



Annual Report 2021

PROTECTING NEW HOMES IN ONTARIO

Table of Contents

3 Introduction

Protecting New Homes in Ontario	3
Who We Are	3
Our Mandate	3

4 The Ontario New Home Warranties and Protection Plan

6 New Homes in Ontario

8 Messages

Message from the Chair	8
Message from the CEO and Registrar	11

12 Vision, Mission, Values

14 Strategic Objectives

Enhancing Consumer Outcomes	14
Being a Trusted Resource	14
Empowering Our Stakeholders	15
Supporting Our People & Culture	15

16 Progress Report on Auditor General's Report

17 Operational Highlights

Launch of HCRA, Transition of Licensing Responsibilities	17
Tarion's Continuing Roles	17
Proposed Increase to Warranty Cap	18
Changes to Claims Intake Process	18
Dispute Resolution	19

Risk-Based Inspection Program	21
Legislative & Policy Changes	22
The New Home Warranties and Protection Plan in Action	23
How the Warranty Process Works	26
Tarion Helps Homeowners Resolve a Persistent Issue with Leaks	29
Consumer Education	30
Builder Education	32

33 Digital Strategy

35 Performance Measurement

Annual Homeowner Surveys	35
Annual Builder Survey	37
Interaction Surveys	38

39 Governance

Tarion's Governance Framework	40
Tarion's Corporate Leadership Team	41
Governance Structure, Policies & Practices	42
Audit & Risk Committee	44
Governance, Regulatory Affairs & Nominations Committee	45
Human Resources & Compensation Committee	46
Investment Committee	47
Stakeholder Committee	47
Board Compensation	49
Directors' Attendance	49

51 Legislation and Policy Changes

61 Financial Statements

Management's Responsibility for Financial Reporting	62
Annual Report	63
Independent Auditors' Report	65
Appointed Actuary's Report	68
Statement of Financial Position	69
Statement of Comprehensive Results of Operations	70
Statement of Changes in Equity	71
Statement of Cash Flows	72
Notes to Financial Statements	73-111

Introduction

Protecting New Homes in Ontario

Buying a new home is one of life's largest investments. In Ontario, the *Ontario New Home Warranties Plan Act (ONHWP Act)* requires that all new homes built come with a minimum warranty that is provided by the builder to new home buyers. The builder's warranty offers protections to consumers prior to possession of the home for things such as deposits, as well as for up to seven years after possession for construction defects.



Who We Are

Tarion is a not-for-profit consumer protection organization designated by the Ontario government to administer the province's new home warranty program. Governed by a Board of Directors and operating independently of industry, Tarion has served new home buyers and new homeowners for 45 years by ensuring that one of their life's biggest investments is protected in the event that their builder is unwilling or unable to live up to its warranty commitments.

Tarion acknowledges the indigenous and ancestral lands on which all of the new homes in Ontario are built. Tarion's corporate office is located on the ancestral land shared by the Mississaugas of the Credit, the Anishinaabe, the Haudenosaunee and the Wendat peoples. Tarion is committed to fostering an inclusive culture that represents the people and communities we serve.



Our Mandate

Our mandate is to administer the *ONHWP Act* including:

- Assisting in the resolution of disputes between vendors and homeowners;
- Promoting the resolution of claims as soon as reasonably possible;
- Resolving issues directly with homeowners where the builder is unwilling or unable to do so, and administering a Guarantee Fund to provide compensation where necessary;
- Requiring new home builders and vendors to enroll every new home in the warranty program;
- Promoting the construction of properly built new homes;
- Improving communications between builders and vendors and owners of new homes;
- Maintaining a fair, safe and informed new home marketplace; and
- Promoting the protection of the public interest, and consumers in particular.

The Ontario New Home Warranties and Protection Plan



The Ontario New Home Warranties and Protection Plan (the Plan) is the name provided in the provincial legislation for Ontario's comprehensive warranty program. The program requires Ontario's builders to provide new home buyers and new home owners with protections before and after they take possession of their new home. The Plan covers defects in workmanship, water penetration and major structural defects. It also provides deposit protection and compensation for delayed closing occupancy.

The Plan ensures all consumers receive statutory home warranty protection automatically when they buy a new home. And it also gives homeowners the comfort of knowing the administration of the Plan is being done by a not-for-profit organization that is independent of their builder.

A new home is a newly-constructed home, not previously occupied where all of the work and materials for the construction of the home have been supplied by a builder. So, for example, renovation work would not generally be considered a new home.

Here is a summary of the minimum statutory warranty coverage available for all new home purchases:

Before Possession

- Deposit coverage of up to \$60,000 on homes with a purchase price of \$600,000 or less, and up to \$100,000 on homes over \$600,000 (for agreements of purchase and sale signed on or after January 1, 2018);
- Deposit coverage of up to \$20,000 for condominium units (condominium deposits are also protected by the trust provisions of the *Condominium Act*);
- Coverage for delayed closing/ occupancy of up to \$7,500; and
- Financial loss coverage for contract homes (where the land is owned by the consumer, and only the construction of the building is provided by the vendor) for up to \$40,000.



