	1,759	245
Cash provided by operating activities	20,854	21,326
INVESTING		
Interest received	8,825	9,274
Dividend received	3,550	2,914
Investment management fees	(1,081)	(931)
Proceeds from sale and maturity of investments	288,147	261,415
Purchase of investments	(316,835)	(291,281)
Purchase of equipment and leaseholds	(175)	(105)
Purchase of intangible assets	(2,336)	(1,576)
Cash used in investing activities	(19,905)	(20,290)
FINANCING		
Payment of finance lease liabilities	(712)	(672)
Cash used in financing activities	(712)	(672)
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	237	364
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,527	2,163
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,764	$ 2,527

See accompanying notes to financial statements.

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 year ended December 31, 2012 were approved by the Corporation's board of directors and authorized for issue on April 25, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies used in the preparation of these financial statements are described below.

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 4 to the financial statements and included in the statement 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 terms of the lease
Computer and office equipment under finance lease	- straight-line over the terms of the leases

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 statement of comprehensive results of operations in Other income. 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 5 to the financial statements and included in the statement of comprehensive results of operations.

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

FINANCIAL INSTRUMENTS

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, unsettled investment trade receivable, 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 statement of comprehensive results of operations in investment income.

  Transaction costs are recognized in the statement 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 statement of comprehensive results of operations in investment income.

- 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 statement of comprehensive results of operations in net claims incurred 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.

Prepaid Expenses and Other Assets

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

- Other assets include unsettled investment trade receivable, and properties purchased by the Corporation in its normal course of warranty remediation:

  - Unsettled investment trade receivable relates to investments trades made within three business days of the end of the fiscal year and which is settled immediately after the fiscal year-end. The fair value of unsettled investment trade receivable approximates the carrying amount due to its short-term maturity.

  - 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 statement of financial position date.

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.

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.

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 statement of comprehensive results of operations in the year to which they relate and are included as part of salaries and benefits expenses.

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 statement 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 statement of financial position as an asset of the Corporation.

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 statement 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 statement 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.

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 statement of comprehensive results of operations net of any reimbursement.

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.

Interest Expense

Interest paid is recognized in the statement 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.

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.

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 statement 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 statement of comprehensive results of operations. Revenue and expense items in a foreign currency are translated into Canadian dollars at the transaction date rate.

Future Accounting Changes

IFRS 4 – Insurance Contracts

In July 2010, the IASB issued an exposure draft proposing changes to the accounting standards for insurance contracts. The proposal would require an insurer to measure its insurance liabilities using a model that focuses on the amount, timing and uncertainty of future cash flows associated with fulfilling its insurance contracts. A re-exposure draft is expected to be issued by the IASB in Q2 2013, and the final standard is expected to be issued in 2014 with a proposed effective date of January 1, 2018. As the standard is still evolving and not expected to be finalized for a few years, management continues to monitor the developments in this area and will develop a plan to evaluate the impact on the Corporation's financial statements once the final standard is issued.

IFRS 9 – Financial Instruments

The Corporation early adopted IFRS 9 effective January 1, 2011 which required all financial assets to be classified on initial recognition at amortized cost or FVTPL. In November 2012, the IASB published for public comment an exposure draft of proposed limited amendments to IFRS 9. As the standard is further revised, management will assess the impact of such changes on the Corporation's financial statements and adjust the financial statements accordingly.

IFRS 13 – Fair Value Measurement

In May 2012, 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 its financial statements.

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 its financial statements.

IAS 17 – Leases

The IASB will issue a second exposure draft on the proposed accounting model for leases. The impact of adoption of the proposed changes will be determined by the Corporation once the final lease standard is issued, which has yet to be determined by the IASB.

IAS 18 – Revenue

The IASB targets to issue the standard within 2013. The impact of adoption of the proposed changes will be determined by the Corporation once the final standard is issued.

IAS 19 – Employee Benefits

Effective January 1, 2013, the corridor method of recording actuarial gains and losses will be eliminated. This does not impact the Corporation as, effective January 1, 2010, management elected to recognize the actuarial gains and losses immediately in Other comprehensive results of operations upon the adoption of IFRS. The revised standard also introduces the reporting of net interest on net defined benefit liability in the statement of comprehensive results of operations, and requires that past service costs to be recognized immediately. This will result in a $460 transitional adjustment to the accumulated comprehensive income and equity on January 1, 2013 for the unamortized past service costs of other post-employment medical benefits ("OPEB"). The standard has enhanced the presentation and disclosure requirements of certain items arising from defined benefit plans as well. The Corporation has reviewed the revised standard and concluded that it will not have a significant impact on its financial statements.

