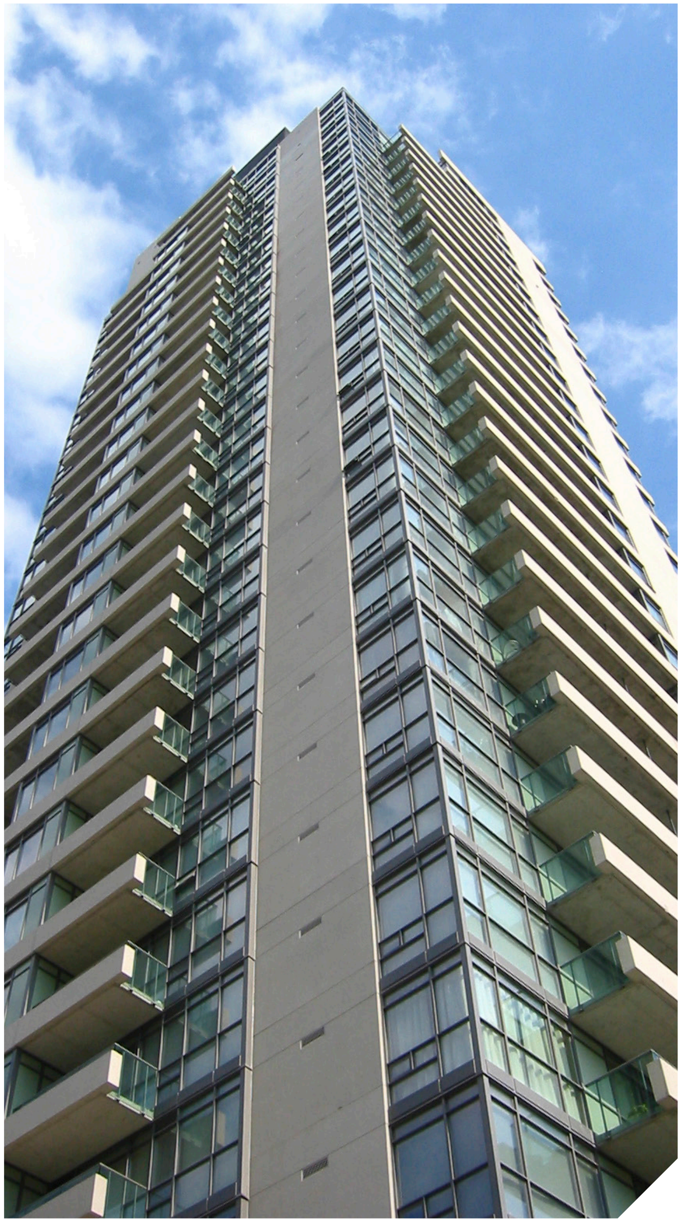
A BETTER HOMEOWNERSHIP EXPERIENCE

TARION

PROTECTING ONTARIO'S NEW HOME BUYERS

Annual Report 2013

TABLE OF CONTENTS



AT A GLANCE

370,537

TOTAL HOMES UNDER WARRANTY (2013)*

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

2009	434,264
2010	417,961
2011	399,404
2012	382,338

1,165

HOMES WITH A CONCILIATION INSPECTION (2013)

2009	3,768
2010	1,937
2011	1,412
2012	1,380

7.3

TOTAL CLAIMS PAID (2013) in $CAD Millions

2009	20.9
2010	17.6
2011	8.4
2012	7

$3.4 MILLION

RECOVERIES FROM BUILDERS ON A CASH BASIS (2013)*

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

2009	7.4
2010	8.3
2011	4.2
2012	4.7

$216.0 MILLION

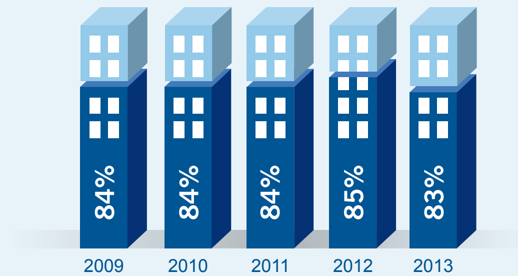
TOTAL EQUITY (2013)

2009	117.5
2010	153.5
2011	163.2
2012	184.3

$3.5 MILLION

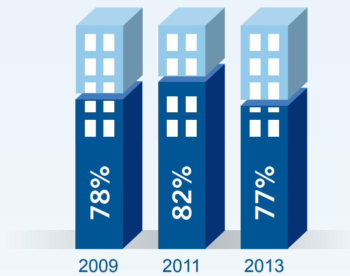
NET CLAIMS INCURRED (2013)

2009	3.1
2010	(18.3)
2011	1.0
2012	0.2



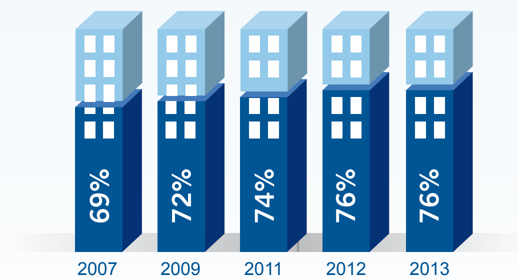
HOMEOWNER SERVICE ORIENTATION INDEX*

* 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.



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.



EMPLOYEE ENGAGEMENT*

* 2007–2012 results are based on a bi-annual employee opinion survey conducted by the Hay Group, where the survey consisted of 66 questions. 2013 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 new home builders and administer a new home warranty plan to protect new 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 their new home and helping to resolve warranty issues.
- Establishing and administering a guarantee fund that provides compensation under the Plan.
- Educating new home buyers 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.

"Dealing with Tarion really helped us understand that there is a governing body in place for the homeowners' protection."

\- Homeowner

MESSAGE FROM THE CHAIR OF THE BOARD

I'm proud that my final year as Board Chair of Tarion has placed the organization on such solid footing. Tarion continued to maintain a healthy balance sheet in 2013 despite a slight softening of the housing market. The combination of strong financial returns, further reduction on expenditures, stable claim payments and increased enrolment fees netted positive financial results for the year. The health of Tarion's reserve fund remained strong, with sufficient reserves to address claims and potential market fluctuations.

The number of high rise units under warranty continued to increase in 2013, as more Ontarians moved into newly built condominiums across the province. This year, the Condominium Task Force created by the Board conducted extensive research to determine the feasibility of providing statutory warranty coverage for condominium conversions. Our research is now complete and has been presented to the Ministry of Consumer Services for further consideration. We expect to have feedback from the Ministry in 2014.

Tarion remains committed to developing a builder registration system that includes a more detailed evaluation of a new applicant's core competency and ensures builders stay current in their knowledge. In 2013, this proposal went to public consultation and was reviewed by Tarion's Consumer Advisory Council, as well as builders during industry roundtables. Further refinement of this proposal will be done in 2014 based on feedback received during the consultation process.

In the Spring of 2013, Tarion consulted with stakeholders on an amendment to Regulation 892 allowing for electronic delivery via a URL link to the most up to date version of the Homeowner Information Package. Upon conclusion of the public consultation, the regulation was amended and Tarion worked with the industry to promote the new, additional delivery methods for the Homeowner Information Package.

Tarion continued to work on a model that will base the price of enrolling homes on builder performance and risk. This framework will reward builders with good claims and services records, while penalizing builders with poor service and claims records. We expect more to come on this in the following years.

Thank you to all my fellow Board Members for the leadership and direction you have provided throughout the year. I would also like to express my gratitude to Howard Bogach, his Corporate Leadership Team and all Tarion employees for their hard work and dedication. I would like to recognize the many contributions that outgoing Board Members Brian Johnston and Harold Levy and Associate Member Leith Moore have made to the board during their tenure. I would also like to welcome Sheldon Libfeld and Justin Rangooni to the board in 2013, as well as Associate Member Eric DenOuden.

In August of 2013, Tarion was awarded the Excellence in Governance Award for Best Approach to Board and Committee Support from the Canadian Society of Corporate Secretaries. As the Chairman of the Board, I am proud of this recognition. It confirms my belief that the Tarion Board of Directors does a great job of regulating Ontario's new home builders and fulfilling its core mandate of excellent consumer protection for new home buyers. This award coincided with my last full year as Chairman, as I will be stepping down in April 2014. Looking back over my tenure, I am grateful to have worked with many dedicated and engaged directors, passionate consumer advocates and talented staff at Tarion who were committed to improving the statutory safeguards for Ontario's new home buyers, and who have helped transform Tarion into the strong consumer protection agency it is today. I hope my leadership has been a benefit for Tarion's stakeholders, and that Tarion continues its fine work of enhancing services and protecting new home buyers in the years to come.

HARRY HERSKOWITZ
Chair of the Board

MESSAGE FROM THE PRESIDENT AND CEO

I would characterise 2013 as a year of listening. We can only meet our goal of becoming a faster, more efficient organization with the advice and good ideas of our stakeholders. We took this year to gather a tremendous amount of feedback on how to improve our services and build a better homeowner experience.

Tarion conducted face-to-face meetings with stakeholders across the province. We met with hundreds of homeowners who have been through the warranty process to hear their experiences and gather their thoughts on how the warranty process could be improved. We partnered with the Ontario Home Builders' Association, visiting many communities across Ontario to discuss Tarion's processes and listen to builders' comments. We also launched multiple social media channels to reach out to our stakeholders and provide another avenue for them to reach us.

Some of the feedback we collected was reflected in technology updates to our systems, such as improving the functions of MyHome, BuilderLink and introducing online functions for the Condominium Common Elements warranty process. Some of our changes focused on internal processes, such as implementing recommendations made by the Tarion Ombudsperson. We did this in part by improving our customer service training to prepare Tarion staff with more effective resources for conciliating disputes. We also added a page on our website that allows stakeholders to submit an online complaint about Tarion. We reviewed our investigative approach to honesty and integrity, which is one component of licensing that is essential to a builder's registration and is something that Tarion takes very seriously. An honesty and integrity module was developed and used to train all staff affected by this process.

These changes have been done amidst an overall healthy market, although we saw a slight dip in enrolment levels for the first time since the 2008 financial crisis with 51,506 new homes enrolled in 2013. Despite the decrease, Tarion maintained a positive bottom line. This is mainly driven by higher investment income and enrolment fees, lower operating expenses and lower than expected net claims incurred.

As consumer expectations continue to rise, and information becomes faster and easier to access, Tarion works to provide new channels for our stakeholders to reach us. This means adopting technology and features that make our services more accessible, increasing transparency and making information more readily available on electronic channels of communication. Increasing disclosure has become a focus in the past few years, and Tarion addressed this in part by introducing the Ontario Builder Directory, replacing the existing Licensed Builder Directory. Many enhancements were made to the directory, all in an effort to provide better disclosure for homeowners. The new directory will continue to expand in 2014.

Another way we will meet the needs of our stakeholders is to look at Tarion's Customer Service Standard, outlined in Builder Bulletin 42. This bulletin was introduced in 2003 as a way to provide consumers and builders with better access to information about warranty coverage, and clearer procedures for making and handling warranty service requests. We will begin a complete review of this bulletin in 2014, and expect this project to extend beyond next year.

I would like to thank our Corporate Leadership Team and all of the Tarion employees for their hard work and dedication in helping make 2013 a productive year. In 2014, we will welcome more changes, including a new Chairman of the Board. Tarion's Board of Directors has been under the leadership of Harry Herskowitz since 2008, and we have benefitted immeasurably from his expertise and direction over the years. His unwavering support and encouragement in finding the right solution that treats all stakeholders fairly is evident in all the advancements Tarion has made during his tenure. We thank Harry for his advice and leadership, and look forward to starting a new chapter in Tarion's history.

HOWARD BOGACH
President and Chief Executive Officer
Tarion Warranty Corporation
Toronto

NEW BEGINNINGS AT TARION

Since 2008, the Tarion Board of Directors has been led by its Chairman, Harry Herskowitz. Harry will step down in 2014 and we will welcome a new Chair. Harry's exceptional leadership qualities have allowed Tarion to accomplish many major initiatives that have improved the new home warranty process for everyone involved.

Under Harry's direction, the Ombudsperson was introduced in 2008 as an independent, impartial and confidential department that promotes and protects fairness within Tarion. Harry was highly supportive of the Ombudsperson as an option for homeowners who are seeking further review of their situation by an impartial party. In 2012 Tarion made substantial changes to the seven year Major Structural Defect policy. Harry championed this cause, which puts the onus for these defects on the builder. We expect this change will further encourage builders to construct better quality homes as they now share warranty responsibility for major defect claims.

In 2014, Tarion will be restructuring its Board of Directors. The change will add additional consumer representation. Harry believes the new board structure will give consumers additional confidence in the organization's decision-making process.

Thanks to Harry's expertise and commitment, Tarion is a more effective consumer protection agency than ever before. We are grateful for the guidance that Harry has brought to the boardroom table, and are confident he has left us in a stronger position than when he came. We look forward to the next chapter in Tarion's leadership.

"Harry's time as Chair has seen many changes in the building industry and increased expectations from consumers. He's met these challenges and leaves Tarion much stronger than when he arrived."

\- The Honourable Tracy MacCharles, Minister of Consumer Services

STRATEGIC INITIATIVES

BUILDING A BETTER HOMEOWNERSHIP EXPERIENCE

In 2013 Tarion continued to work on its three-year strategic plan, introduced in 2012, called Balancing Stakeholder Interests While Seeking Operational Efficiencies. In year two of this plan, Tarion focused on listening to stakeholders to understand how their feedback can improve our services. This feedback is helping Tarion build a better homeownership experience.

The key pillars of Tarion's three-year strategic plan remain the same: manage risk, enhance financial performance and efficiency, and continue to build trust and transparency. The projects that were undertaken in 2013 all served to help Tarion realize its ultimate goals under this plan; to enhance Tarion's performance as a financially stable, operationally efficient organization that delivers valued warranty services and builder regulation. By working with our stakeholders' feedback and implementing changes based on their experiences, we are striving to design a warranty process that understands the end user and caters to their needs.