One-Year Warranty

- Defects in work and materials;
- Unauthorized substitution of materials;
- Fitness for habitation; and
- Ontario Building Code violations.



Two-Year Warranty

- Ontario Building Code health and safety violations;
- Water penetration through the basement or foundation;
- Water penetration into the building envelope;
- Defects in the electrical, plumbing or heating systems; and
- Defects in the exterior cladding.



Seven-Year Warranty

- Major defects in the structural load bearing elements of the building;
- Defects that materially and adversely affect the use of a significant portion of the home; and
- Environmentally harmful substances or hazards which render the home unfit for habitation.



Condominium Common Element Coverage:

- Condominiums also come with separate coverage for the common elements of the building. This coverage is also broken out into the one, two and seven-year categories described above.

Enhanced Coverage Limits

In 2021, the following enhancements to warranty coverage limits were added to the Plan:

- Condominium common element coverage limit was increased: For standard condominium projects where the first agreement of purchase and sale was signed after February 1, 2021, the maximum

coverage for condominium common elements is \$100,000 multiplied by the number of units, up to a maximum of \$3.5 million.

- The coverage limit for mould and radon claims was increased: For homes with agreements of purchase and sale signed after February 1, 2021, there is a maximum of \$50,000 for warranted damage caused by environmentally harmful substances or hazards (including mould and radon).
- The coverage limit for damages to septic systems was raised, now falling under the general home or unit limit of \$300,000. This change also applies to homes with agreements of purchase and sale signed after February 1, 2021.

What Are the Roles of Builders, Homeowners and Tarion under the Warranty?

The Builder's Role is to:

- Ensure that a home is built properly. This means it is constructed in accordance with Ontario's Building Code, is fit for habitation and is free from defects in workmanship and materials and major structural defects;
- Provide the homeowner with information about their warranty coverage at the time of purchase;
- Conduct a pre-delivery inspection (PDI) with the homeowner on or before the closing date and explain how the various systems in the home work;
- Provide the homeowner with a warranty certificate upon their home's completion which indicates when the new home warranty takes effect;
- Be reasonably accessible to the homeowner to address customer service issues, including investigating issues with the home to determine if they are covered by the warranty; and
- Resolve valid warranty requests in a timely manner by performing repairs or offering an acceptable alternative resolution.

The Homeowner's Role is to:

- Understand their home's warranty coverage and the process for making warranty service requests and claims;
- Participate in the pre-delivery inspection (PDI) by identifying incomplete, damaged or missing items and learning how to operate the home's systems;
- Properly maintain the home;
- Bring any warranty service requests to the builder's attention in writing as soon as possible;
- Provide the builder with reasonable access to the home to investigate and address warranty service requests; and
- If warranty assistance is needed from Tarion, ensure that the claim is submitted within the appropriate timelines.

Tarion's Role is to:

- Be an independent authority assisting in the resolution of warranty issues between owners and builders;
- Facilitate the fair resolution of disputes between homeowners and builders over warranty coverage, repairs or customer service;
- Assess warranty claims to determine if they are valid, either through an on-site inspection or an alternative method of investigation;
- In cases where a builder fails to address a valid warranty claim, resolve the claim directly with the homeowner, either through compensation or repairs by a third party;
- Manage a Guarantee Fund that provides compensation to the homeowner for warranty claims;
- Educate new homeowners and builders about the warranty process; and
- Work proactively, through targeted inspections, and monitoring of customer service performance, to encourage improved building quality and customer service in the province.