3. KEY ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgements, 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.

Key management judgements

In the process of applying the Corporation's accounting policies, management has made the following judgements, 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 if, and only if, all of the following criteria are met: (1) the technical feasibility can be demonstrated; (2) management has the intention and ability to complete the intangible asset for use; (3) the intangible asset will generate probable future economic benefits; and (4) expenditures attributable to the intangible asset can be measured reliably.

Key management estimates and assumptions

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 statement 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 statement 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 judgement 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 11. The warranty liabilities amounts presented for these claims are stated at the actual amounts expected to be paid directly by the Corporation to settle its obligations which reflect 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 statement of financial position cannot directly be derived from active markets. They are 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 judgements awarded. Details of the key assumptions used in the estimates are contained in Note 6.

- 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 11.

- Useful lives of depreciable assets

  The Corporation reviews the useful lives of depreciable assets at each reporting date. At December 31, 2012, management assessed that the useful lives reflect the expected use 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 10.

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

4. EQUIPMENT AND LEASEHOLDS

Equipment and leaseholds consist of the following as at December 31, 2012:

	Computer Equipment	Furniture and Office Equipment	Leasehold Improvements	Computer and Office Equipment Under Finance Lease	Total
AT COST					
Balance at January 1, 2012	$ 1,336	$ 1,470	$ 2,415	$ 3,091	$ 8,312
Additions	135	29	11	464	639
Disposals	–	–	–	(1,113)	(1,113)
Balance at December 31, 2012	1,471	1,499	2,426	2,442	7,838
ACCUMULATED DEPRECIATION					
Balance at January 1, 2012	1,235	1,091	653	1,599	4,578
Depreciation expense	73	79	193	697	1,042
Disposal	–	–	–	(1,113)	(1,113)
Balance at December 31, 2012	1,308	1,170	846	1,183	4,507
CARRYING AMOUNT					
Balance at December 31, 2012	$ 163	$ 329	$ 1,580	$ 1,259	$ 3,331
Balance at December 31, 2011	$ 101	$ 379	$ 1,762	$ 1,492	$ 3,734

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

5. 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, 2012	$ 5,397	$ 2,351	$ 7,748
Additions	1,686	650	2,336
Disposal	(456)	–	(456)
Balance at December 31, 2012	6,627	3,001	9,628
ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES			
Balance at January 1, 2012	3,698	1,045	4,743
Amortization expense	1,078	570	1,648
Disposal	(456)	–	(456)
Balance at December 31, 2012	4,320	1,615	5,935
CARRYING AMOUNT			
Balance at December 31, 2012	$ 2,307	$ 1,386	$ 3,693
Balance at December 31, 2011	$ 1,699	$ 1,306	$ 3,005

Development costs recognized as an expense under general and administrative in the statement of comprehensive results of operations during the year amount to $934 (2011 - $420).

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

6. 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 8.
- 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.

	2012	2011
Gross trade receivables	**$ 22,527**	$ 22,039
Less: Allowance for impairment	**(20,819)**	(20,766)
Trade receivables	**1,708**	1,273
Amounts recoverable from vendors and builders	**2,775**	2,169
Other receivables from vendors and builders	**449**	621
	$ 4,932	$ 4,063

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.

As at December 31, 2012, there are six (2011 – three) vendors and builders each of whom represent more than 5% of the balance of trade receivables net of allowances. However, due to trade receivables being almost fully reserved, the overall net exposure of the Corporation to these vendors and builders as at December 31, 2012 is only $808 (2011 - $375).

As described in Note 12, the Corporation obtains security from builders to minimize its financial losses from future warranty claims. At December 31, 2012 there is $2,011 (2011 - $1,503) 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, 2012 are amounts recoverable from unregistered vendors and builders of $283 (2011 - $205).

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 based on the credit history of the vendor/builder, its financial condition, security held, legal action sought and judgement 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, 2012, a 1% change in these rates would have an impact of $16 (2011 - $18) to the trade receivables. 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 judgements awarded.