STRATEGIC INITIATIVES ACCOMPLISHED IN 2013 INCLUDE:

1 MANAGING RISK

- Ensured sufficient capital to withstand large claims according to stress test scenarios
- Reviewed various financing alternatives including reinsurance in an overall risk capacity review to address possible catastrophic losses
- Continued the public consultation on a proposal to increase education-related requirements for new applicants and implement professional development-related renewal requirements for existing registrants
- Reviewed the BC builder regulatory model to determine its suitability in aiding Tarion curb illegal building activity
- Continued to work with large municipalities on the enforcement of illegal building, with 75 per cent now submitting building permits to Tarion online
- Worked on a model that would base the price of enrolling homes on builder performance and risk and ran trial scores to determine how it would impact enrolment fees

2 ENHANCING FINANCIAL PERFORMANCE AND EFFICIENCY

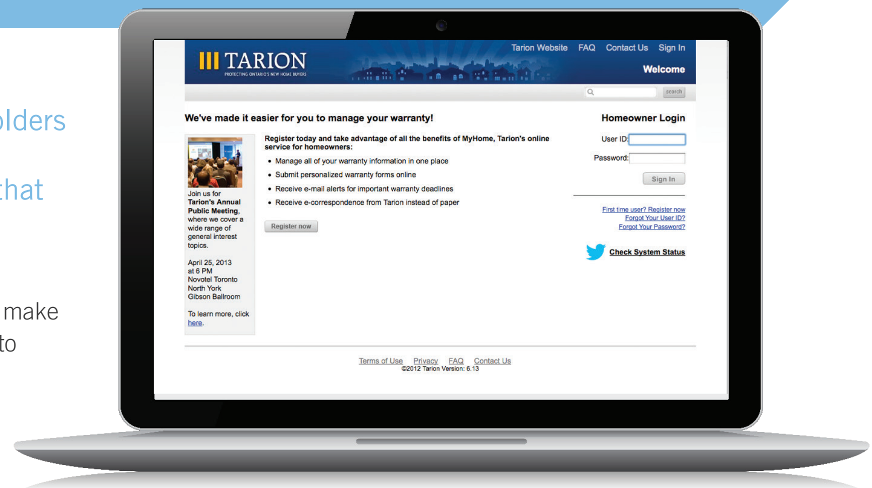
- Continued to update and improve the ways we communicate with homeowners and builders through the Channel Strategy
- Completed changes that allow vendors to deliver an up to date copy of the Homeowner Information Package electronically by URL link
- Continued to enhance BuilderLink, adding more online capabilities and improvements
- Launched multiple social media channels including Facebook, LinkedIn and YouTube
- Completed the successful conversion of Licensing and Underwriting's internal computer system, HomeWise2, to keep pace with changing business needs, including more online and self-serve functionality and an improved overall operational performance
- Developed a data management policy based on a thorough review of how we collect, use, store, disclose and destroy data
- Piloted a MyHome and BuilderLink integration System, the online services for homeowners and builders to manage their warranty, allowing builders and vendors to receive submitted online homeowner forms that are automatically integrated into their own systems
- Introduced MyHome for Condominium Common Elements to manage the common elements warranty

3 BUILDING TRUST AND TRANSPARENCY

- Increased focus on stakeholder outreach in an effort to educate and communicate with builders, homeowners and real estate agents
- Conducted extensive research to determine the feasibility of providing statutory warranty coverage for condominium conversions
- Replaced the existing Licensed Builder Directory with the Ontario Builder Directory, adding more detailed information about builders in an effort to provide better disclosure for homeowners
- Introduced changes to the Builder Arbitration Forum Rules to make it a more efficient, constructive and cost effective way for builders to challenge a warranty and chargeability assessment

SIGNIFICANT ACCOMPLISHMENTS IN 2013

CONSTRUCTING SMARTER COMMUNICATION CHANNELS



We are continually improving and updating our communication with stakeholders with a goal of increasing efficiency and effectiveness. We are moving from a primarily paper-based organization to a more electronic-based organization that is able to effectively serve the growing number of Tarion stakeholders.

In 2013, Tarion continued to pursue this strategy by implementing technology and features that make it easier for homeowners and builders to work with us. By updating our technology, we are able to create a faster, more efficient warranty process. These changes help us communicate with our stakeholders the way they've asked us to communicate with them: electronically.

Here are some of the ways Tarion continued to update its communication channels in 2013:

MYHOME ENHANCEMENTS

MyHome is Tarion's online service that helps homeowners quickly and easily manage their warranty. Tarion implemented a number of enhancements to MyHome in 2013, including the ability to upload supporting documents to an account, such as photos, receipts, and agreements, and a feature allowing homeowners to schedule a conciliation inspection online. Tarion's Accessibility for Ontarians with Disabilities Form was also added to MyHome, for homeowners to complete and submit electronically.

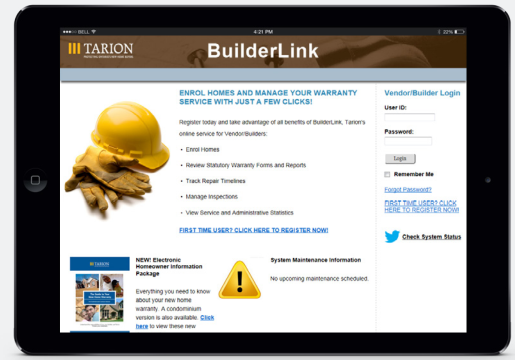
Tarion's Warranty Services Department launched a pilot program in 2013 featuring real time, live-chat customer support. This tool was implemented to help homeowners navigate MyHome as they used the site. This service will continue in 2014.

MyHome continues to be an easy to use and helpful service for homeowners. As a result of regular service enhancements and its ease of use, the number of MyHome users jumped from 50,000 in 2012 to 73,731 in 2013. The number of forms now being submitted through MyHome has increased as well, growing from 37 per cent in 2012 to 61 per cent in 2013. Additionally, our customer satisfaction survey tells us that homeowners who use MyHome are significantly more satisfied with their overall interactions with Tarion than homeowners who do not use MyHome.

UPGRADES TO BUILDERLINK

Tarion's online portal that allows builders to manage their warranty status was re-introduced in 2012 as BuilderLink. In 2013, Tarion continued to enhance this service for builders adding more online enrolment capabilities, supporting the submission of pictures and Microsoft Word documents, and allowing for bulk Certificate of Completion and Possession (CCP) printing. Bulk printing is beneficial to builders who are conducting many Pre-Delivery Inspections and/or closings on a given day, allowing them to print all the CCPs they need quickly and easily.

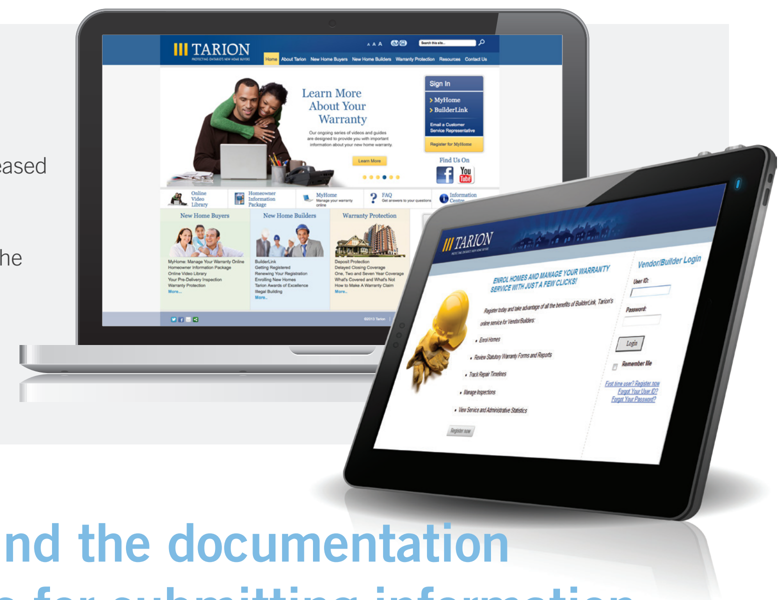
In 2013, Tarion introduced the ability to accept Electronic Fund Transfers (EFT) in BuilderLink on a pilot basis. The system can currently handle payments for enrolments, renewal fees and any other debit or credits that may be outstanding on a builder's account. Builders can also view a history of their financial transactions. Managing transactions and accounts via EFT increases efficiency for builders and is considered more secure than paying via cheque. This feature will be officially rolled out in 2014, and we will continue to work toward builders being able to submit online applications for registration and renewals.



SYSTEMS INTEGRATION

In 2013, Tarion worked with the building industry on piloting a MyHome and BuilderLink integration system that allows builders and vendors to receive online homeowner forms data that can be automatically integrated into their own systems. The systems create efficiencies for homeowners and builders by allowing trades to be auto-dispatched, customer inquiries answered more quickly and increasing online warranty form submissions.

During the initial pilot with one large builder, the number of forms submitted through MyHome increased approximately 20 per cent above Tarion's average. Tarion will continue to expand the pilot in 2014, reaching out to the industry to promote the use of the MyHome and BuilderLink integration systems.



"This is my first brand new home purchase. I found the documentation clear and easy to understand; the online process for submitting information was also quite well organized and it functioned properly." - Homeowner

MYHOME FOR CONDOMINIUM COMMON ELEMENTS

In 2013, Tarion introduced MyHome for Condominium Common Elements. The new online service allows designates of condominium projects that were registered with the Land Registry Office on or after July 1, 2010 to use MyHome to manage their condominium's warranty. Designates can now easily submit warranty forms and condominium documents to Tarion; receive electronic notifications of important dates and warranty timelines; store important condominium documents; directly access the Tarion Common Element Portal to update the Performance Audit Tracking Summary; and communicate electronically with Tarion.

Tarion will continue to expand the services available through MyHome for Condominium Common Elements in 2014 and will also work with the industry to promote this service to condominium designates.

NEW HOMEOWNER INFORMATION PACKAGES

Tarion introduced new Homeowner Information Packages (HIPs) for both freehold homes and condominiums. The new HIPs separates condominium owners from freehold owners, ensuring the information that consumers receive is relevant to the type of home they've purchased.

In addition, Tarion made regulatory changes to allow for electronic delivery of the HIP. Builders can now email their homeowners a link to the current version of the HIP in advance of their Pre-Delivery Inspection, allowing homeowners more time to review their warranty rights. An electronic link also ensures that homeowners are accessing an up to date version of HIP at all times. The new electronic HIP is designed to be easily browsed and searchable, so homeowners can find the information they are looking for. Hard copy HIPs are still available to consumers upon request.

INCREASING TRANSPARENCY

ENHANCED BUILDER DISCLOSURE

In December 2013, Tarion introduced the Ontario Builder Directory, replacing the existing Licensed Builder Directory. Many enhancements were made to the directory in an effort to provide better disclosure for homeowners. The directory displays a 10-year history for all builders in Ontario, including builders who are no longer registered with Tarion. The directory confirms whether a builder's registration has expired, been revoked or refused renewal. The directory also shows if a builder has been a Tarion Award of Excellence finalist or recipient in the past three years; a breakdown of the types of homes built over a 10-year span and lists the names of officers and directors for each company, providing links to companies that share the same officers and directors. As always, the directory continues to show a 10-year history that includes chargeable conciliations and the number and amounts of certain claims paid by Tarion.

PUBLIC CONSULTATIONS

Public consultations continued to be an important part of policy making in 2013. Allowing collaboration and transparency ensures all stakeholders have a voice in policy decisions.

Tarion launched two public consultations in 2013:

ENHANCED REGISTRATION REQUIREMENTS

Tarion consulted with stakeholders to develop a registration system that would include a more detailed evaluation of a new applicant's core competency and ensure builders stay current in their knowledge. The proposal foresees new applicants being required to successfully complete courses or an examination based on seven of the National Education Benchmarks (NEBs) set by the Canadian Home Builder's Association (CHBA). These include: business planning and management, financial planning and management, project management and supervision, legal issues in housing, building codes, construction technology and customer service. Once registered, builders or designates would be required to complete 10 hours of continuous professional development each year. In addition to the public consultation held in 2013, this proposal was reviewed by Tarion's Consumer Advisory Council, as well as builders during industry roundtable discussions.

ELECTRONIC HOMEOWNER INFORMATION PACKAGES (HIP)

In the Spring of 2013, Tarion consulted with stakeholders on an amendment to Regulation 892, allowing for electronic delivery of the HIP by a URL link. Electronic delivery provides another option for builders to deliver the HIPs and is a convenient storage method for many homeowners who increasingly save important documents electronically. Moreover, this method of delivery ensures that homeowners are always viewing the most current version of the HIP on Tarion's website. Upon conclusion of this public consultation, Regulation 892 was amended and Tarion worked with the industry to promote the electronic delivery of the new HIPs.

RESTRUCTURING THE BOARD OF DIRECTORS

In October 2013, Tarion announced a change in the composition of the Board of Directors to reflect a more formal skills-based selection process as well as balanced stakeholder representation. Its new structure will include five ministerial appointees and three non-builder, non-management members, as well as eight individuals nominated by the Ontario Home Builders' Association. The change will increase consumer representation and should give consumers additional confidence in the organization's decision-making process.

UNDERSTANDING HOMEOWNERS EXPERIENCES WITH TARION

Toward the end of 2013, Tarion commissioned our annual research through an independent third party to measure how we are viewed by homeowners*. Our intention in seeking consistent feedback is to assess customer satisfaction and determine what we need to focus on in order to continually improve. Detailed results from our 2013 homeowner survey can be found on tarion.com.

Questionnaires were sent by Crunch Research in partnership with Harris Decima to more than 46,000 consumers in their first year of possession[1] as well as almost 16,600 additional consumers in their second through seventh year of possession[2]. A total of 7,750 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. A few changes emerged based on builder size wherein satisfaction declined among Medium buyers. For example, those who purchased from Medium builders reported reduced satisfaction in areas related to their service interactions with Tarion resulting in fewer Medium buyers considering themselves as Tarion Advocates (i.e., being likely to say positive things if asked).

- A large majority of homeowners (85 per cent) in their first year of possession have a favourable impression of Tarion. Results across most individual categories (Hi-Rise, Large, and Small) were stable, except for a decline among Medium homebuyers (-5 per cent).