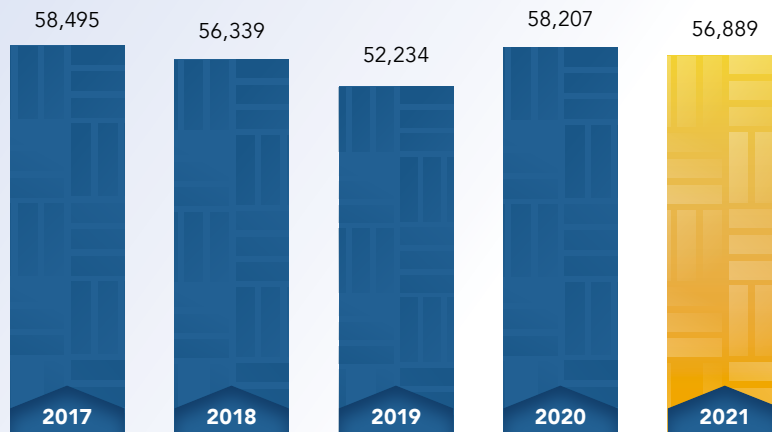
New Homes in Ontario



Total Enrolments

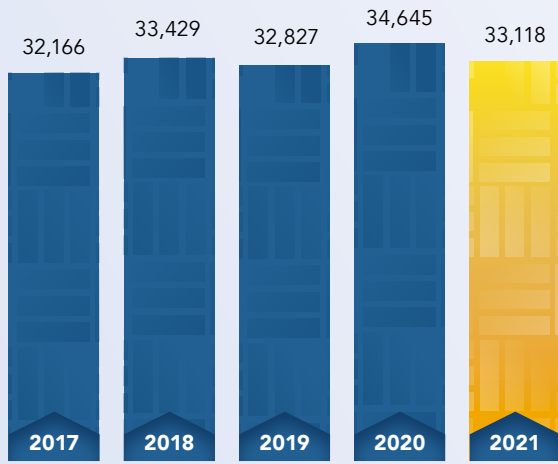


New Home Possessions* (restated)

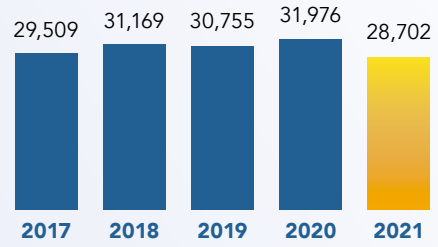


* The numbers are based on the Year of Possession and restated every year.

Condo Enrolments



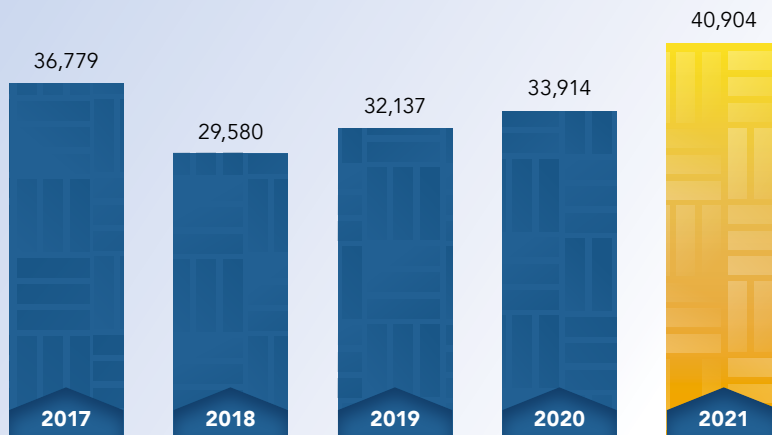
High-Rise Condo Enrolments



Low-Rise Condo Enrolments



Freehold Enrolments





Messages

Message from the Chair

We took many steps on Tarion's transformation journey in 2021, building on what we started in 2020. We opened the door to enhanced consumer protection by establishing a more expansive coverage of Ontario's New Home Warranties and Protection Plan and service delivery under our newly devised standards.

In my second year as the Chair, our Board steered this change – and an accompanying cultural shift – to accelerate our new focused mandate as a warranty authority that promotes excellence in home building, satisfying homeowners' expectations and customer service throughout the coverage period.

We achieved a number of significant milestones, even as we continued to effectively manage pandemic-related challenges.

Our Board approved resources – including new talent, technology and communication – that allowed us to move forward with an increased focus on customer service, homeowner protection, cyber security and enhanced dispute resolution processes.

The Board also supported the successful launch of the Home Construction Regulatory Authority (HCRA) as the new regulator of new home builders and vendors on February 1. This milestone followed months of collaboration between Tarion, the HCRA and the Ministry of Government and Consumer Services officials to put the proper regulations, policies, procedures, technology and operational measures in place. This change required extensive communication with homeowners, builders and other stakeholders to build awareness about the two distinct administrative authorities, and their complementary roles in protecting consumers within the new home sector. This new structure represents an important step in ensuring a fair marketplace and the transparent and accountable new home warranty and protection program that Ontarians expect and deserve.

Consumer Protection

To establish a strong foundation for Tarion's future, the Board collaborated with management in the development of a new vision, mission and set of values that together reflect Tarion's core purpose of consumer protection. Our new vision, mission, and values clearly set out our shared commitment to Ontario's new home buyers and the behaviours and corporate culture that will allow Tarion to deliver the best new home warranty and protection plan in the country. This framework in turn has informed the development of Tarion's strategic objectives and consumer-oriented performance expectations which will guide the organization's operations and business planning going forward.

Financial Soundness and Oversight

A critically important role of the Board is to oversee the Guarantee Fund and strive to sustain adequate protection for consumers in the event of a catastrophic event or a major breach – without placing financial burden on the Province. Tarion manages this fund to ensure there are financial resources available to support the warranty claims when they arise under the program. In addition to serving as a reserve to cover future claims, the Guarantee Fund also protects against catastrophic losses that have bankrupted other warranty programs in Canada and abroad – for example, wide spread failure of building materials or building techniques. Every year, Tarion's Board conducts financial stress-tests and has voluntarily adopted the capital standards that are applied by the Office of the Superintendent of Financial Institutions (OSFI) in regulating financial institutions that have financial and risk profiles like Tarion.