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

As at December 31, 2012, the trade and other receivables from vendors and builders includes $1,271 (2011-$758) 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.

	2012	2011
1 to 90 Days	$ 437	$ 515
91 to 360 Days	282	293
Over 360 Days	969	465
Total Receivables, End of year	$ 1,708	$ 1,273

MOVEMENT IN TRADE RECEIVABLES	2012	2011
Gross Trade Receivables		
Beginning of year	$ 22,039	$ 34,543
New Bills Issued	6,774	7,036
Write-offs Processed	(2,442)	(14,855)
Recoveries	(3,844)	(4,685)
End of year	$ 22,527	$ 22,039
Allowance for Doubtful Accounts		
Beginning of year	$ (20,766)	$ (32,969)
Impairment Losses Recognized (net of recoveries)	(2,495)	(2,652)
Write-offs Processed	2,442	14,855
End of year	$ (20,819)	$ (20,766)
Trade Receivables, End of year	$ 1,708	$ 1,273

7. PREPAID EXPENSES AND OTHER ASSETS

As at December 31, 2012, prepaid expenses were $246 (2011 – $289).

Other assets include an unsettled investment trade receivable of $836 (2011 – Nil) and properties purchased by the Corporation in its normal course of warranty remediation of Nil (2011 – $100). In 2012, the Corporation sold the properties resulting in a net gain of $55 (2011 – Nil) which is recognized in other revenue.

8. 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 statement 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 6 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.

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

The following table discloses the categories of financial instruments as at December 31, 2012:

	2012	2011
	Fair Value	Fair Value
Financial assets measured at fair value through profit or loss (FVTPL)		
Fixed income portfolio:		
Federal, provincial and municipal government bonds	**$ 102,169**	$ 91,147
Financial institution bonds	**111,129**	105,508
Other corporate bonds	**45,323**	45,020
Treasury bills and short-term notes	**21,259**	11,577
	279,880	253,252
Equity portfolio	**129,649**	117,094
Total investments	**409,529**	370,346
Unsettled investment trade receivable (note 7)	**836**	–
Cash and cash equivalents	**2,764**	2,527
	413,129	372,873
Financial assets measured at amortised cost		
Trade receivables from vendors and builders (note 6)	**1,708**	1,273
Total financial assets	**$ 414,837**	$ 374,146
Financial liabilities measured at amortized cost		
Funds held as security (note 12)	**41,033**	40,901
Accounts payable and accrued liabilities (note 14)	**7,056**	7,640
Total financial liabilities	**$ 48,089**	$ 48,541

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

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:

	2012	2011
Level 1 Categorization		
Cash and cash equivalents	**$ 2,764**	$ 2,527
Unsettled investment trades receivable	**836**	–
Equity portfolio	**129,649**	117,094
Level 2 Categorization		
Treasury bills / Short Term Notes	**21,259**	11,577
Bonds	**258,621**	241,675
Level 3 Categorization	**–**	–
Total	**$ 413,129**	$ 372,873

During the years ended December 31, 2012 and 2011, there were no transfers among Levels 1, 2 and 3.

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

(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 OF MATURITY (1)

2012	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	$ 4,705	$ 55,122	$ 3,172	$ 7,179	$ 9,097	$ 79,275
Yield to Maturity (YTM)	1.0%	1.2%	1.6%	1.9%	1.3%	1.3%
Provincial	–	17,708	3,877	733	185	22,503
YTM	–	1.5%	2.5%	3.2%	–	1.8%
Treasury Bills	12,470	–	–	–	–	12,470
YTM	0.9%	–	–	–	–	0.9%
Total Government	17,175	72,830	7,049	7,912	9,282	114,248
YTM (%)	1.0%	1.3%	2.1%	2.0%	1.4%	1.3%
Financial Institutions	–	80,859	15,782	600	13,022	110,263
YTM	–	1.8%	2.7%	3.3%	3.7%	2.1%
Other Corporate	4,721	14,964	11,574	1,788	11,762	44,809
YTM	–	2.0%	2.9%	3.0%	4.1%	2.8%
Short-Term Notes	8,779	–	–	–	–	8,779
YTM	0.5%	–	–	–	–	1.4%
Total Fixed Income	$ 30,675	$ 168,653	$ 34,405	$ 10,300	$ 34,066	$ 278,099
Accrued Interest	1,781	–	–	–	–	1,781
Total Fixed Income with Accrued Interest	$ 32,456	$ 168,653	$ 34,405	$ 10,300	$ 34,066	$ 279,880
YTM	1.0%	1.6%	2.6%	2.3%	3.2%	1.9%

(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, 2012 ($CAD thousands)

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
			TERMS OF MATURITY (1)			
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, 2012 ($CAD thousands)

- *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.