- Most homeowners view Tarion as accessible (88 per cent), able to listen to their needs and concerns (80 per cent), easy to do business with (80 per cent), able to help them understand their warranty rights and responsibilities (82 per cent) and able to make sure builders fulfill their warranty obligations (78 per cent). Three out of these five measures declined statistically (-2 to -3 per cent) in comparison with the previous year's results (all others remain stable).

- Nearly six-in-ten (58 per cent) homeowners were extremely or very satisfied with the service interactions they had with Tarion (a 2 per cent decline, which is not significant in comparison with 2012). 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.

- Satisfaction with Tarion remained stable across all areas of the conciliation/claim experience.

Results of the survey among homeowners in their second through seventh year of warranty coverage followed the same trends as the 2012 results. Overall, homeowners in their first or second year of coverage are most favourable toward Tarion.

- Impressions of Tarion decline marginally among homeowners in each of the first five years after possession dropping more steeply in years six and seven.

- Homeowners' satisfaction with their Tarion interactions also decline over time, and continue to be highly dependent on the experience they had with their builder even after the first year of possession.

- Eighty-one per cent of homeowners in their second through seventh year of warranty coverage viewed us as accessible.

- Longer-term trends are emerging among homeowners in their second through seventh year of warranty coverage. Since tracking of years two to seven began in 2009, we had seen slow-and-steady gains culminating in statistically significant new highs reached in 2012. Now, the previous cumulative positive improvements in agreement for Tarion on key metrics have settled back to the baseline satisfaction levels of 2009 on these traits:

  - Listens & understands
  - Easy to do business with
  - Helps new homeowners understand warranty rights
  - Ensures builders fulfill obligations

Year of Warranty Coverage**	Favourable Impression of Tarion (%)	Highly Satisfied with Tarion Interactions (%)
Year 1	85	58
Year 2	84	57
Year 3	76	41
Year 4	67	43
Year 5	73	40
Year 6	64	31
Year 7	61	26

1 Homeowners took possession of their home between October 1, 2012 and September 30, 2013. Results are accurate to within +/- 1.2% 19 times out of 20.

2 Homeowners took possession of their home between October 1, 2006 and September 30, 2012. 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%.

* Note: homeowner research is used to determine annual Tarion Awards of Excellence recipients and is therefore completed each year.

EXPANDING OUTREACH INTITIAVES

In 2013, Tarion significantly expanded its outreach efforts to stakeholders. In addition to our regularly published column in the Toronto Sun under the byline of President and CEO Howard Bogach, Tarion has now more than doubled its monthly columns with articles in industry publications such as New Home Guide, Condo Life and Homes Magazine. All of our outreach efforts, including media relations activities for regional tours and illegal builder prosecutions amounted to more than 240 pieces of news coverage in 2013. This is an average of four to five news pieces per week.

WE'VE GONE SOCIAL!

Tarion launched multiple social media channels in 2013 as a way to help us reach our stakeholders and provide another avenue for them to reach us. These channels include: Facebook, LinkedIn and YouTube. Social media has opened channels of communication for homeowners who may not have otherwise contacted us to ask questions and provide feedback.

Facebook in particular allowed Tarion to connect with homeowners during the ice storm in December 2013, when our systems were down due to power outages. Homeowners were concerned about submitting their forms, and Tarion used social media to reassure them and provide alternate methods of submitting information.

Tarion used our YouTube channel to expand our video library in 2013, producing five new videos. The subject matter of these videos range from consumer education, such as the most common warranty issues, to tutorials aimed specifically at condominium corporations explaining the Performance Audit Tracking Site. Tarion will continue producing more educational videos in 2014 and expanding our social media efforts.

AN EVENING OF CONVERSATION

In 2013, Tarion piloted a project called "An Evening of Conversation," where we visited communities across the province to gather feedback from those who have been through our warranty process. All local homeowners who have submitted warranty forms through MyHome were invited to attend. Howard Bogach, along with local Tarion staff, spoke to homeowners one-on-one. We took this opportunity to not only offer advice, but to listen and understand the homeowner experience.

Through this initiative, Tarion received many thoughtful and insightful comments. In sharing their experiences, homeowners are helping us better understand what it's like to be in the "homeowner's shoes" making a warranty claim and helping us look at ways to improve that process. We are also able to collect feedback on some of our current initiatives. These meetings will continue in 2014.

REGIONAL TOURS

Tarion partnered with the Ontario Home Builders' Association (OHBA) as we traveled to communities across the province and spoke to members of the home building industry. Together, the OHBA and Tarion hosted media events and discussed industry issues. These visits coincided with other builder education programs, such as Tarion Builder Updates, where Stakeholder Relations staff delivered customer service and warranty training to builders. Media relations efforts in these communities help to build awareness of Tarion and the importance of purchasing homes from a registered builder.

BUILDER ROUNDTABLES

As part of our consultation process, Tarion met with small groups of builders throughout 2013 to have detailed discussions and ask targeted questions. Some issues we consulted on included enhanced education requirements and disclosure. These very engaged groups provided specific and thoughtful feedback. In total, Tarion held eight builder roundtables in 2013. We will continue these meetings in 2014 as part of our regular consultation process.

EMPLOYEE ROUNDTABLES

In 2013, Tarion's President and CEO began meeting with groups of front-line employees who have ongoing interaction with our stakeholders to discuss policy proposals and gather feedback. Some issues we consulted on included enhanced education requirements and disclosure. Once again we received very constructive and thought provoking feedback. This initiative will continue in 2014 as part of our regularly scheduled stakeholder outreach.

COMMUNITY OUTREACH

Recognizing the rich diversity of our province, Tarion is working to broaden our community outreach and target diverse communities who may have little to no knowledge of Tarion. In 2013 we began working with community leaders and those who share similar stakeholders, such as mortgage brokers, real estate agents and real estate lawyers, to learn from their best practises on how to most effectively reach new home buyers in their communities. This was a pilot project in 2013 that we hope to continue in more communities in 2014.

REAL ESTATE OUTREACH

In 2013, Tarion re-launched its three-hour Realtor course called "What Every Realtor Needs to Know About Tarion." This course has been delivered at real estate brokerages and local real estate associations, and can be eligible for credits toward Realtors' continuing education requirements. During the course, representatives from Tarion's Stakeholder Relations, Warranty Services and Enforcement departments discuss warranty coverage, the warranty process and Tarion's customer service standard, illegal building, home buyer and Realtor resources, and provide updates on new policies and proposals. Our goal is not only to educate Ontario Realtors about the warranty, but also to have them pass along this information to their clients.

Raising the bar on home quality

News - Belleville - There's no part of Ontario that's immune to illegal homebuilding, and in Quinte that's no different.

That's part of the message Eric DenOuden, president of the Ontario Home Builders' Association (OHBA)and Howard Bogach, president and CEO of Tarion Warranty Corporation delivered to a media information session in Belleville this past week. They explained their intent to "raise the bar" for homebuilders and home owners across the province.

"What we find is that there are people who are building and not registering homes, or advising consumers with unethical practices," Bogach said. "There's all kinds of risks to the individual."

In the Quinte area, Bogach said that Tarion has conducted 47 investigations into 86 homes over the last five years, and have already begun or completed nine investigations in 2013 alone. Across the province, Tarion conducts roughly 500 investigations a year.

Bogach said one of the most obvious and pressing issues that arises from buying a home from an illegal builder is the lack of a warranty. Every new home sold in Ontario is required by statute to receive a warranty, however, in some cases this isn't happening. The seven-year warranties are meant to be purchased by the homebuilder, who has the option of passing along those costs to the homebuyer. A typical warranty costs between $350 and $1,500 and can cover workmanship, materials and even major structural defects.

"It's not an excessive charge if you're thinking about buying a warranty," Bogach said. "If you've bought a warranty on an electrical appliance you see that it's not far off."

What Tarion wants potential homebuyers to know is the right kinds of questions to ask, so that they can tell if they are dealing with a potentially unregistered builder. To this end the organization has set up an illegal building hotline at 1-800-786-6497 that's designed to provide as much information as possible.

"They walk into a model home like this and they're mesmerized," Bogach said. "But we want to make sure they're asking the important questions."

Along with the issue of illegal homebuilding, the pair also talked about the current state of the College of Trades, potential changes to the home warranty program and the idea of a tax credit for home renovations. Both Bogach and DenOuden were scheduled to speak to the Quinte Homebuilders' Association later that evening.

"Our concern with the College of Trades is that they're trying to register all of our tradespeople," explained DenOuden, a local builder himself. "But our tradespeople aren't really getting anything for those additional fees. As we continue to burden our tradespeople with different fees and different costs, it's more incentive for people to go into the underground economy and avoid registrations, paperwork, and writing cheques."

Another issue comes from a mandate on specific ratios when accepting potential apprentices. DenOuden said that in order for one of his electricians to have a student in an apprenticeship, he must have roughly three electricians for every apprenticeship. This might work in larger city centres, but he said it creates a real problem in smaller communities where professionals aren't so abundant.

"We're working very closely to get those ratios to be more fair and equitable," DenOuden said. "It may work on a large site in the GTA, but in these smaller towns throughout Ontario ... it's hard to train the next generation when those ratios are skewed."

President of the Ontario Home Builders Association Eric DenOuden and Howard Bogach, president and CEO of Tarion, were in Belleville last week to help spread awareness about issues in the homebuilding industry. Photo: Steve Jessel

State-of-the-art sleep clinic comes to CMH

News - Campbellford - A state-of-the-art sleep clinic for area patients suffering

...ginning will be quite easy as there is no patient base yet," he added.

Eden said the hope

RAISING THE BAR ON THE HOMEOWNER EXPERIENCE

TRAINING FOR TARION STAFF

Throughout 2013, Tarion continued to invest in staff training to increase knowledge and enhance customer service. Staff members in Tarion's Contact Centre were cross trained on all functions so employees can move across roles, fulfilling tasks faster and creating more efficiencies. A large number of Warranty Services Representatives completed the courses necessary to obtain their Building Code Identification Number. This initiative will continue throughout 2014.

WARRANTY SERVICES CUSTOMER SATISFACTION SURVEY

Tarion initiated a survey in 2013 to look at how our service impacts stakeholders. A survey was sent to homeowners after conciliation inspections as a pilot project, asking how the inspector performed. This feedback helps develop further training.

WE CARE, WE ARE LISTENING

In 2012, the Warranty Services department launched a training module entitled "We Care, We are Listening." The training was developed after examining the results of our annual Customer Service Survey, and determining that homeowners wanted a better opportunity to share their thoughts on what they felt were the deficiencies in their home. The program objective was to explore and practice active listening and communications skills that are required in our day-to-day interactions as well as in more challenging situations. An outside firm was hired to create a specialized training program that was then delivered by Tarion managers to staff. The result was a noticeable difference in the way Warranty Services Representatives carry out their inspections, and more importantly, understand the concerns of homeowners. The training provided the Representatives with an enhanced skillset—they are now better equipped to understand how homeowners want to be approached and have the tools needed to better handle difficult situations.

Given the positive effects of the We Care, We are Listening program, we are now offering it to builders in conjunction with complementary customer service training. In cases where Tarion has received complaints about builder behaviour, we have made customer service training mandatory as a condition of registration.

BUILDER UPDATES AND INDIVIDUAL BUILDER PRESENTATIONS

Tarion continued to deliver customer service training to builders at individual builder meetings, Tarion Updates and OHBA events throughout the province. General Builder Update sessions included a training module called "What our Customers are Telling Us," that outlined the ten most common issues homeowners face in the first year of occupation. The training focused on perceived issues that may require more homeowner education, such as nail pops and condensation, which are not usually warrantable items, as well as on warranted items and best practices on how to avoid these claims. The presentations to builders were complemented by Tarion's online video library, Breaking Ground e-newsletters and individual builder presentations. Tarion conducted 14 Builder Updates in 2013, and met with several individual builders to deliver customer service and Pre-Delivery Inspection training. We also continued to meet with builders to discuss annual customer satisfaction results and focus on opportunities to improve the homeowner experience.

"I particularly appreciated the exceptional way in which Tarion allowed me to feel that I had a voice. I was heard, my concerns were addressed, and even though not every item on my list was granted, the outcome was fair to both the builder and myself." - Homeowner

SERVICE AND SUPPORT

WARRANTY PROGRAM

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

Builders must enrol every new home with Tarion at a cost that is based on the selling price of the home and ranges from $385.00 to $1,500.00 (plus HST). The warranty provides excellent value and remains with the home for seven years, even if it is sold during this period. While the vast majority of builders are able to resolve any deficiencies or other issues that arise to the satisfaction of new home buyers, Tarion stands behind newly constructed homes and is there to help if a dispute about coverage does arise.

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

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*.

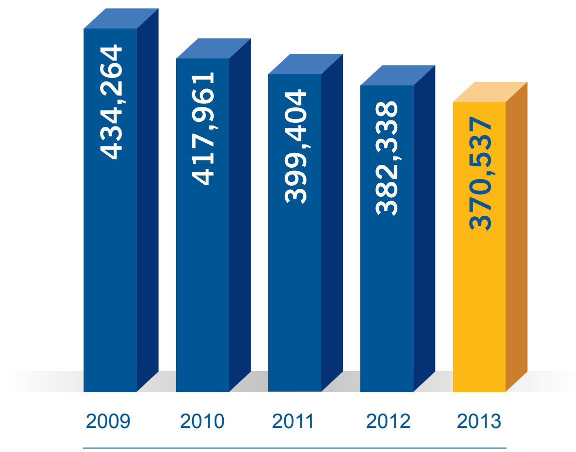
HOMEOWNER PROTECTION

Tarion continued to offer the range of warranty services that we have been refining for more than 35 years. In 2013, there were 49,856 new home possessions that fell under Tarion's regulation.