In 2021, Tarion undertook a review of key elements within our present Ontario New Home Warranties and Protection Plan. Based on our analysis, we enhanced coverages to better protect consumers in today's environment. We also regularly undertake robust risk and financial assessments of the overall plan including the warranty and protection limits to strengthen benefits to eligible homeowners.

Corporate Governance

In the past year, after a series of consultations, the Board approved a new Corporate Governance Framework. We reached the important milestone of signing a new Administrative Agreement with the Minister of Government and Consumer Services – an agreement that captures the Minister's and Tarion's accountabilities. The agreement maintains a strong collaborative relationship, setting out a clear oversight role for the Ministry while maintaining the independence and public interest accountability of Tarion. The agreement allows Tarion to exercise its powers and duties in a manner that protects the public interest and consumers in particular consistent with the objective of maintaining a fair, safe and informed marketplace that supports a competitive economy.

Among the corporate governance changes in 2021 was a strengthening of a variety of measures, including: setting up an independent New Home Ombuds office; elevating transparency and public disclosures of key business matters; and establishing the Consumer Advisory Council and the Industry Advisory Council within the Board's governance framework.

The new framework also includes an expanded and transparent process for electing Board members so that all key stakeholders – such as, new home buyers, industry participants and service providers, professional associations, consumer advocates, the financial community, and provincial and municipal levels of government across Ontario – have notice of board vacancies and our process for filling them (excluding ministerial appointments). With diversity, equity and inclusion as priorities in recruitment, Tarion seeks highly qualified, skillful Board members with forward-looking expertise in such areas as financial literacy, risk management, consumer protection, dispute resolution, technology, digital literacy and corporate governance.

Value for Money

There is no doubt in my mind that the Tarion new home warranty and protection plan delivery is good value for Ontario's new homeowners. It provides peace of mind for what is generally the largest investment in their lifetime. Still, we can always strive for better.

In 2021, our Board of Directors evaluated and approved increased warranty and compensation plan for certain specific large-ticket items. First, coverage for harmful substances such as mould and radon gas was raised from \$15,000 to \$50,000. Second, coverage for condominium common elements was increased from \$2,500,000 to \$3,500,000 for each condo building, over and above the warranty and compensation coverage for individual condo units. And third, we eliminated the maximum limit of \$25,000 for septic issues and now raised coverage of this item to the full maximum plan limit of \$300,000. All these enhancements mean even better value for new homeowners.

Auditor General Report

We gave our undivided attention to the Auditor General’s report and we are proud that by the end of 2021, Tarion achieved an 86 per cent completion rating for the recommendations outlined by the Auditor General of Ontario in her 2019 Special Report. Our Board and Management are now focused on implementing the remainder of the recommendations and sustaining all those implemented during 2020. We anticipate additional progress in 2022.

Corporate Social Responsibility

Corporate social responsibility (CSR) is an important part of Tarion’s corporate culture. For years, Tarion has supported the efforts of not-for-profit housing providers, such as Habitat for Humanity, by waiving enrolment fees for homes they build while still ensuring the homes benefit from the warranty plan protections. Yet Tarion’s employees have done so much more over the years to contribute to the betterment of society, such as fundraising and volunteering for a variety of causes in their communities, exploring ways to lessen our carbon footprint using technology and donating face masks to local hospitals during the current pandemic.

Our People

Looking back, it is heartening to see all that we’ve accomplished at Tarion. Change is never easy – particularly when dealing with the effects of the continuing pandemic – and we have a strong team that is committed to deliver on Tarion’s more focussed role in administering the Warranty and Protection Plan.

On behalf of our Board of Directors, I would like to thank Ontario homeowners who have placed their trust in us and have given us an opportunity to serve. Further, I would like to thank the Management and staff for their ingenuity, hard work and flexibility in delivering meaningful change to consumers in 2021. It has been a pleasure for me to serve as their Chair and I look forward to an even more productive year ahead.

Sincerely,



Hari Panday,
FCPA, FCGA, ICD.D, NACD.DC
Chair of the Board

Message from the CEO and Registrar

Change has always been a constant for Tarion, and 2021 was no exception. It was a year in which our organization refreshed its mandate, taking the best from our past and building on those achievements for the future.

As noted by Hari, I am proud that our team was able to deliver on a number of consumer-oriented commitments in 2021.

Three completed projects stand out for me.

First, we now have a new, cost-effective third-party mediation process for homeowners. Homeowners can now request an independent mediation at any time to assist in the resolution of an issue they may have with a Tarion assessment. The program is user-friendly and goes to the heart of our mandate of making issues resolution more accessible. It reinforces our role as an independent authority helping to resolve warranty issues between new home owners and builders.