	2012			2011		
Financials	$	37,112	29%	$	32,493	28%
Energy		25,041	19%		23,670	20%
Consumer Staples		13,669	11%		13,543	12%
Consumer Discretionary		11,142	9%		9,886	8%
Industrials		13,621	11%		12,131	10%
Telecommunication		12,931	10%		11,372	10%
Materials		6,597	5%		4,906	4%
Information Technology		2,958	2%		2,113	2%
Health Care		2,494	2%		2,920	2%
Metals & Mining		1,049	1%		1,914	2%
Utilities		2,173	2%		1,611	1%
Service		139	0%		187	0%
Other		723	1%		348	0%
Total:	$	129,649	100%	$	117,094	100%

- *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, 2012, the Corporation had approximately 7.60% (2011 – 9.40%) of the fair value of its equity investments and approximately 1.26% (2011 – 0.32%) 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 statement of comprehensive results of operations and statement 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 2012 are:

- Interest rate risk: a shift of -25/+25 basis points in interest rates for all maturities. Funds held as Securities are credited at floating interest rates (Prime less 2%) and are changed semi-annually to calculate the interest paid on security. The annual interest paid impact on a -25/+25 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.

The stress scenarios for 2012 are:

	Carrying amount	Interest Rate Risk		Equity Price Risk		Foreign Exchange Rate Risk	
		-25 BP	+25 BP	-10%	+10%	-5%	+5%
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
FINANCIAL ASSETS							
FVTPL investments:							
Fixed income portfolio	279,880	3,044	(2,938)				
Equity portfolio	129,649	–	–	(12,908)	12,908	521	(471)
FINANCIAL LIABILITIES							
Funds held as security	39,784	99	(99)				

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

(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, 2012, 98.7% (2011 – 99.2%) of the debt securities have a rating of A or better, and 1.3% (2011 – 0.8%) 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 builders' risk profile, including their financial position, during the registration and renewal processes. Based on the assessment, a builder may be licensed and as disclosed in Note 12, 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 12). 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 (2011 – $3,000) line of credit it can draw on of which the amount outstanding at December 31, 2012 is Nil (2011 – Nil).

9. CASH AND CASH EQUIVALENTS

For the purpose of the statement 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, 2012, cash and cash equivalents was solely cash at the bank and on hand of $2,764 (2011 - $2,527) 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.

10. 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.

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

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.

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

	2012			2011		
	DB Plan	**OPEB**	**Total**	DB Plan	OPEB	Total
Fair value of pension assets	**$ 4,222**	**$ –**	**$ 4,222**	$ 4,074	$ –	$ 4,074
Present value of the defined benefit obligation	**(5,425)**	**(5,250)**	**(10,675)**	(5,042)	(3,925)	(8,967)
Net defined benefit obligation	**(1,203)**	**(5,250)**	**(6,453)**	(968)	(3,925)	(4,893)
Unamortized past service costs	**–**	**460**	**460**	–	537	537
Accrued liability	**(1,203)**	**(4,790)**	**(5,993)**	(968)	(3,388)	(4,356)
Employer contributions	**$ –**	**$ 21**	**$ 21**	$ –	$ 53	$ 53
Employee contributions	**–**	**–**	**–**	–	–	–
Benefit payments and transfers to other plans	**$ 218**	**$ 21**	**$ 239**	$ 22	$ 53	$ 75

The present value of the SERP obligation as at December 31, 2012 is $297 (2011 - $197), which is included in the OPEB amounts in the table above. The benefit payments to the SERP for the year ended December 31, 2012 were $Nil (2011 - $35).

For the year ended December 31, 2012, the employer contributions to the DC Plan were $1,045 (2011 - $1,014) and the employee contributions to the DC Plan were $596 (2011 - $584).