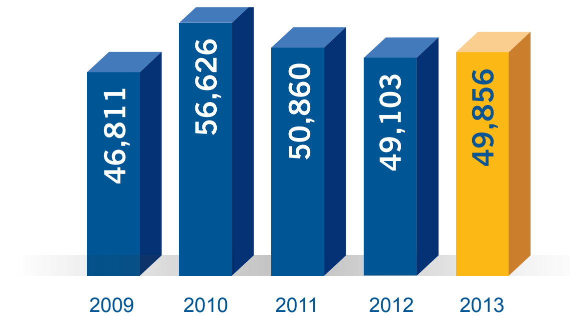
When a homeowner is unable to resolve an issue with his or her builder and Tarion determines that the item is covered under the statutory warranty, we will work directly with the purchaser to resolve the matter. Claims paid reflect amounts spent either in settlements or to repair defects where the homeowner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

In 2013, Tarion paid out 413 claims totaling $7.3 million. Year to date claims payments are slightly higher than 2012 due to the payment of a few cases where the builder was unwilling or unable to resolve the claims. However, this is still considered low compared to the historical average of $13M.

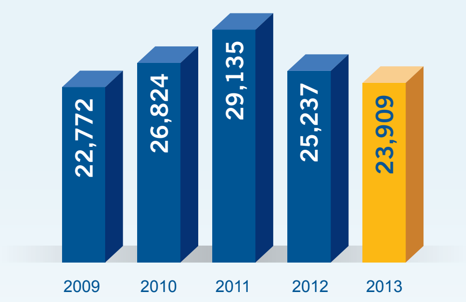
WARRANTY SERVICES STATISTICS



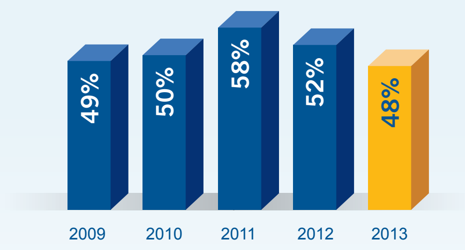
TOTAL HOMES UNDER WARRANTY



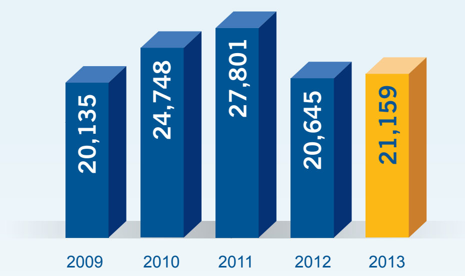
NEW HOME POSSESSIONS



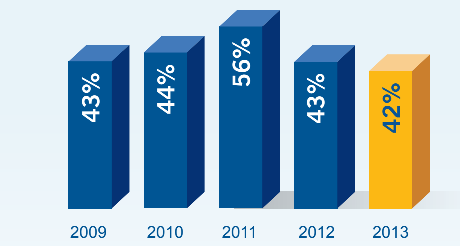
NUMBER OF 30-DAY FORMS SUBMITTED*



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

*The number of forms received in 2011, 2012 and 2013 are calculated on a per home basis.

CLAIM PAYMENTS BY TYPE OF COVERAGE

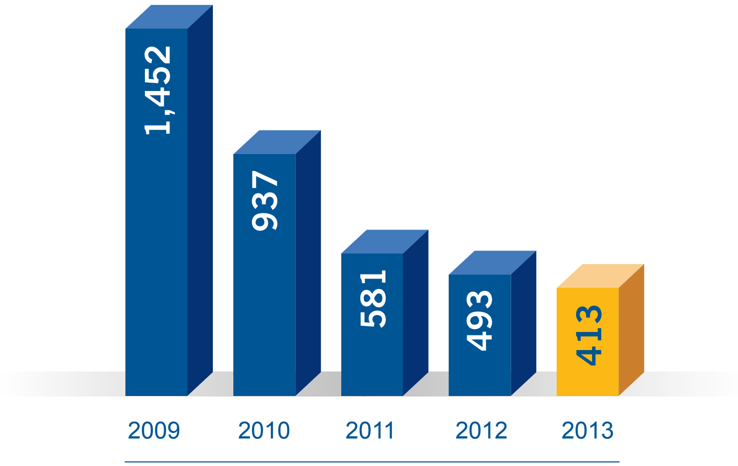
*Values have been rounded and do not include administrative and other costs associated with claims processing

"We felt that the warranty inspector was extremely professional, **LISTENED TO OUR CONCERNS AND TOOK THE TIME** to explain the conciliation process."

- Homeowner

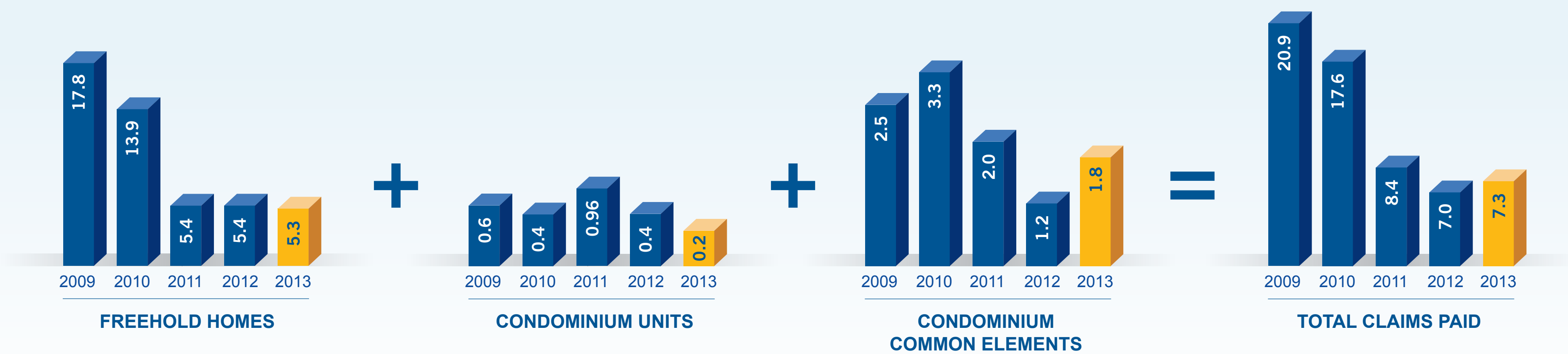
CLAIMS PAID

Claims paid are relatively consistent year over year except in years when large claims involving condominiums and/or special issues are settled. Part of the reason for the low volatility is because the payouts for claims are made over time as repairs are completed. There is a decreasing trend in claims paid since 2010. In 2010, Tarion experienced higher than normal claims paid due to a number of large payments made for unwilling/unable builders, as well as a high cost repair project involving a subdivision which began in 2009.



NUMBER OF CLAIMS PAID

CLAIMS PAID ($ MILLIONS)*



* Values have been rounded

CUSTOMER SERVICE

Tarion's Customer Service Centre is the first line of contact for homeowners when they have questions or concerns.

In 2013, Tarion responded to an increasing number of inquiries including more than 58,428 telephone calls and approximately 11,657 emails from homeowners and builders. Most commonly, callers were asking about warranty coverage, the claims process or the status of a specific claim. An additional 854 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.

"Each phone call or communication with Tarion has **BEEN A POSITIVE EXPERIENCE.** We have felt supported, and have been given clear and fair information." - Homeowner

CONTINUOUSLY REFINING CUSTOMER SERVICE

2013 WARRANTY PROCESS FIGURES

Over the years, Tarion has experienced a decline in claims activity as more claims are now being resolved directly between homeowners and builders. This has been encouraged by a number of efforts undertaken by Tarion to increase the likelihood of a resolution before a claim is submitted. These efforts include earlier communication with builders and homeowners and conciliation fee structures which encourage resolution. Tarion's increased focus on stakeholder outreach in 2013, including homeowner meetings, regional tours, builder and employee roundtables and community outreach, have also aimed to reduce the number of claims through education. Other factors that impact these numbers include a general decline in possessions since 2008, and changes in the housing mix that reflect more condominium units relative to freehold houses. Condominium units have a historically lower claims rate.

It is in a builder's best interest to resolve an issue before it becomes a chargeable conciliation. Chargeable conciliations are placed on a builder's permanent record, which is publicly available on the Ontario Builder Directory. There is also a $1,000 charge to the builder. In certain cases, chargeable conciliations could impact the conditions of a builder's registration renewal. Therefore, builders are encouraged to handle issues before a claim is made.

CLAIMS TRENDS: ITEMS ASSESSED

Sub-Coverage	2011	2012	2013
Material & Workmanship – 1st Year	14,294	14,079	12,308
Material & Workmanship – Exterior Cladding	167	239	105
Material & Workmanship – Distribution	331	351	208
OBC Health & Safety	102	150	66
OBC Infraction	80	97	87
Unauthorized Substitution	77	56	38

ASSESSING THE TOP TEN CLAIMS

In 2013, Tarion surveyed builders and customer service staff to determine the most common queries we receive from homeowners. The findings were then compared to claims data to see if there were common customer concerns that fall outside warranty coverage. Our findings concluded that customers are most commonly inquiring about warranty items. From this, we were able to develop training modules to help builders understand where homeowners are unsatisfied. Our goal is to reduce the number of claims by educating builders on common defects that can be resolved before they become warranted items.

TOP TEN CLAIMS

Top ten derived from first-year materials and workmanship claims paid in 2012 and 2013 (3,300 individual items)

1. **PAINT** - Inadequate application/coverage
2. **DOORS** - Inadequately installed, sticking, finishing
3. **FLOORS** - Hardwood & tiles: damaged, cracked, gaps, spacing
4. **DRYWALL** - Blemishes, walls, ceilings, corners
5. **STAIRS/STEPS** - Inadequately constructed
6. **WATER/MOISTURE** - Through openings, moisture within unit, flashing related
7. **CONCRETE** - Cracks
8. **BASEBOARDS** - Inadequately installed, detached
9. **TRIMS** - Inadequately installed, finishes
10. **CABINETS & VANITIES** - Inadequately installed, finishes

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 accomplished through an informal process that is conducted independently by the Ontario Licence Appeal Tribunal (LAT).

In 2013, 89 homeowner appeals were filed with LAT. Of those, 26 were heard before LAT. Tarion's assessment was upheld in 18 cases, overturned in one case and upheld (in part) in seven cases.

When Tarion issues a proposal to refuse or revoke a builder's licence or refuses to grant a registration, builders may appeal to the Licence Appeal Tribunal (LAT). In 2013, six builder new appeals were filed with LAT and 14 appeals were resolved. Of the 14 appeals resolved, Tarion withdrew its notice of proposal in seven 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 six cases, the builder withdrew the appeal or application for registration or cancelled its registration prior to the LAT hearing and in one case, the appeal was dismissed by LAT without a hearing.

THE BUILDER ARBITRATION FORUM

A builder who disagrees with Tarion's assessment of whether a claim is warranted or a conciliation is chargeable, can dispute Tarion's assessment at the Builder Arbitration Forum (BAF). BAF is structured to be an efficient and affordable way for builders to have Tarion's warranty and chargeability assessments reviewed. During the BAF process, an arbitrator will conduct a confidential hearing and after listening to both sides, reach a final and binding decision. The arbitration framework and processes are governed by the BAF Rules outlined in Builder Bulletin 41.

BAF was originally introduced in 2003 in response to the building industry's desire to have a formal way to appeal a decision. After public consultation, Tarion introduced changes to the BAF rules and processes in 2013. The result is a more efficient, constructive and cost effective way for builders to challenge a warranty and chargeability assessment.

TARION'S NEW HOME BUYER OMBUDSPERSON OFFICE

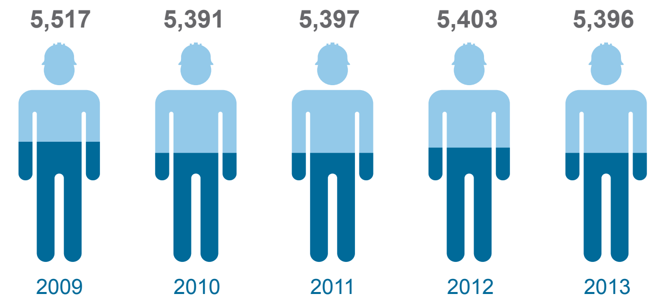
Homeowners who feel they have not been treated fairly by Tarion can turn to our New Home Buyer Ombudsperson Office. The Ombudsperson Office receives, investigates and seeks to resolve complaints from homeowners, providing an objective perspective for consumer concerns to determine whether a decision 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, it does not make warranty decisions, mandate policies, or formally adjudicate issues for Tarion.

The Ombudsperson Office makes recommendations related to specific complaints and systemic concerns. 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 2013, Tarion added recommendations from the Ombudsperson's Office to the corporation's Key Performance Indicators (KPIs). Now, in order to successfully meet our KPIs, Tarion must satisfy commitments made by management in its response to the recommendations in the Ombudsperson Office's Annual Report. In 2013, the Report outlined two recommendations. Tarion accepted both 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 2013 Ombudsperson Annual Report visit www.tarion.com/About-Tarion/Pages/Annual-Reports.aspx

LICENSING & UNDERWRITING

Tarion is the regulator of the home building industry 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. We also look at how past conduct reflects on the builder's honesty and integrity. Builder licensing occurs annually, with new registrations occurring throughout the year, and involves establishing individual terms and conditions of registration in accordance with the Act.



BUILDERS REGISTERED

If a builder is unwilling or unable to honour his/her warranty obligations, 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 Tarion requires 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.

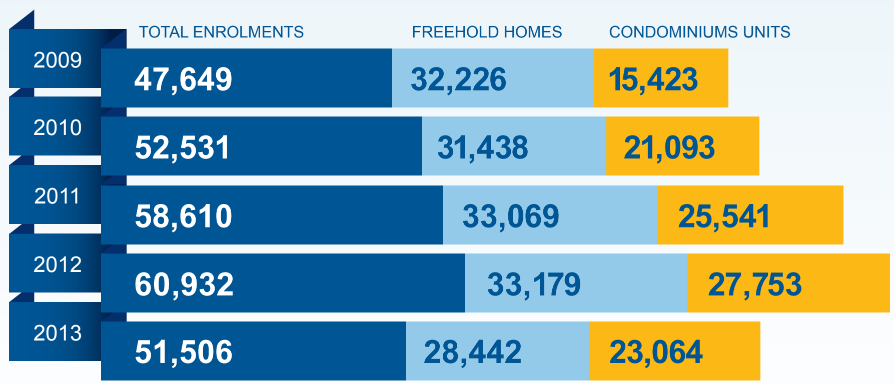
In some cases, Tarion may require builders to post security in the form of surety bonds, letters of credit, deposit trust agreements, cash or indemnity agreements. Generally, as in line with the costs and risks associated with each type of project, security amounts are higher for condominium construction 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 $2.3 billion at the end of 2012 to $2.4 billion at the end of 2013, primarily attributable to surety bond growth.