Second, Tarion conducted a pilot program for risk-based inspections of builders who were either new or had claims issues and could improve. The program also involved public consultation to ensure that Tarion's inspection efforts did not overlap or duplicate the provincial municipal inspection regime. Based on the results from the pilot and the feedback, Tarion implemented a permanent, risk-based inspection process in 2021. While the launch of the program was (and continues to be) impacted by health and safety protocols arising from the COVID-19 pandemic, I consider the program a positive step toward linking the warranty program work with the goal of improving the quality of construction in the province.

Third, the successful launch of the HCRA stands out to me as a critical achievement. I want to acknowledge the efforts of all of our staff as well as the staff at the HCRA and the Ministry of Government and Consumer Services who worked to ensure that licensing and

enrolments processes were divided and implemented effectively. The separation of the warranty program authority and the licensing and builder conduct authority is a key adjustment that will ensure each organization has a clear mandate on which to focus, and paves the way for continued improvements and confidence in the provincial regulation of the new home sector.

Looking ahead to 2022, we will continue to work with the HCRA and to consult with our stakeholders on new policies and operational improvements consistent with the recommendations of the 2019 Auditor General's report and our new, re-focused mandate. These will include our continued review of our claims processes, ensuring the maximum warranty cap of \$300,000 remains relevant to the Ontario market, and updating and enhancing our digital portals to make sure they meet our stakeholders' needs.

As a final note, I would like to thank the Board of Directors, the Executive Team and all Tarion employees for their dedicated efforts in 2021 serving Ontario's new home buyers. Our list of 2021 accomplishments shows how much can be achieved when a team's focus is clear and we all operate with a shared vision and mission in mind.

Sincerely,



Peter Balasubramanian
President & CEO

Vision, Mission, Values

As part of Tarion's continued evolution into a modern warranty authority, early in 2021, Tarion began an effort to develop a set of vision, mission and value statements to help focus strategic planning and provide homeowners, builders, staff and other stakeholders with a better understanding of Tarion's role and objectives. We believe that our vision, mission and values articulate our unified purpose in serving Ontario new home buyers.





Our Vision

All new home buyers in Ontario have peace of mind that they are getting the home they were promised.



Our Mission

To give Ontario home buyers consumer protection and confidence that their new homes are properly built. We do this through fair issues resolution, education and outreach. We want homeowners to receive excellent customer service and the best new home warranty program in Canada.



Our Values

Tarion's core values set a foundation for the organizational culture and behaviours that allow us to deliver on our mandate and achieve our mission and vision. Our core values are more than a list of the behaviours we value – they define who we are.

Service Oriented

We are all committed to upholding consumer protection in the actions and decisions we make every day. Our strong commitment to health and safety is a cornerstone of our ability to protect consumers and each other.

Continuously Improving

We nurture a learning culture in which we constantly seek personal and professional growth and embrace new ideas to improve our processes.

Solution Seeking

We strive for positive results in all that we do and focus on finding resolutions to the issues we encounter. We are collaborative. Our success is driven by our ability to work productively with stakeholders and colleagues to overcome obstacles, find solutions and deliver results. Our proactive approach helps to create the best outcomes.

Inclusive

We foster an inclusive culture and believe a diverse workforce allows Tarion to better represent the people and communities we serve.

Trustworthy

We share our knowledge and experience to empower new homeowners to navigate the new home ownership journey. We operate in an ethical, reliable and proficient manner, which builds trust in our guidance as experts in our field. We are professional, responsive and timely in our interactions with our stakeholders.

Caring

We are committed to fostering an encouraging and supportive environment in which colleagues care about each other as individuals, and we regularly demonstrate to our stakeholders that we care about their concerns. We are community oriented and care about being responsible corporate citizens.



Strategic Objectives

To align our priorities and activities toward achieving our vision, Tarion developed four strategic objectives. Each objective is described below and includes major activities that we will undertake in 2022 in support of that objective.

Enhancing Consumer Outcomes

Enhancing consumer outcomes is a collective goal of all the stakeholders involved in the new home ownership process, including builders who want to provide their homeowners with a great home and after-sales service. Enhancing consumer outcomes is critical to achieving our vision. For Tarion, this involves making fair and consistent decisions and being transparent about these decisions so that the outcomes are easily understood. It also involves ensuring the statutory warranty remains relevant to the needs of the Ontario market and that our stakeholders are informed about their rights, responsibilities and the scope of consumer protection that is available.

2022 activities in support of this objective include:

- Increasing consumer awareness through public outreach events and strategies (including our Annual Public Meeting and social media channels);
- Completing our review of the current maximum home warranty compensation limit and making appropriate recommendations to the Ministry; and
- Improving our dispute resolution by assessing the success of our mediation program and completing our consultations on improving the process for builder warranty claim intake (the complaints and claims process).