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

Historical Funding Table

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

	2012	2011
Fair value of pension assets	**$ 4,222**	$ 4,074
Accrued benefit obligation, pension plan	**(5,425)**	(5,042)
Deficit	**(1,203)**	(968)
Accrued benefit obligation, OPEB	**(4,954)**	(3,728)
Accrued benefit obligation, SERP	**(296)**	(197)
Net employee benefits obligation reported	**$ (6,453)**	$ (4,893)
Experience adjustments on employee future benefits liabilities	**$ (1,167)**	$ (11)
Experience adjustments on pension assets	**$ 108**	$ (310)

As of December 31, 2012, the current liabilities are $36 (2011 - $18) 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, 2012 ($CAD thousands)

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

	2012			2011		
	DB Plan	**OPEB**	**Total**	DB Plan	OPEB	Total
Opening balance	**$ (5,042)**	**$ (3,925)**	**$ (8,967)**	$ (4,166)	$ (4,028)	$ (8,194)
Current service cost	**–**	**(369)**	**(369)**	–	(369)	(369)
Past service cost	**–**	**–**	**–**	–	–	–
Interest costs	**(222)**	**(189)**	**(411)**	(229)	(239)	(468)
Benefit payments	**218**	**21**	**239**	22	53	75
Actuarial gain/loss	**(379)**	**(788)**	**(1,167)**	(669)	658	(11)
Curtailments/settlements	**–**	**–**	**–**	–	–	–
Accrued pension obligation, End of year	**$ (5,425)**	**$ (5,250)**	**$ (10,675)**	$ (5,042)	$ (3,925)	$ (8,967)

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

	2012			2011		
	DB Plan	**OPEB**	**Total**	DB Plan	OPEB	Total
Opening balance	**$ 4,074**	**$ –**	**$ 4,074**	$ (4,138)	$ –	$ 4,138
Contributions by employer	**–**	**21**	**21**	–	53	53
Expected return on plan assets	**258**	**–**	**258**	268	–	268
Actuarial gains/(losses)	**108**	**–**	**108**	(310)	–	(310)
Benefits paid	**(218)**	**(21)**	**(239)**	(22)	(53)	(75)
Curtailments/settlements	**–**	**–**	**–**	–	–	–
Plan assets, end of year	**$ 4,222**	**$ –**	**$ 4,222**	$ 4,074	$ –	$ 4,074

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

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	
	2012	2011
Canadian equity securities	**35%**	35%
International and US equity securities	**28%**	28%
Bonds	**30%**	31%
Cash	**7%**	6%
	100%	100%

The overall expected rate of return on the DB assets for 2012 is 6.50% (2011 - 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 $366 (2011 - $(42)).

A discount rate of 4.00% per annum was used for the disclosures at December 31, 2012 for both the DB Plan and OPEB (2011- 4.50% for the DB Plan and 4.75% for the OPEB). 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, 2012.

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

	2012			2011		
	DB Plan	**OPEB**	**Total**	DB Plan	OPEB	Total
Current service costs	**$ –**	**$ 369**	**$ 369**	$ –	$ 369	$ 369
Interest costs	**222**	**189**	**411**	229	239	468
Expected return on plan assets	**(258)**	**–**	**(258)**	(268)	–	(268)
Curtailment/settlements	**–**	**–**	**–**	–	–	–
Amortization of past service costs	**–**	**77**	**77**	–	77	77
Net expense	**$ (36)**	**$ 635**	**$ 599**	$ (39)	$ 685	$ 646
Actuarial gains/(losses) charged to Other Comprehensive Income	**$ (271)**	**$ (788)**	**$ (1,059)**	$ (979)	$ 658	$ (321)

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

The net expense for the SERP in 2012 was $100 (2011 - $62). The net expense for the DC Plan in 2012 was $1,045 (2011 - $1,014).

Service cost is reported as part of the Corporation's total salaries and benefits expense in the statement 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 2012 (2011 - 6.50%). The discount rate was determined with reference to market interest rates of AA corporate bond yields.