Builder registrations have remained relatively stable since 2010, with a small decrease to 5,396 registered builders in 2013. Throughout the year, 37 builders were denied licences or had their licences revoked by Tarion.

ENROLMENTS

In the 2012 Annual Report, we explained how softening 2012 sales would result in lower Tarion enrolments in the following or subsequent years. As expected, due to cooling sales in 2012, 2013 enrolments were down 15 per cent from the prior year from 60,932 to 51,506. However, the proportion of enrolments in condominiums versus freehold homes has remained relatively stable since 2011 at 45 per cent for condominiums and 55 per cent for freehold homes.

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 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. In 2013, approximately 25 per cent of all claims came from homeowners who purchased illegally built homes. Tarion continues to work with the Ontario Home Builders' Association, its local chapters and the media to highlight that illegal building puts homeowners at risk, hurts the reputation of the industry, is harmful to the local economy and costs Tarion millions of dollars in annual claims.

The Tarion Enforcement team tracks down, charges and prosecutes illegal builders. In 2013, the efforts of this group, which consists primarily of former police officers, led to 83 convictions in provincial courts and fines of more than $263,000, which includes the victim surcharge fees.

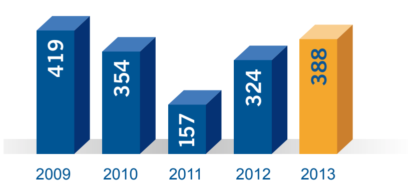
Tarion continues to utilize its intelligence based software system to identify high-risk builders, including repeat offenders and builders who have either had their licences revoked or refused by Tarion. Along with a dedicated intelligence analyst, this system identifies priority cases, improving the speed and accuracy of detecting illegal building activity across the province. The system also alerts Tarion to builders who obtain building permits 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.

When Tarion receives information that a home may be illegally built, the Enforcement team will make a site visit to the home. In the past, when a homeowner was not home, a Tarion investigator would leave a business card. Follow up rates were low as many homeowners were intimidated by the word "investigator". In 2013, Tarion created a leaflet for homeowners explaining our role, the reason for our visit, and including a phone number to call. This approach has been more successful than leaving a business card, and has helped the enforcement team track down illegal builders.

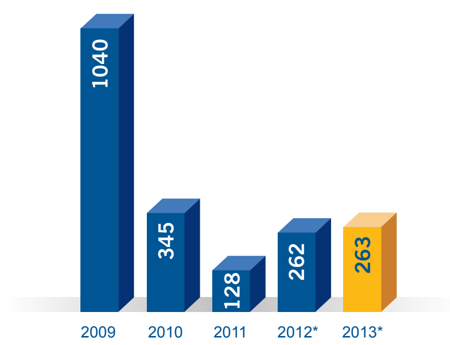
In 2013, Tarion completed a jurisdictional review of illegal building detection and enforcement, examining best practices on how to combat this issue. We reviewed models that focus on prevention of illegal building, as opposed to enforcement after the act has taken place. We also explored a regulatory change with the Ministry of Municipal Affairs and Housing to alter the building permit application. Tarion's goal is to prevent illegal building before it starts. By making certain changes to the building permit application, we hope to be better able to track projects so that Tarion can help prevent illegally built homes from entering the marketplace. We will continue to work with the Ministry of Municipal Affairs and Housing on this initiative in 2014.

Over the years we've worked to increase average first time offender fines to serve as a deterrent to further illegal building activities. First time fines have risen from approximately $500 in 1994 to an average $8,000 in 2013. Tarion continues to receive building permit information from Ontario's 426 municipalities at the onset of a building project, which is another significant advancement in identifying illegal building activities. In 2013, we received over 30,600 permit reports.

ENFORCEMENT ACTIVITY

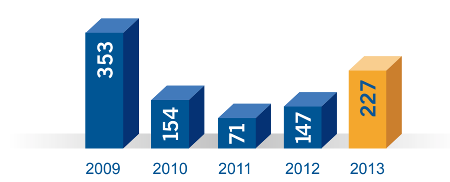


NEW INVESTIGATIONS

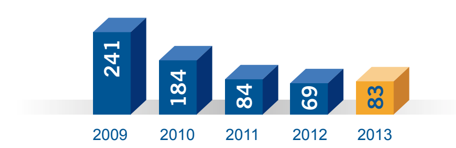


FINES LEVIED ($ THOUSANDS)

*2012 and 2013 fine amounts include victim fine surcharges



CHARGES LAID



CONVICTIONS

TRACKING COMPLAINTS

In 2011, Tarion launched a cross-departmental review to determine the best way to track and handle complaints that are received through multiple intake channels. In the Ombudsperson Office's 2012 Annual Report, there was a recommendation for Tarion to enhance its existing complaint mechanisms by creating a consistent process for handling complaints regarding Tarion service or policies and developing capacity to handle complaints and requests for reviews of warranty decisions. In 2013, Tarion continued to review its complaint management process and established multiple areas where stakeholders can issue a complaint about our services. Internal training was provided to Warranty Services Managers on the importance of handling complaints with the appropriate sensitivity. The Tarion website was also updated to include a page that clearly explains the process for handling complaints about warranty decisions.

There was a total of 158 complaints received from these multiple intake channels in 2013.

RECOGNIZING EXCELLENCE IN CUSTOMER SERVICE

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

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

The 2013 Tarion Awards of Excellence were based on the results of more than 6,800 surveys completed by homeowners.

> **"We are very proud to receive this award and know it reflects the genuine caring and dedication that each Tridel employee brings to every customer experience."**
>
> \- Danielle Feidler, Vice President of Customer Care at Tridel

THE 2013 AWARDS WERE PRESENTED TO:

HIGH-RISE CATEGORY:
Tridel - Toronto

LARGE VOLUME CATEGORY:
Fusion Homes - Guelph

MEDIUM VOLUME CATEGORY:
Klemencic Homes - Trenton

SMALL VOLUME CATEGORY:
Parry Homes Inc. - London

Tarion Awards of Excellence Luncheon

In 2013, Tarion hosted a luncheon to recognize the finalists and recipients of the Tarion Awards of Excellence. The Honourable Tracy MacCharles, Minister of Consumer Services, was in attendance to help celebrate customer service excellence in the new home building industry.

The Honourable Tracy MacCharles, Minister of Consumer Services, addresses the attendees.

"To receive this award based on feedback from our buyers is truly an honour."

- Mark Klemencic, Klemencic Homes

"I am pleased to recognize home builders who provide exceptional service to their buyers. I offer my congratulations to the 2013 Tarion Awards of Excellence recipients for so capably representing Ontario's building industry."

- The Honourable Tracy MacCharles, Minister of Consumer Services

CORPORATE GOVERNANCE AWARD

In August of 2013, Tarion was awarded an Excellence in Governance Award from the Canadian Society of Corporate Secretaries.

The award, for Best Approach to Board and Committee Support, was based on the processes and procedures put in place to ensure the most effective operation of the Board and maximization of governance and strategic oversight functions. Awards were determined by a panel of expert judges, whose considerations included Board and CEO evaluations, Director education, mandate reviews, succession planning, on-boarding procedures, talent management and management of Board materials.

The awards were presented at the Canadian Society of Corporate Secretaries annual corporate governance conference in Halifax on August 18, 2013.

(L-R): Lynn Beauregard, President of the Canadian Society of Corporate Secretaries, Lesley Ross, Corporate Secretary, Tarion Warranty Corporation and David Masse, Board Chair of the Canadian Society of Corporate Secretaries

LOOKING AHEAD

We're continuing to change and add services that our stakeholders are asking for. Our goal is to build a better home buying experience for all involved. There are many projects on the horizon that will affect new home buyers and owners. Some of these projects have been in consultation and will be moving ahead in 2014 and beyond.

For example, Tarion has been studying the feasibility of extending warranty coverage to include condominium conversions. Given the unique nature of most conversions, these types of projects present additional challenges for warranty coverage and the potential for significant financial risk. In 2013, Tarion conducted extensive research to determine the feasibility of providing statutory warranty coverage for condominium conversions. Our research is now complete and has been presented to the Ministry of Consumer Services for further consideration. Any potential changes to condominium conversion coverage would be incorporated into amendments to the province's Condo Act review. We expect to have feedback from the Ministry in 2014.

A complete review of Tarion's Customer Service Standard, outlined in Builder Bulletin 42, will begin in 2014. This bulletin was introduced in 2003 as a way to provide consumers and builders with better access to information about warranty coverage and clearer procedures for making and handling warranty service requests. The Customer Service Standard was created with the intention of being periodically reviewed and updated. The review will be conducted in multiple phases which include stakeholder consultations and roundtable discussions. We anticipate this project to extend past 2014.

As Tarion moves forward in 2014, we will continue to work on these initiatives as part of Tarion's three year plan to balance stakeholder interests while seeking operational efficiencies.

CORPORATE GOVERNANCE

CORPORATE LEADERSHIP TEAM

HOWARD BOGACH
President and Chief Executive Officer

DAVID J. GUINEY
Chief Operating Officer

PETER BALASUBRAMANIAN
(On Leave as of August 2013)
Vice President, Warranty Services

KEVIN BRODIE
Vice President, Warranty Services (Acting)

JOHN E. BECEVELLO
Vice President, Licensing and Underwriting

EILEEN HOLDEN
Vice President, Human Resources

EDMOND LEE
Vice President and Chief Financial Officer

KAREN MORTFIELD
Vice President, Stakeholder Relations

LESLEY ROSS
Corporate Secretary

TIM SCHUMACHER
Vice President and General Counsel

BOARD OF DIRECTORS

BACK ROW (L-R): Lea Ray, Daniel Gabriele, Mark Basciano, Eric DenOuden, Howard Bogach, Christopher Spiteri, Michael Lio, Lynn Peterson;
FRONT ROW (L-R): Bob Finnigan, Sheldon Libfeld, Harry Herskowitz, Frank Giannone, Justin Rangooni, Sandy Ewen
(Not pictured: Deborah Brown, Peter Oakes, Peter Saturno)

GOVERNANCE POLICIES

The Board of Directors of Tarion Warranty Corporation is committed to a series of governance policies which are intended to support the supervisory role of the Board and to ensure that the Board acts in the best interest of the company having regard to its consumer protection 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. As indicated below, as of April 17, 2014 no member of management will sit on the Board.

BOARD COMPOSITION

In accordance with the by-laws of the Corporation, membership on the Board of Directors is comprised of a number of individuals 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 appointed by the Ministry of Consumer Services, the Ontario Home Builders' Association (OHBA) as well as an individual with a financial background. The 2013 Board was composed of 15 Members and two Associate Members.

On October 10, 2013, Tarion passed a resolution to restructure its Board, the composition of which is determined by the appointment criteria set out in Tarion's By-Law #1. Effective, April 17, 2014, Tarion's Board of Directors will have 16 members nominated or appointed as follows:

- Five (5) appointed by the Minister of Consumer Services
- Eight (8) nominated by the Ontario Home Builders Association (OHBA)
- Three (3) nominated at large by the Nominations Committee

Nominated directors are all chosen by reference to a Competency Framework. The three candidates nominated at large shall not be:

(i) an employee of the Corporation; (ii) employed by or directly associated with the Ministry; (iii) an officer, director, employee, principal or person directing operations of a current new home vendor or builder in Ontario ("Ontario Builder"); nor (iv) an officer, director, employee or principal of an association comprised of and/or representing Ontario Builders.

FINANCIAL CONTROLS

The Audit Committee of the Board is composed entirely of independent 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
PETER OAKES, MBA, CPA, CA, ICD.D, Vice Chair
SANDY EWEN
FRANK GIANNONE, ICD
SHELDON LIBFELD

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
DANIEL GABRIELE
HARRY HERSKOWITZ (ex-officio)
MICHAEL LIO , ICD.D
LYNN PETERSON, ICD
PETER OAKES, MBA, CPA, CA, ICD.D
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

FRANK GIANNONE, ICD, Chair
BOB FINNIGAN, Vice Chair
HARRY HERSKOWITZ (ex-officio)
MICHAEL LIO, ICD.D
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

PETER OAKES, MBA, CPA, CA, ICD.D, Chair
LEA RAY, CPA, CA, ICD.D, Vice Chair
SANDY EWEN
BOB FINNIGAN
DANIEL GABRIELE

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

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

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 implementation 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

DEBORAH BROWN, ICD.D, Chair
CHRIS SPITERI, ICD.D, Vice Chair
MARK BASCIANO
DANIEL GABRIELE
BOB FINNIGAN
MICHAEL LIO, ICD.D
LYNN PETERSON, ICD
JUSTIN RANGOONI

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's 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 2013.

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 (and commencing in 2014, candidates selected at large) on the identified skill set determined by the Board's annual review of a Directors Competency Framework. 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 2013, the project completed a second round of stakeholder consultations. In 2014, the Task Force will continue to consider input from stakeholders and work to finalize policies and procedures for the enhanced registration requirements. 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 opinions 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. In 2013, the Task Force provided a recommendation to the Board of Directors to expand Tarion warranty coverage to condominium conversions. In 2014, the Task Force will participate in policy making around implementation of the condominium conversions decision as required.

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 also aims to reward builders with "good" performance and penalize builders with "poor" performance. After stakeholder consultations in 2012, the project entered its development phase in 2013. Tarion continues to receive feedback on various aspects of the PBP initiative and, in 2014, will take such feedback into consideration before moving forward.