Being a Trusted Resource

Being a trusted resource to all stakeholders involved in new home ownership is vital to Tarion's success. Stakeholders – especially homeowners and builders – must have confidence that Tarion is fulfilling its mandate, including working in a targeted way to help improve the new home construction industry. Tarion must also demonstrate financial soundness and comply with relevant financial standards, be transparent and protect privacy. Tarion is also committed to working in partnership with the Ministry of Government and Consumer Services, municipalities, realtors and all other key stakeholders to achieve its vision and mission.

2022 activities in support of this objective include:

- Continuing our Risk-Based Inspection Program;
- Implementing compliance with IFRS-17 accounting standards, including disclosure requirements; and
- Enhancing cyber security and data and privacy protections.

Empowering Our Stakeholders

Tarion is committed to empowering our stakeholders by making it simpler to work with us and by providing accessible self-serve options, education and easy-to-use tools. We believe that by making sure we are easy to do business with and providing the ability for our stakeholders to communicate and access information using well-designed digital channels, we will enhance the quality of their experience.

2022 activities in support of this objective include:

- Improving the MyHome digital portal;
- Improving the BuilderLink digital portal;
- Improving the home enrolment process to make it more efficient; and
- Improving the usability of [Tarion.com](https://www.tarion.com).

Supporting Our People & Culture

Supporting Tarion’s staff and a culture empowering them to make the right decisions will drive consumer protection forward. Tarion is committed to providing development opportunities to staff to create an experienced and enabled workforce, and to fostering an innovative and inclusive culture that represents the ever-changing and diverse needs of new home buyers in Ontario.

2022 activities in support of this initiative include:

- Managing the impacts of COVID-19;
- Implementing improvements to our internal computer systems to make them easier for staff to use and make service delivery more efficient (the "Evolve" project); and
- Rolling out our vision, mission and values.

The following outlines Tarion’s 2022 performance measures related to the four strategic objectives.

2022 Performance Measures	2022 Target
Strategic Objective: Enhancing Consumer Outcomes	
New home buyer satisfaction	84%
Satisfaction in customer interactions:	
a) Call centre interactions	90%
b) Conciliations	85%
Strategic Objective: Being a Trusted Resource	
Auditor General recommendations implementation	100%
Standing Committee on Public Accounts recommendations implementation	100%
Strategic Objective: Empowering Our Stakeholders	
Call centre response time	50 seconds
Inspection completed to conciliation assessment report issuance	11 calendar days
MyHome redesign initiative and claims process changes	100%
BuilderLink and enrolment enhancement	100%
Strategic Objective: Supporting Our People & Culture	
Employee satisfaction score	78.5%
Roll out of vision, mission, values and awareness	100%

Additional details regarding Tarion’s strategic objectives are available in the 2022 Business Plan available on [Tarion.com](https://www.tarion.com).

Progress Report on Auditor General's Report



In 2021, Tarion continued to make significant progress in addressing recommendations from the Auditor General of Ontario. Of the 25 recommendations directed to Tarion in the Auditor General's 2019 report, 22 have been completed.

Improvements that were responsive to the Auditor General's report and which were implemented in 2021 include:

New Information-sharing Process with Municipalities

Tarion is now providing municipal building departments with a summary of any claims that were deemed warranted and were related to the Ontario Building Code. This change is in response to recommendation #17 and is intended to help building departments better understand the issues that are brought to Tarion's attention after an occupancy permit is granted, and to help improve compliance with the Ontario Building Code.

Completing the New Home Ombuds Recommendations

In response to recommendation #24 of the Auditor General's report, Tarion posted a progress update confirming the completion of all recommendations for systemic improvement that were made by the New Home Ombuds office. This included the review and revision of our procedures for delayed closings, financial loss and deposit claims to ensure that they meet the requirements of fair process.

Annual Public Meetings

Recommendation #32 of the Auditor General's report called for Annual Public Meetings (APMs) to be held in person to improve transparency and public access to Tarion. Due to pandemic-related restrictions, Tarion held virtual APMs in 2020 and 2021. However, Tarion signed a new administrative agreement in 2021 with the Minister of Government and Consumer Services that formalizes our commitment to in-person public meetings as the public health situation allows.

Tarion's Implementation Plan provides further details regarding the initiatives taken in response to the Auditor General's recommendations. The Plan is available for viewing on [Tarion.com](https://www.tarion.com).



Operational Highlights

In 2021, Tarion dealt with the ongoing operational challenges presented by COVID-19, while also adjusting our policies, processes and activities to fit our revised mandate.

Launch of HCRA, Transition of Licensing Responsibilities

Under the *New Home Construction Licensing Act, 2017*, responsibility for licensing builders and vendors of new homes became the responsibility of the HCRA. This transition means that a person or company who plans to build or sell a new home in Ontario must be licensed by the HCRA. This function is no longer carried out by Tarion. The HCRA is now responsible for granting new licences and renewing existing licences.