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

	2012		2011	
	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	**4.00%**	**4.00%**	4.50%	4.75%
Salary increase	**3.50%**	**N/A**	3.50%	N/A
General inflation	**2.50%**	**2.50%**	2.50%	2.50%
Benefit cost for the year:				
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%
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	**N/A**	**7.50%**	N/A	8.00%
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	2018

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 2012:

		1% change	
	Valuation Assumptions	**Increase**	**Decrease**
Total of service and interest cost at 4.75% per annum:	$ 459	$ 157	$ (111)
Accrued benefit obligation as at December 31, 2012 at 4.00% per annum:	$ 4,954	$ 1,498	$ (1,089)

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

11. WARRANTY LIABILITIES

The determination of the Corporation's warranty liabilities is dependent on the Corporation's claims handling practices, on actuarial assessments, on the judgement 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:

	2012	2011
Change in provisions, net of reversals	**$ 5,880**	$ 356
Recoveries	**(5,689)**	654
Net claims incurred for the year	**$ 191**	$ 1,010

	2012	2011
Deferred home enrolment fees, beginning of year	**$ 140,380**	$ 117,805
Fees received	**53,569**	54,397
Fees earned	**(33,607)**	(31,822)
Deferred home enrolment fees, end of year	**160,342**	140,380
Warranty claims liabilities, beginning of the year	**24,744**	32,811
Change in claims outstanding	**6,340**	(683)
Changes due to assumptions (such as: risk, inflation & discount rate)	**(460)**	1,039
Claims paid	**(6,985)**	(8,423)
Warranty claims liabilities, end of year	**23,639**	24,744
Warranty liabilities, end of year	**$ 183,981**	$ 165,124

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.

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 judgement 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 the following claims provisioning risks in the process of administering the Act:

- 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 70.

- 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 judgement; 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 70.

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 12, and the Corporation's proactive collection process. The impact of changes in recovery risk is set out in Note 6.

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

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 12, 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.

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 $2,764 (2011 - $2,527).

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 as at December 31:

	2012	2011
Freehold	**$ 2,084**	$ 3,187
Condominiums		
High-rise	**7,504**	5,146
Low-rise	**101**	357
Non-case specific	**615**	2,259
Total claims	**$ 10,304**	$ 10,949
Impact of changes in assumptions	**13,335**	13,795
Total warranty provision	**$ 23,639**	$ 24,744

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 statement 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 70.

- 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 70.

Sensitivity analysis on warranty claims

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

	2012	2011
Discount rate	**1.9%**	2.0%
Inflation rate	**2.5%**	2.5%
Future claims adjustment costs	**29.0%**	26.0%
Incurred but not reported claims	**$ 6,000**	$ 6,762
Adverse deviation	**$ 2,681**	$ 2,686
Discount	**$ (74)**	$ (257)

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

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%	$ (505)	$ 523	$ 505	$ (523)	$ 505	$ (523)
Inflation rate	1.0%	$ 367	$ (360)	$ (367)	$ 360	$ (367)	$ 360
Future claims adjustment costs	1.0%	$ 185	$ (185)	$ (185)	$ 185	$ (185)	$ 185

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
2011	$ 12,837	$ 11,907	$ 24,744
2012	**$ 10,820**	**$ 12,819**	**$ 23,639**

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%	$ (7,587)	$ 7,444	$ 7,587	$ (7,444)	$ 7,587	$ (7,444)

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

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**	**2012**	**TOTAL**
All Prior Years	$ 73,345							
At end of occurence year		$ 18,365	$ 29,552	$ 26,646	$ 16,095	$ 6,425	**$ 4,955**	
One Year Later		16,712	22,426	20,848	12,539	9,058	**–**	
Two Years Later		15,832	20,626	19,255	12,752	–	**–**	
Three Years Later		12,360	20,448	19,352	–	–	**–**	
Four Years Later		12,053	20,476	–	–	–	**–**	
Five Years Later		12,129	–	–	–	–	**–**	
CURRENT ESTIMATE OF CUMULATIVE CLAIMS	73,345	12,129	20,476	19,352	12,752	9,058	**4,955**	**$ 152,067**
Claims Pad								
All Prior Years	72,805							
At end of occurence year		5,521	7,833	9,989	5,721	3,628	**2,270**	
One Year Later		4,083	7,944	6,831	3,505	2,635	**–**	
Two Years Later		1,640	3,862	626	1,300	–	**–**	
Three Years Later		572	194	339	–	–	**–**	
Four Years Later		39	214	–	–	–	**–**	
Five Years Later		211	–	–	–	–	**–**	
CUMULATIVE CLAIMS PAID	72,805	12,066	20,047	17,785	10,526	6,263	**2,270**	**141,763**
Reconciliation to the statement of financial position								
Current provision before discounting	$ 540	$ 63	$ 429	$ 1,567	$ 2,225	$ 2,795	**$ 2,685**	**10,304**
Actuarial reserves								**13,409**
Discounting								**(74)**
Present value recognized on the statement of financial position								**$ 23,639**

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

12. 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, 2012, the funds held as security of $41,033 (2011 - $40,901), presented on the statement of financial position as a liability are the potentially refundable security deposits received in cash, including cumulative accrued interest thereon to December 31, 2012 of $1,249 (2011 - $1,238). 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 statement of financial position.