DIRECTORS' ATTENDANCE

DIRECTOR	BOARD OF DIRECTOR MEETINGS	COMMITTEE MEETINGS
Harry Herskowitz	8 of 8	7 of 7
Mark Basciano	7 of 8	12 of 12
Howard Bogach	8 of 8	26 of 26
Deborah Brown	8 of 8	10 of 12
Robert Cooper*	2 of 2	2 of 2
Sandy Ewen	8 of 8	8 of 9
Bob Finnigan*	6 of 6	9 of 9
Daniel Gabriele	6 of 8	10 of 10
Frank Giannone	8 of 8	13 of 13
Brian Johnston*	1 of 2	0 of 4
Harold Levy*	5 of 5	6 of 7
Sheldon Libfeld*	6 of 6	3 of 4
Michael Lio	7 of 8	14 of 15
Peter Oakes	6 of 8	11 of 11
Lynn Peterson	6 of 8	11 of 12
Justin Rangooni*	2 of 2	1 of 1
Lea Ray	8 of 8	9 of 9
Peter Saturno	5 of 8	2 of 3
Christopher Spiteri	8 of 8	14 of 14
Eric DenOuden*	5 of 5	N/A
Leith Moore*	3 of 3	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 2013.

2. The number of Board and of Board Committee meetings held by the Corporation during 2013 was as follows:

Board of Directors – 8 meetings
Audit Committee – 5 meetings
Governance Committee – 5 meetings
Investment Committee – 4 meetings
Human Resources & Compensation Committee – 5 meetings
Regulatory Affairs Committee – 2 meetings
Consumer Committee – 5 meetings

Total – 34 meetings

*Reflects partial terms of office

FINANCIALS

TABLE OF CONTENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

2013 FINANCIAL COMMENTARY

Against a backdrop of modest growth in the Canadian economy and the improvement in the US labour and housing markets, Tarion delivered exceptional financial results in 2013 with a bottom line of $29.8M as a result of strong investment returns, good claims experience and continued cost containment.

There was a softening in the Ontario housing market in the first half of the year; however the market proved to be resilient and enrolment levels picked up in the latter months. Overall, enrolments decreased from 2012 levels to 51,506 with declines in both freehold and condominium categories.

The Guarantee Fund grew by $39.8M primarily due to exceptional returns in the equity markets. 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 fixed income portfolio continued to have a defensive position to protect the Fund against the possibility of interest rate increases. Total investment income of $34.5M, before management fees, compared favorably to $24.5M in 2012.

2013 net claims experience was $3.5M which while higher than 2012 of $0.2M was still favourable and remained low relative to historic levels. 2012 results included some high recoveries as a result of the resolution of one large litigated collection case and the expected recovery of some claims cases with full security. In 2013, the Corporation paid out $7.3M to new homeowners for warrantable claims made where the builders were unable to resolve the issues; this was slightly higher compared to 2012 claims paid of $7.0M.

The Corporation embarked on its second year of the three-year strategic plan of Balancing Stakeholder Interests While Seeking Operational Efficiencies. One major accomplishment was the completed migration of the Licensing and Underwriting process to the Peoplesoft platform. In addition, more on-line functionalities to both homeowners and builders were introduced through the Channel strategy including on-line enrolment and the acceptance of electronic fund transfer.

Total 2013 operating expenses (excluding net claims incurred) of $37.7M reflected a 0.7 per cent decrease over 2012 of $38.0M primarily due to lower external legal costs, and more capitalization of development assets, offset by an increase in depreciation and amortization expense from completed system applications.

Tarion continues to manage its capital to the internal capital targets with the focus on maintaining its overall risk profile to be within its risk appetite and limits. The Corporation ended the year with $216M (2012- $184M) of equity. The capital strength that the Corporation has built over the years puts Tarion in a strong position to carry out its mandate to its 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 17, 2014

EDMOND LEE
Vice President & Chief Financial Officer
April 17, 2014

INDEPENDENT AUDITORS' REPORT

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, 2013, the statements of comprehensive results of operations, changes in equity and cash flows for the year then ended, and notes comprising 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.

AUDITORS' 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

COMPARATIVE INFORMATION

Without modifying our opinion, we draw attention to Note 19 to the financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2012 has been restated.

The financial statements of Tarion Warranty Corporation as at and for the years ended December 31, 2012, excluding the restatement described in Note 19 to the financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on April 25, 2013.

As part of our audit of the financial statements as at and for the year ended December 31, 2013, we audited the restatement described in Note 19 to the financial statements that was applied to restate the comparative information presented as at and for the year ended December 31, 2012. In our opinion, the restatement is appropriate and has been properly applied.

We were not engaged to audit, review, or apply any procedures to the December 31, 2012 financial statements, other than with respect to the restatement described in Note 19 to the financial statements.

Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

Chartered Professional Accountants, Licensed Public Accountant
April 17, 2014
Toronto, Canada

KPMG
Bay Adelaide Centre
333 Bay Street
Suite 4600
Toronto ON
M5H 2S5

Tel: 416-777-8894
Fax: 416-777-8818
www.kpmg.ca

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, 2013 and their change in the Statement of comprehensive results of operations for the year ended December 31, 2013 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 17, 2014

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 2013 ($CAD thousands)

	NOTES	2013	2012
ASSETS			
Equipment and leaseholds	4	**$ 3,086**	$ 3,331
Intangible assets	5	**3,770**	3,693
Trade and other receivables from vendors and builders	6	**5,118**	4,932
Prepaid expenses and other assets	7	**267**	1,082
Investments	8	**449,279**	409,529
Cash and cash equivalents	9	**2,465**	2,764
TOTAL ASSETS		**$ 463,985**	$ 425,331
EQUITY AND LIABILITIES			
EQUITY	19	**$ 216,003**	$ 184,329
LIABILITIES			
Employee future benefits liabilities	10, 19	**5,383**	6,453
Warranty liabilities	11	**190,814**	183,981
Funds held as security	12	**40,989**	41,033
Lease obligations and inducements	13	**2,405**	2,479
Accounts payable and accrued liabilities	14	**8,391**	7,056
Total liabilities		**247,982**	241,002
TOTAL EQUITY AND LIABILITIES		**$ 463,985**	$ 425,331

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, 2013 ($CAD thousands)

	NOTES	2013	2012
REVENUE			
Home enrolment fees earned	11	**$ 33,981**	$ 33,607
Builders' registration and renewal fees		**3,216**	3,165
Investment results			
Investment income	15	**34,547**	24,474
Investment management fees		**(1,345)**	(1,030)
Other revenue		**675**	612
		71,074	60,828
EXPENSES			
Net claims incurred	11	**3,540**	191
Salaries and benefits	19	**24,436**	23,829
General and administrative		**9,572**	11,013
Depreciation and amortization	4, 5	**3,212**	2,690
Interest expense	16	**520**	510
		41,280	38,233
EXCESS OF REVENUE OVER EXPENSES		**29,794**	22,595
OTHER COMPREHENSIVE RESULTS OF OPERATIONS			
Actuarial gain/(losses) for employee future benefits	10, 19	**1,880**	(943)
TOTAL COMPREHENSIVE RESULTS OF OPERATIONS FOR THE YEAR		**$ 31,674**	$ 21,652

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2013 ($CAD thousands)

	NOTES	2013	2012
Beginning of the year	19	$ 184,329	$ 162,677
Excess of revenue over expenses for the year	19	29,794	22,595
Actuarial gains/(losses) for employee future benefits	19	1,880	(943)
TOTAL EQUITY, END OF YEAR		$ 216,003	$ 184,329

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013 ($CAD thousands)

	2013	2012
NET INFLOWS (OUTFLOWS) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Home enrolment fees received	**$ 41,356**	$ $53,569
Builders' registration and renewal fees received	**3,216**	3,165
Payments to employees for salaries and benefits	**(23,778)**	(23,160)
Payments to suppliers for general and administrative expenses	**(10,131)**	(10,960)
Claims payments	**(7,315)**	(6,985)
Net securities (releases)/receipts from builders	**(29)**	120
Recoveries for claims and conciliation fees	**3,532**	3,844
Interest paid	**(515)**	(498)
Other settlement and fees received	**517**	1,759
Cash provided by operating activities	**6,853**	20,854
INVESTING		
Interest received	**9,442**	8,825
Dividend received	**4,054**	3,550
Investment management fees	**(1,266)**	(1,081)
Proceeds from sale and maturity of investments	**844,948**	288,147
Purchase of investments	**(861,313)**	(316,835)
Purchase of equipment and leaseholds	**(85)**	(175)
Purchase of intangible assets	**(2,180)**	(2,336)
Cash used in investing activities	**(6,400)**	(19,905)
FINANCING		
Payment of finance lease liabilities	**(752)**	(712)
Cash used in financing activities	**(752)**	(712)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**(299)**	237
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**2,764**	2,527
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 2,465**	$ 2,764

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. 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, 2013 were approved by the Corporation’s board of directors and authorized for issue on April 17, 2014.

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(2010) – 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 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.

  - 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

The Corporation has the following employee benefit plans:

- A pension plan consisting of a fully vested and closed defined benefit component, and an active defined contribution component; and
- A post-employment medical and dental 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 salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses are recognized in the comprehensive results of operations 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 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 expense 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 proposed a new standard to account for insurance contracts in accordance with IFRS 4. The IASB issued a revised Exposure Draft ("ED") ED/2013/7 Insurance Contracts (the "revised ED") on June 21, 2013. The revised ED builds upon proposals published in 2010 and proposed a new standard for insurance contracts, which would replace IFRS 4. The revised proposals represent the first comprehensive accounting model for insurance contracts and aim to provide a consistent basis for accounting for insurance contracts and to eliminate the current diversity that exists in insurance contract accounting. The final standard is expected to be issued in late 2014 or early 2015 with implementation not expected before 2018.

Management continues to monitor 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 Fair Value Through Profit or Loss ("FVTPL"). In November 2012 the IASB issued an exposure draft whereby debt instruments based on certain criteria should be classified as fair value through other comprehensive income ("FVTOCI") so interacting with the proposal under IFRS 4 Phase II to show movements in the insurance contract liability due to changes in the discount rate under Other Comprehensive Income ("OCI").

A fair value option, similar to the current "FVTPL", would continue to be available on the condition that accounting mis-matches are reduced.

The standard addressing expected credit losses on financial assets is not yet finalized but the proposal is to use a 3 stage approach depending on whether credit deterioration has occurred yet. Under IAS 39 the methodology used was an incurred loss model but the proposal is also to include an impairment provision based on impairment in the next twelve months based on the probability.

The IASB amended IFRS 9 in November 2013 to remove the mandatory effective date of January 1, 2015 from IFRS 9. A new mandatory effective date will be determined once the impairment phase of the IFRS 9 project is complete. The Corporation is continuing to assess the impact of these changes 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, 2013, 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, 2013 ($CAD thousands)

4. EQUIPMENT AND LEASEHOLDS

Equipment and leaseholds consist of the following as at December 31, 2013:

	Computer Equipment	Furniture and Office Equipment	Leasehold Improvements	Computer and Office Equipment Under Finance Lease	Total
AT COST					
Balance at January 1, 2013	$ 1,471	$ 1,499	$ 2,426	$ 2,442	$ 7,838
Additions	66	13	6	958	1,043
Disposals	–	–	–	(875)	(875)
Balance at December 31, 2013	1,537	1,512	2,432	2,525	8,006
ACCUMULATED DEPRECIATION					
Balance at January 1, 2013	1,308	1,170	846	1,183	4,507
Depreciation expense	89	67	195	788	1,139
Disposal	–	–	–	(726)	(726)
Balance at December 31, 2013	1,397	1,237	1,041	1,245	4,920
CARRYING AMOUNT					
Balance at December 31, 2013	$ 140	$ 275	$ 1,391	$ 1,280	$ 3,086
Balance at December 31, 2012	$ 163	$ 329	$ 1,580	$ 1,259	$ 3,331

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($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, 2013	$ 6,627	$ 3,001	$ 9,628
Additions	1,588	592	2,180
Balance at December 31, 2013	8,215	3,593	11,808
ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES			
Balance at January 1, 2013	4,320	1,615	5,935
Amortization expense	1,294	809	2,103
Balance at December 31, 2013	5,614	2,424	8,038
CARRYING AMOUNT			
Balance at December 31, 2013	$ 2,601	$ 1,169	$ 3,770
Balance at December 31, 2012	$ 2,307	$ 1,386	$ 3,693

Development costs recognized as an expense under general and administrative in the statement of comprehensive results of operations during the year amount to $461 (2012 - $934).

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($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.
- 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.

	2013	2012
Gross trade receivables	$ 20,933	$ 22,527
Less: Allowance for impairment	(18,642)	(20,819)
Trade receivables	2,291	1,708
Amounts recoverable from vendors and builders	2,298	2,775
Other receivables from vendors and builders	529	449
	$ 5,118	$ 4,932

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, 2013, there are five (2012 – six) 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, 2013 is only $1,175 (2012 - $808).

As described in Note 12, the Corporation obtains security from builders to minimize its financial losses from future warranty claims. At December 31, 2013 there is $2,083 (2012 - $2,011) 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, 2013 are amounts recoverable from unregistered vendors and builders of $191 (2012 - $283).

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, 2013, a 1% change in these rates would have an impact of $9 (2012 - $16) 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, 2013 ($CAD thousands)

As at December 31, 2013, the trade and other receivables from vendors and builders includes $1,753 (2012 - $1,271) 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. In addition, the credit quality of these builders' receivables is enhanced by the existence of indemnities and/or guarantees.

	2013	2012
1 to 90 Days	$ 538	$ 437
91 to 360 Days	837	282
Over 360 Days	916	989
Total Receivables, End of year	**$ 2,291**	**$ 1,708**

MOVEMENT IN TRADE RECEIVABLES	2013	2012
Gross Trade Receivables		
Beginning of year	$ 22,527	$ 22,039
New Bills Issued	6,076	6,774
Write-offs Processed	(4,137)	(2,442)
Recoveries	(3,533)	(3,844)
End of year	$ 20,933	$ 22,527
Allowance for Doubtful Accounts		
Beginning of year	$ (20,819)	$ (20,766)
Impairment Losses Recognized (net of recoveries)	(1,960)	(2,495)
Write-offs Processed	4,137	2,442
End of year	$ (18,642)	$ (20,819)
Trade Receivables, End of year	**$ 2,291**	**$ 1,708**

7. PREPAID EXPENSES AND OTHER ASSETS

As at December 31, 2013, prepaid expenses were $262 (2012 – $246).

Other assets include an unsettled investment trade receivable of Nil (2012 – $836 receivable) and properties purchased by the Corporation in its normal course of warranty remediation of Nil (2012 – Nil).