The HCRA is also responsible for:

- Ensuring builders and vendors adhere to professional standards of competency and conduct;
- Setting educational standards for new home builders;
- Handling consumer complaints about builder and vendor professional conduct; and
- Hosting the Ontario Builder Directory (OBD) which shows the licensing status of builders, the length of time they have been licensed, and information relating to their warranty performance.

With the successful establishment of the HCRA as the new regulator, Ontario new home buyers now have two distinct organizations to protect their investment: one to oversee the people and companies that build and sell new homes and another to manage the builder's warranty and the warranty process that covers those homes.

Tarion's Continuing Roles

Independent Warranty Authority – Tarion will continue to administer the claims process and guarantee performance of new home vendors' statutory warranty obligations.

New Qualification for Enrolment (QFE) Process – Tarion is responsible for administering the new Qualification for Enrolment (QFE) process. After receiving a licence from the HCRA, a vendor/builder must apply to Tarion for QFE Confirmation for a home it is considering selling and Enrolment Confirmation for a home they are considering building. Tarion monitors compliance by the vendors and builders of enrolment conditions contained in the *Ontario New Home Warranties Plan Act* and its accompanying regulations. Tarion may propose additional conditions that must be satisfied prior to confirming that the proposed home has QFE or is enrolled in the Plan. As the QFE process may differ depending upon the type of home, Tarion issued three Registrar Bulletins outlining the requirements for freehold homes (Registrar Bulletin 10F), contract homes (Registrar Bulletin 10CH) and condominiums (Registrar Bulletin 10-Condo).

Tarion's online builder portal, BuilderLink, allows builders to apply to enrol homes electronically. Once the application is approved, Tarion will issue the Enrolment Confirmation and builders can begin construction of the home.

To assist with the transition to this new process, Tarion conducted webinars and provided other educational resources to help answer questions from builders and vendors. In addition, we surveyed builders and vendors who completed the new process to help identify opportunities for clarification and improvement. A total of 224 builders completed surveys between June and December. Overall satisfaction with the QFE process was 87 per cent with the highest ratings for courtesy and professionalism, ability to answer questions and ease of navigation of the QFE application.

Proposed Increase to Warranty Cap

Currently, the warranty coverage for new homes has a maximum compensation limit of \$300,000. This was last updated in 2006.

In 2021, following a recommendation by the Ontario government's Standing Committee on Public Accounts to increase the maximum limit, Tarion completed an analysis of the current limit and whether it appropriately reflects the costs of home construction in Ontario. The analysis found that while the number of claims that exceeded the current limit was very low, there was evidence that it could increase over time.

In response to the initial analysis, and to ensure consumers are properly protected, Tarion sought public feedback in late 2021 on a proposal to increase the freehold home compensation limit up to \$400,000.

We look forward to providing further updates on the progress of this initiative in 2022.

Changes to Claims Intake Process

Tarion's claims process includes the steps, timelines and responsibilities for homeowners, builders and Tarion in resolving warranty claims. Over the last two years, we have made significant changes to our claims process to make it easier for homeowners to obtain assistance from us for their warranty claims.

Each year, Tarion deals with more than 50,000 warranty claim forms from new homeowners. Most arrive within the appropriate claim timeframes, but a certain percentage do not. If the submission is late, a homeowner's ability to take advantage of their warranty rights can be affected.

Following extensive public consultations, Tarion implemented interim changes in 2020, including adding 10-day grace periods, giving homeowners the ability to add additional items to forms during the 30-day and year-end claim submission periods, and increasing the types of claims that can be addressed any time in the first year by expanding the definition of emergency claims to include water penetration claims.

In the spring of 2021, we conducted further consultations to solicit additional feedback on broader changes to the claims process. Based on the information gathered, in late 2021 we sought input on additional improvements to the claims process including:

- Creating a mid-year submission at six months for homeowners. This will help homeowners who miss the 30-day submission, so they do not have to wait to trigger Tarion's formal assistance at year-end;
- Allow homeowners to identify and submit defects at any time on the MyHome portal during the first year and allow builders to have access to this information. This change creates a record of items needing to be addressed and makes them "traceable" so that defect lists can't be lost. Builders would now have the ability to review the list of defects at any time, so they could take more proactive action to address the issue before the submission period ends and before the repair period begins; and
- Expand ability for homeowners to ask for a conciliation inspection during the first year.

We look forward to providing further updates on the progress of this initiative in 2022.

Dispute Resolution

Sometimes a homeowner and a builder will disagree as to whether a warranty claim that a homeowner has filed is covered by the statutory warranties. Or there could be a delay in repairs, a breakdown in communication, or some other problem that is affecting the warranty process. We have a number of tools we can use to step in to help resolve the issue, including early interventions, facilitation, investigative inspections, conciliations and mediation.