During the year, the Corporation incurred interest of $396 (2011 - $394) on cash security deposits. Interest is calculated based on Prime less 2%, adjusted every sixth month (generally April and October).

13. 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 statement 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, 2012.

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, 2012 and 2011.

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 statement of comprehensive results of operations. For 2012, the Corporation recognized minimum lease payments of $747 (2011 - $679) in the statement of comprehensive results of operations. These leases have an average life of 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:

	2012	2011
Operating lease	**Minimum lease payments**	Minimum lease payments
Within one year	**$ 757**	$ 754
Between one and five years	**3,177**	3,078
More than five years	**2,716**	3,572
Present value of minimum lease payments	**$ 6,650**	$ 7,404

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

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 statement of financial position. The total value of these obligations as at December 31, 2012 is $1,200 (2011 - $1,446). Interest expense of $114 was incurred during 2012 (2011 - $102) on the leases and is reported in the statement 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:

	2012		2011	
	Minimum lease payments	**Present value minimum payments**	Minimum lease payments	Present value minimum payments
Within one year	**$ 788**	**$ 688**	$ 683	$ 604
Between one and five years	**582**	**512**	901	842
More than five years	**–**	**–**	–	–
	1,370	**1,200**	1,584	1,446
Less amounts representing finance charges	**170**	**–**	138	–
Present value of minimum lease payments	**$ 1,200**	**$ 1,200**	$ 1,466	$ 1,446

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 which are included in general and administrative on the statement of comprehensive results of operations. The amortized benefits in December 31, 2012 were $96 (2011 - $82).

As of December 31, 2012, the total unamortized lease inducements reported on the statement of financial position is $1,279 (2011 - $1,383).

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011
Trade and supplier accruals	$ 1,560	$ 1,917
Amounts due to vendors and builders	1,310	1,547
Salaries and benefits	3,000	2,949
Deferred revenue	126	106
Other liabilities	1,060	1,121
Total accounts payable and accrued liabilities	$ 7,056	$ 7,640
Expected to be settled within one year	$ 5,746	6,093
Expected to be settled in more than one year	1,310	1,547
Total accounts payable and accrued liabilities	$ 7,056	7,640

15. INVESTMENT INCOME

	2012	2011
Change in fair value of fixed income portfolio	$ 463	$ 8,073
Interest income from fixed income portfolio	8,802	9,453
Change in fair value of equity portfolio	11,662	(7,430)
Dividends from equity portfolio	3,628	3,032
Foreign exchange (losses) gains	(81)	14
Total investment income	$ 24,474	$ 13,142

16. INTEREST EXPENSE

	2012	2011
Interest on funds held as security (note 12)	$ 396	$ 394
Interest on lease obligations (note 13)	114	102
Total interest expense	$ 510	$ 496

17. 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 11. 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, 2012 and 2011 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.

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2012 ($CAD thousands)

18. 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, 2012, 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.

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 2012, the Corporation incurred a fee of $280 (2011 - $254).

Key management personnel compensation

IAS 24, Related Party Disclosures, defines key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The key management personnel of the Corporation are members of the board of directors and members of the Corporate leadership team. Key management personnel compensation includes the following expenses:

	2012	2011
Short-term employee benefits	**$ 3,613**	$ 3,618
Board of directors fees	**388**	407
Post-employment benefits	**347**	358
	$ 4,348	$ 4,383

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in the financial statements to conform to the current year's presentation. These include the combining of Prepaid expenses of $289 and Other assets of $100 as one item in the statement of financial position as the two separate amounts were not material, and the reclassification of $472 from Other settlements and fees received to Recoveries for claims and conciliation fees in the Statement of cash flows to better reflect the nature of the item.

CONTACT TARION

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