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 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, if any, 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.

As a result of implementing IFRS 7 – Financial Instruments Disclosure, the fair value of financial liabilities measured using amortized cost has to be disclosed and categorized according to a fair value hierarchy. The fair value of the funds held as security is calculated based on discounted cash flow considering the estimated duration periods of such funds by building types and using a discount rate of 4%. Management has categorized such liabilities as level 3 as they were valued using internal assumptions with respect to the inputs.

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($CAD thousands)

Fair Value Hierarchy

*IFRS 9 – Financial Instrument*s 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 discloses the categories of financial instruments as at December 31, 2013:

		2013		2013
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Financial assets measured at fair value through profit or loss (FVTPL)				
Fixed income portfolio:				
Federal, provincial and municipal government bonds	$ –	$ 126,480	$ –	$ 126,480
Financial institution bonds	–	102,128	–	102,128
Other corporate bonds	–	62,962	–	62,962
Treasury bills and short-term notes	4,058	26,230	–	30,288
	4,058	317,800	–	321,858
Equity portfolio	36,249	91,172	–	127,421
Total investments	40,307	408,972	––	449,279
Cash and cash equivalents	2,465	-	–	2,465
	42,772	**408,972**	**–**	**451,744**
Financial liabilities measured at fair value through profit or loss (FVTPL)				
Unsettled investment payable	1,333	–	–	1,333
Financial liabilities measured at amortized cost				
Funds held as security	-	–	38,288	38,288
Total financial liabilities	**$ 1,333**	**$ ––**	**$ 38,288**	**$ 39,621**

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($CAD thousands)

				2012				2012
		Level 1		Level 2		Level 3		Fair Value
Financial assets measured at fair value through profit or loss (FVTPL)								
Fixed income portfolio:								
Federal, provincial and municipal government bonds	$	–	$	102,169	$	–	$	102,169
Financial institution bonds		–		111,129		–		111,129
Other corporate bonds		–		45,323		–		45,323
Treasury bills and short-term notes		–		21,259		–		21,259
		–		279,880		–		279,880
Equity portfolio		–		129,649		–		129,649
Total investments		–		409,529		–		409,529
Unsettled investment receivable		836		–		–		836
Cash and cash equivalents		2,764		–		–		2,764
		3,600		409,529		–		413,129
Financial liabilities measured at amortized cost								
Funds held as security		–		–		41,033		41,033
Total financial liabilities	$	–	$	–	$	41,033	$	41,033

During the years ended December 31, 2013 and 2012, there were no transfers among Levels 1, 2 and 3.

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($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 fair 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)					
2013	**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	$ 33,027	$ $59,095	$ –	$ –	$ –	$ $92,123
Yield to Maturity (YTM)	1.0%	1.5%	–	–	–	1.3%
Provincial	4,692	29,103	–	–	–	33,795
YTM	1.1%	1.8%	–	–	–	1.7%
Treasury Bills	26,198	–	–	–	–	26,198
YTM	0.9%	–	–	--	–	0.9%
Total Government	63,917	88,198	–	–	–	152,116
YTM (%)	1.0%	1.6%	–	–	–	1.3%
Financial Institutions	44,406	57,002	–	–	–	101,408
YTM	1.4%	2.0%	–	–	–	1.7%
Other Corporate	19,860	38,709	3,707	–	–	62,276
YTM	3.6%	2.0%	3.3%	–	–	2.6%
Short-Term Notes	4,058	–	–	–	–	4,058
YTM	1.2%	–	–	–	–	1.2%
Total Fixed Income	$ 132,241	$ 183,909	$ 3,707	$	$ –	$ 319,858
Accrued Interest	2,000	–	–	–	–	2,000
Total Fixed Income with Accrued Interest	**$ 134,241**	**$ 183,909**	**$ 3,707**	**$ –**	**$ –**	**$ 321,858**
YTM	**1.5%**	**1.8%**	**3.3%**	**–**	**–**	**1.7%**

(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, 2013 ($CAD thousands)

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
	TERMS OF MATURITY (1)					
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	0	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, 2013 ($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, including through its pooled fund investments. The Corporation's equity portfolio is diversified and invested in well established, active, liquid markets.

	2013			2012		
Financials	**$**	**38,015**	**30%**	$	37,113	29%
Energy		**19,098**	**15%**		25,041	19%
Industrials		**14,695**	**12%**		13,621	11%
Consumer Discretionary		**11,302**	**9%**		11,142	9%
Materials		**9,106**	**7%**		6,597	5%
Consumer Staples		**8,803**	**7%**		13,669	11%
Information Technology		**7,276**	**6%**		2,958	2%
Health Care		**6,921**	**5%**		2,494	2%
Telecommunication		**6,422**	**5%**		12,931	10%
Other		**3,493**	**3%**		722	1%
Utilities		**2,290**	**2%**		2,173	2%
Metals & Mining		**–**	**0%**		1,049	1%
Service		**–**	**0%**		139	0%
Total:	**$**	**127,421**	**100%**	$	129,649	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 equity portfolio contains investment in pooled funds along with investment in individual securities. The Corporation is exposed to currency risk on its global pooled fund and/or U.S. denominated investments. As at December 31, 2013, the Corporation had approximately 13.6% (2012 – 5.7%) of its fair value of the total investments with foreign currency risk; the largest foreign currency exposure was to the U.S. dollar of 6.2% (2012 – 4.2%). 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 2013 are:

- Interest rate risk: a shift of -25/+25 basis points in interest rates for all maturities. Funds held as security 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 in the table below.

The stress scenarios for 2013 are:

	Fair Value 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	321,858	1,461	(1,443)				
Equity portfolio	127,421			(12,733)	12,733	(1,393)	1,393
FINANCIAL LIABILITIES							
Funds held as security	38,288	96	(96)				

The stress scenarios for 2012 are:

	Fair Value 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	41,033	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, 2013, 100.0% (2012 – 98.7%) of the debt securities have a rating of A or better, and 0.0% (2012 – 1.3%) 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 (2012 – $3,000) line of credit it can draw on of which the amount outstanding at December 31, 2013 is Nil (2012 – 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, 2013, cash and cash equivalents was solely cash at the bank and on hand of $2,465 (2012 - $2,764) 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, The Pension Plan for the Employees of Tarion Warranty Corporation is comprised of a defined benefit provision ("DB Plan") which is closed to further accruals, and a defined contribution provision ("DC Plan").

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

Defined contribution plan

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

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

Defined Benefit Plan and Other Post-Employment Benefits

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

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

Pension Plan Regulatory Framework

The Pension Plan is registered with the Financial Services Commission of Ontario (# 0594754) and with the Canada Revenue Agency.

Under the Ontario Pension Benefits Act, the employer must make contributions to fully fund the plan. The plan's liabilities are determined using actuarial valuations once every three years or on an annual basis, if the market value of the assets is below 85% of the solvency liabilities.

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($CAD thousands)

According to the most recent actuarial valuation for funding purposes as at January 1, 2013, the plan has a shortfall on both the going concern and solvency basis. Thus, the employer is required to make minimum amortization payments to fund the shortfall in accordance with Regulation. The estimated required amortization payments in 2014 amount to $278. This figure will be updated to reflect the results of the January 1, 2014 valuation. The expected Employer contributions in respect of current accruals to the DC Plan in 2014 are $1,019 (employee contributions are expected to be $563).

Plan Governance

The Human Resources & Compensation Committee and the Investment Committee are responsible for the management and administration of the plan, which it delegates to various providers. Manulife Financial is the custodian and is responsible for maintaining the assets, receiving contributions and investment income, paying out benefits and expenses as instructed. The assets of the defined benefit component of the Pension Plan is invested in Beutel Goodman balanced pooled fund. Morneau Shepell, the actuary and pension consultant, is responsible for providing actuarial, administrative and consulting services to the plan. Aon Hewitt provides investment consulting services to the plan. All external providers report to the plan administrator.

Significant risks to which the plan exposes the entity

In addition to the traditional risks (market risk, credit risk, currency risk, longevity risk, etc.), the plan exposes the entity to no other unusual risk.

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

	2013			2012		
	DB Plan	**OPEB**	**Total**	DB Plan	OPEB	Total
Fair value of DB assets	**$ 4,028**	**$ –**	**$ 4,028**	$ 4,222	$ –	$ 4,222
Present value of the defined benefit obligation	**(4,217)**	**(5,194)**	**(9,411)**	(5,425)	(5,250)	(10,675)
Net Defined benefit obligation	**(189)**	**(5,194)**	**(5,383)**	(1,203)	(5,250)	(6,453)
Impact of asset ceiling	**–**	**–**	**–**	–	–	–
Accrued liability	**$ (189)**	**$ (5,194)**	**$ (5,383)**	$ (1,203)	$ (5,250)	$ (6,453)
Employer contributions	**$ –**	**$ 24**	**$ 24**	$ –	$ 21	$ 21
Employee contributions	**–**	**–**	**–**	–	–	–
Benefit Payments and transfers to other plans	**$ 745**	**$ 24**	**$ 769**	$ 218	$ 21	$ 239

Effective January 1, 2013, the Corporation adopted IAS19R, which was adopted retrospectively, resulting in the restatement of the 2012 comparative information. See Note 19 for further analysis.

The present value of the SERP obligation as at December 31, 2013 was $443 (2012 - $297), which is included in the OPEB amounts in the table above. The benefit payments to the SERP for the year ended December 31, 2013 were $1 (2012 - $Nil).

For the year ended December 31, 2013, the employer contributions to the DC Plan were $1,064 (2012 - $1,045), and the employee contributions to the DC Plan were $588 (2012 - $596).

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($CAD thousands)

Historical Funding Table

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

	2013	2012
Fair value of DB assets	$ 4,028	$ 4,222
Accrued Benefit Obligation, DB Plan	(4,217)	(5,425)
Deficit DB Plan	(189)	(1,203)
Accrued Benefit Obligation, OPEB	(4,751)	(4,954)
Accrued Benefit Obligation, SERP	(443)	(297)
Net employee benefits obligation reported	$ (5,383)	$ (6,453)
Experience adjustments on employee future benefits liabilities	$ 1,409	$ (1,167)
Experience adjustments on pension assets	$ 471	$ 224

As of December 31, 2013, the current liabilities are $24 (2012 - $36) with respect to the OPEB plan. There are no current liabilities with respect to the other plans.

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

	2013			2012		
	DB Plan	OPEB	Total	DB Plan	OPEB	Total
Beginning of year	$ (5,425)	$ (5,250)	$ (10,675)	$ (5,042)	$ (3,924)	$ (8,966)
Current Service Cost	–	(434)	(434)	–	(345)	(345)
Past Service Cost	–	–	–	–	–	–
Interest Costs	(202)	(278)	(480)	(222)	(214)	(436)
Benefit Payments	746	24	770	218	21	239
Actuarial Gain arising from plan experience	268	–	268	–	–	–
Actuarial Loss arising from changes in demographic assumptions	(238)	(486)	(724)	–	–	–
Actuarial Gain arising from changes in financial assumptions	634	1,231	1,865	(379)	(788)	(1,167)
Curtailments/Settlements	–	–	–	–	–	–
Accrued Obligation, end of year	$ (4,217)	$ (5,193)	$ (9,410)	$ (5,425)	$ (5,250)	$ (10,675)

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($CAD thousands)

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

	2013			2012		
	DB Plan	OPEB	Total	DB Plan	OPEB	Total
Beginning of year	$ 4,222	$ –	$ 4,222	$ 4,074	$ –	$ 4,074
Contributions by Employer	–	24	24	–	21	21
Expected Income on Plan Assets	154	–	154	178	–	178
Actuarial Gains	471	–	471	224	–	224
Benefits Paid	(746)	(24)	(770)	(218)	(21)	(239)
Administration Costs*	(73)	–	(73)	(36)	–	(36)
Curtailments/Settlements	–	–	–	–	–	–
DB Plan Assets, end of year	$ 4,028	$ –	$ 4,028	$ 4,222	$ –	$ 4,222

*Paid from plan assets and excluding cost of managing plan assets

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	
	2013	2012
Canadian equity securities	31%	35%
International and US equity securities	35%	28%
Bonds	27%	30%
Cash	7%	7%
	100%	100%

The expected income on the DB assets net of investment expenses is determined based on the liability discount rate at the beginning of the year (i.e. 4.00% for 2013 and 4.50% for 2012). The actual return on the DB assets net of investment expenses was $625 in 2013 and $402 in 2012.

A discount rate of 4.75% per annum and 5.00% per annum was used for the disclosures at December 31, 2013 for the Pension Plan and OPEB respectively. Specifically, the discount rate was determined as the single discount rate that would produce the present value of obligations determined by discounting the plans cash flows using Corporate AA spot rates at December 31, 2013.

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($CAD thousands)

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

	2013			2012		
	DB Plan	**OPEB**	**Total**	DB Plan	OPEB	Total
Current Service Costs	$ –	$ 434	$ 434	$ –	$ 345	$ 345
Administration Costs (non-investment related)	73	n/a	73	36	n/a	36
Past service cost (including curtailment)	–	–	–	–	–	–
Loss (gain) on settlement	–	–	–	–	–	–
Service Cost	**73**	**434**	**507**	**36**	**345**	**381**
Interest Cost on the defined benefit obligation	202	278	480	222	214	436
Expected income on plan assets	(154)	–	(154)	(178)	–	(178)
Interest on the effect of the asset ceiling	–	–	–	–	–	–
Net interest on the net defined benefit liability (asset)	**48**	**278**	**326**	**44**	**214**	**258**
Expense (income) recognized in profit or loss	**121**	**712**	**833**	**80**	**559**	**639**
Remeasurements of the net defined benefit liability (asset)						
Actuarial loss (gain) on the defined benefit liability (asset)	(664)	(745)	(1,409)	379	788	1,167
Return on plan assets less expected income on plan assets	(471)	–	(471)	(224)	–	(224)
Change in the effect of the asset ceiling (excluding interest)	–	–	–	–	–	–
Total amount recognized in Other Comprehensive Income	**$ (1,135)**	**$ (745)**	**$ (1,880)**	**$ 155**	**$ 788**	**$ 943**

The net expense for the SERP in 2013 was $148 (2012 - $100) included in the OPEB amounts above. The net expense for the DC Plan in 2013 was $1,064 (2012 - $1,045).

Service cost is reported as part of the Corporation's total salaries and benefits expense in the statement of comprehensive results of operations.

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($CAD thousands)

Significant Assumptions

The discount rate was determined with reference to market interest rates of AA corporate bond yields. As per IAS19R, the expected income on DB assets net of investment expenses is determined based on the discount rate used for determining the accrued benefit obligation.

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

	2013		2012	
	DB Plan	**OPEB**	DB Plan	OPEB
Accrued Benefit Obligation as of December 31:				
Discount rate	4.75%	5.00%	4.00%	4.00%
Salary Increase	2.25%	N/A	3.50%	N/A
General Inflation	2.25%	2.25%	2.50%	2.50%
Mortality	CPM-RPP2014 Priv Table, projected generationally using improvement scale CPM-A	CPM-RPP2014 Priv Table, projected generationally using improvement scale CPM-A	UP94, projected generationally	UP94, projected generationally
Benefit Cost for the Period:				
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%
Mortality	UP94, projected generationally	UP94, projected generationally	UP94, projected generationally	UP94, projected generationally
Assumed Health Care Cost Trend Rates at December 31:				
Initial health care cost trend rate	N/A	7.00%	N/A	7.50%
Cost trend rate declines to	N/A	5.00%	N/A	5.00%
Year that the rate reaches the rate it is assumed to stay at	N/A	2018	N/A	2018

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($CAD thousands)

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. The following demonstrates the impact of a one-percentage change in these assumptions to the accrued benefit obligation at December 31, 2013:

			1% Change in health and dental care trend rates	
		Valuation Assumptions	Increase	Decrease
Accrued benefit obligation as at December 31, 2013 at 5.0% per annum	$	4,751	$ 1,398	$ (1,017)

			1% Change in discount rate	
		Valuation Assumptions	Increase	Decrease
Accrued benefit obligation as at December 31, 2013 at 5.0% per annum	$	4,751	$ (921)	$ 1,249

Sensitivity analysis for DB pension plan

The discount rates have a significant effect on the amounts reported for the DB pension plan. A one-percentage change in the discount rate would have the following impact on accrued benefit obligation and related costs for 2013:

			1% Change in discount rate	
		Valuation Assumptions	Increase	Decrease
Accrued benefit obligation as at December 31, 2013 at 4.75% per annum	$	4,217	$ (535)	$ 646

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($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. Annual 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:

	2013	2012
Change in provisions, net of reversals	**$ 6,773**	$ 5,880
Recoveries	**(3,233)**	(5,689)
Net claims incurred for the year	**$ 3,540**	$ $191

	2013	2012
Deferred home enrolment fees, beginning of year	**$ 160,342**	$ 140,380
Fees received	**41,355**	53,569
Fees earned	**(33,981)**	(33,607)
Deferred home enrolment fees, end of year	**167,716**	160,342
Warranty claims liabilities, beginning of the year	**23,639**	24,744
Change in claims outstanding	**7,501**	6,340
Changes due to assumptions (such as: risk, inflation & discount rate)	**(727)**	(460)
Claims paid	**(7,315)**	(6,985)
Warranty claims liabilities, end of year	**23,098**	23,639
Warranty liabilities, end of year	**$ 190,814**	$ 183,981

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, and the homes have warrantable major structural defects during the three to seven years of the warranty. For policies issued after June 30th, 2012, the insurance risk for the Corporation for the three to seven years of the warranty is the loss arising from the failure of builders to perform their warranty obligations; the builders are now fully responsible or have the option to elect a co-share payment. 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 amounts; 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:

1. 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, none of which are 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.

2. Incurred but not reported claims
   Actual claim settlements may differ from estimated claim settlements and claims may exist of which the Corporation is unaware. 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 76.

3. 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 76.

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 $2,465 (2012 - $2,764).

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:

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($CAD thousands)

			Condominium	
2013	**Freehold**	**High-rise**	**Low-rise**	**Total**
Unpaid claims	**$ 3,856**	**$ 6,374**	**$ 259**	**$ 10,489**
Incurred But Not Reported	**1,722**	**3,529**	**200**	**5,451**
Provision for Adverse Deviation	**779**	**1,764**	**69**	**2,611**
Unallocated Loss Adjustment Expense	**1,618**	**2,872**	**133**	**4,623**
Discount and Inflation Impact	**(103)**	**27**	**(1)**	**(77)**
	4,016	**8,193**	**401**	**12,609**
Balance as at December 31, 2013	**$ 7,872**	**$ 14,567**	**$ 660**	**$ 23,098**
2012				
Unpaid claims	$ 2,584	$ 7,619	$ 101	$ 10,304
Incurred But Not Reported	1,945	3,765	290	6,000
Provision for Adverse Deviation	597	2,027	57	2,681
Unallocated Loss Adjustment Expense	1,313	3,301	113	4,728
Discount and Inflation Impact	(111)	47	(9)	(74)
	3,744	9,140	451	13,335
Balance as at December 31, 2012	$ 6,328	$ 16,759	$ 552	$ 23,639

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 76.

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($CAD thousands)

- 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 76.

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:

	2013	2012
Discount rate	**1.8%**	1.9%
Inflation rate	**2.5%**	2.5%
Future claims adjustment costs	**29.0%**	29.0%

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**	
2013		Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate	1.0%	$ (459)	$ 475	$ 459	$ (475)	$ 459	$ (475)
Inflation rate	1.0%	$ 307	$ (301)	$ (307)	$ 301	$ (307)	$ 301
Future claims adjustment costs	1.0%	$ 180	$ (180)	$ (180)	$ 180	$ (180)	$ 180
2012							
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

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($CAD thousands)

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
2012	$ 10,820	$ 12,819	$ 23,639
2013	**$ 11,662**	**$ 11,436**	**$ 23,098**

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.

Below is the sensitivity analysis of a +/- 2.5% change in the 2013 earning factors for all enrolment years:

	Change in Assumption	Impact on warranty liability		Impact on comprehensive results of operations		Impact on equity	
2013		Accelerated	Decelerated	Accelerated	Decelerated	Accelerated	Decelerated
Earning Pattern	2.5%	$ (7,761)	$ 7,707	$ 7,761	$ (7,707)	$ 7,761	$ (7,707)
2012							
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, 2013 ($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	2013	TOTAL
All Prior Years	$ 37,602								
At end of occurence year		$ 14,670	$ 29,550	$ 26,571	$ 16,095	$ 6,425	$ 4,955	**$ 5,999**	
One Year Later		16,712	22,424	20,773	12,538	9,058	5,823	**–**	
Two Years Later		15,832	20,625	19,179	12,752	9,438	–	**–**	
Three Years Later		12,360	20,446	19,276	12,583	–	–	**–**	
Four Years Later		12,053	20,474	19,613	–	–	–	**–**	
Five Years Later		12,129	20,404	–	–	–	–	**–**	
Six Years Later		12,121	–	–	–	–	–	**–**	
CURRENT ESTIMATE OF CUMULATIVE CLAIMS	37,602	12,121	20,404	19,613	12,583	9,438	5,823	**5,999**	**$ 123,583**
Claims Paid									
All Prior Years	37,002								
At end of occurrence year		5,521	7,831	9,914	5,720	3,628	2,267	**3,047**	
One Year Later		4,083	7,944	6,831	3,506	2,635	1,877	**–**	
Two Years Later		1,640	3,862	625	1,300	681	–	**–**	
Three Years Later		572	194	339	803	–	–	**–**	
Four Years Later		39	214	698	–	–	–	**–**	
Five Years Later		211	65	–	–	–	–	**–**	
Six Years Later		43	–	–	–	–	–	**–**	
CUMULATIVE CLAIMS PAID	37,002	12,109	20,110	18,407	11,329	6,944	4,144	**3,047**	**113,093**
Reconciliation to the statement of financial position									
Current provision before discounting	$ 599	$ 12	$ 294	$ 1,206	$ 1,254	$ 2,494	$ 1,679	**$ 2,952**	**10,490**
Actuarial reserves									**12,685**
Discounting									**(77)**
Present value recognized on the statement of financial position									**$ 23,098**

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($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.

Security received in cash is invested as part of the Corporation's investment portfolio. As at December 31, 2013, the funds held as security of $40,989 (2012 - $41,033), 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, 2013 of $1,230 (2012 - $1,249). 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 $382 (2012 - $396) on cash security deposits. Interest is calculated based on Prime less 2%, adjusted every sixth month.

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, 2013.

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, 2013 and 2012.

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 2013, the Corporation recognized lease payments of $757 (2012 - $747) 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:

	2013	2012
Operating lease	**Minimum lease payments**	Minimum lease payments
Within one year	**$ 765**	$ 757
Between one and five years	**3,261**	3,177
More than five years	**1,867**	2,716
Minimum lease payments	**$ 5,893**	$ 6,650

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($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, 2013 is $1,221 (2012 - $1,200). Interest expense of $138 was incurred during 2013 (2012 - $114) 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:

	2013		2012	
	Minimum lease payments	**Present value minimum payments**	Minimum lease payments	Present value minimum payments
Within one year	**$ 800**	**$ 664**	$ $788	$ $688
Between one and five years	**666**	**557**	582	512
More than five years	**–**	**–**	–	–
	1,466	**1,221**	1,370	1,200
Less amounts representing finance charges	**245**	**–**	170	–
Present value of minimum lease payments	**$ 1,221**	**$ 1,221**	$ 1,200	$ 1,200

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, 2013 were $96 (2012 - $96). As of December 31, 2013, the total unamortized lease inducements reported on the statement of financial position is $1,184 (2012 - $1,279).

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($CAD thousands)

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

These amounts are expected to be settled in one year:

	2013	2012
Trade and supplier accruals	$ 1,743	$ 1,560
Amounts due to vendors and builders	1,389	1,310
Salaries and benefits	2,851	3,000
Unsettled investment trade payable	1,333	–
Other liabilities	1,075	1,186
Total accounts payable and accrued liabilities	$ 8,391	$ $7,056

15. INVESTMENT INCOME

	2013	2012
Change in fair value of fixed income portfolio	$ (4,505)	$ 463
Interest income from fixed income portfolio	9,686	8,802
Change in fair value of equity portfolio	23,684	11,662
Dividends from equity portfolio	3,582	3,628
Foreign exchange (losses) gains	2,100	(81)
Total investment income	$ 34,547	$ 24,474

16. INTEREST EXPENSE

	2013	2012
Interest on funds held as security (note 12)	$ 382	$ 396
Interest on lease obligations (note 13)	138	114
Total interest expense	$ 520	$ 510

17. CAPITAL MANAGEMENT

The Corporation's capital consists of its equity. 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, 2013 and 2012 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, 2013 ($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, 2013, 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 2013, the Corporation incurred a fee of $258 (2012 - $280).

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:

	2013	2012
Short-term employee benefits	**$ 3,692**	$ 3,613
Board of directors fees	**421**	388
Post-employment benefits	**361**	347
	$ 4,474	$ 4,348

NOTES TO FINANCIAL STATEMENTS — For the year ended December 31, 2013 ($CAD thousands)

19. ADOPTION OF REVISED ACCOUNTING STANDARDS

As a result of adopting IAS 19R, the Corporation determines the net interest expense on the net defined benefit liability for the period by applying the discount rate determined at the start of the annual reporting period, on the net defined benefit liability of the plan, taking into account of any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. The revised standard also requires that past service costs to be recognized immediately.

The quantitative impact of the changes due to adoption of the revised IAS 19 is set out below:

As at January 1, 2012	**Prior to IAS 19R adoption**	**IAS 19R adjustments**		**Post IAS 19R adoption**
Liabilities				
Employee future benefits liabilities	4,356	537 [1]		**4,893**
Equity				
Surplus	164,486	(537) [1]	(1,272) [2]	**162,677**
Accumulated actuarial losses for employee future benefits	(1,272)		1,272 [2]	**–**
	163,214	(537)	–	**162,677**

As at December 31, 2012	**Prior to IAS 19R adoption**	**IAS 19R adjustments**		**Post IAS 19R adoption**
Liabilities				
Employee future benefits liabilities	5,993	460 [1]		**6,453**
Equity				
Surplus	187,120	(460) [1]	(2,331) [2]	**184,329**
Accumulated actuarial losses for employee future benefits	(2,331)		2,331	
	184,789	(460)		**184,329**
Expenses				
Salaries and benefits	23,790	39 [3,4]		**23,829**
Other Comprehensive Results of Operations (OCRO)				
Actuarial losses for employee future benefits	(1,059)	116 [4]		**(943)**

[1] Impact of adoption of IAS19R was an increase to employee future benefits liabilities of $537 and $460, at January 1, 2012 and December 31, 2012, respectively, as a result of the recognition of unamortized past service costs.

[2] The Corporation has elected to immediately transfer actuarial losses for employee future benefits into surplus. The accumulated actuarial losses for the employee future benefits has been restated to reflect this election.

[3] Impact of adoption of IAS19R was a net increase to salaries and benefits of $39, a decrease in OCRO and a decrease to surplus. In addition, the adoption of IAS 19R requires that the expected return on plan assets be capped at the liability discount rate, and the actuarial gains on plan assets to be recognized in OCRO.

[4] Change in discount rate resulting in a decrease in OCRO of $116

During the year, the Company also adopted IFRS 13 – Fair Value Measurement which requires increased disclosure requirements, and *IAS 1 – Presentation of Financial Statements* which 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. Both of these standards did not have material impact to the disclosures of the Company financial statements.

CONTACT TARION

CALL US

Our representatives are available to assist you by phone from 8:00 am to 5:00 pm, Monday to Friday.

1-877-9-TARION
(1-877-982-7466)

E-MAIL US

Help us direct your questions to the right people.

info@tarion.com

VISIT US

We have three locations across the province to serve you in person.

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

Ottawa
1580 Merivale Rd
Suite 508
Ottawa, ON K2G 4B5

London
395 Wellington Rd
Suite 214A
London, ON N6C 5Z6

CONNECT WITH US

Follow us to receive policy updates, educational material and other industry related information.

/TarionWarrantyCorp

/TarionWarranty