Early Resolution Team

Even with a strong, staged dispute resolution process, Tarion understands that homeowners want to have their warranty issues addressed before engaging an escalation process. Accordingly, we introduced a new tool in 2021 as part of our early intervention process: an Early Resolution team whose purpose is to intervene early when the builder is not responsive or where there are relationship issues between the builder and homeowner.

Homeowners can request this assistance from the team at any time before the conciliation process and before any warranty form is submitted. The Early Resolution Coordinator may decide to work with the builder and homeowner on shortened timelines for a resolution or determine that the dispute should go directly to inspection or conciliation. The whole process aims to resolve issues more quickly or flag a bigger issue before it gets out of hand.

In 2021, Tarion held 414 Early Resolution meetings, in person, on conference call or virtually – more than double the number completed in 2020.

Independent Mediation

Tarion has a mediation program facilitated by third-party independent mediators that was put in place in 2020 following a successful pilot project. This service gives homeowners the option of having an independent, third-party mediator help resolve a dispute regarding a Tarion warranty assessment. Any homeowner can take advantage of mediation, and the standard fees are paid by Tarion.

This type of mediation is now covered by a provincial regulation that came into effect on July 1, 2021.

The process involves just the homeowner and Tarion. It does not involve the builder unless both Tarion and the homeowner agree that the builder be invited to participate. The builder is not required to attend. The mediation is confidential, consistent with the provincial regulation.

A homeowner can request mediation for issues regarding warranty assessments. At this time, mediation is not used for issues related to deposit protection, financial loss or delayed occupancy/delayed closing claims.

The mediation process is a user-friendly and voluntary option which supplements a homeowner's range of appeal options – which include having a manager review their claim, or proceeding to have their claim reviewed by the province's independent warranty claim appeal Tribunal (the Licence Appeal Tribunal).

COVID-19 response

COVID-19 continued to pose operational challenges throughout 2021. A state of emergency was declared in January 2021 in response to rising COVID-19 cases. Over the subsequent months, public health measures continued to evolve and the construction delays, supply shortages and repair backlogs seen in 2020 continued to impact homeowners and builders alike.

Throughout the year, Tarion adjusted its operations and took the necessary precautionary measures to protect the health and safety of employees, homeowners, builders and the greater community. These measures included keeping Tarion's corporate office closed with staff working remotely, extending repair timelines, leveraging virtual inspections to resolve warranty issues and implementing strict health and safety protocols for in-person inspections when public health restrictions allowed.

In October 2021, in accordance with other designated authorities and public sector employers, Tarion enacted a vaccination policy and screening protocol. It required Tarion employees to provide proof of vaccination or of a negative COVID-19 test prior to entering a workplace (including a homeowner's residence, condo building or builder's worksite). In addition, Tarion employees were required to complete COVID-19 self-screening prior to in-person inspections or meetings.

As public health restrictions changed, Tarion continued to update homeowners and builders via our dedicated web page, advisories, Q&As, webinars, e-newsletters, alerts and social media. As in 2020, Tarion included COVID-19-related questions in our annual homeowner and builder surveys to identify the most common COVID-19-related issues and to gauge

the effectiveness of our measures and communications to these two key stakeholder groups. When asked about how they had been impacted by COVID-19, the most common responses from homeowners were delays in repairs, delays in closing/occupancy and issues with being able to participate in pre-delivery inspections. The majority of homeowners (88 per cent) saw Tarion's actions in response to COVID-19 as appropriate and 82 per cent felt Tarion had kept them informed of the measures being taken. The most commonly reported issues for builders were material and trade shortages, delays in obtaining permits and municipal inspections, issues with meeting closing dates and challenges with labour restrictions on the job site. More than half of builders (63 per cent) appreciated Tarion's efforts to keep them informed, while 87 per cent felt that Tarion's COVID-19 measures were appropriate.



Risk-Based Inspection Program

Tarion's risk-based inspection program consists of onsite inspections conducted by Tarion at key stages during new home construction. Based on the success of a 2020 pilot project, Tarion issued a new Registrar Bulletin on February 1, 2021, which officially launched the new Risk-Based Inspection (RBI) program. The RBI program focuses primarily on builder education, with the goal of assisting builders to identify substandard construction practices and mitigate potential issues that might lead to problems once the home is completed. This program applies to all builders and projects that are not subject to Registrar Bulletin 19 (for larger condominium projects).

There are two types of inspections conducted under the program:

Site and Practices Inspections (SPIs)

- These are routine inspections on a representative sample of units under construction. They are intended to educate builders and to identify emerging trends and construction methods used by a builder that may generally lead to future warranty claims. SPIs apply to builders generally, but priority is given to new builders, builders with an unsatisfactory compliance record and builders who demonstrate one or more of Tarion's risk factors.

Targeted Construction Inspections (TCIs)

- These are more focused inspections that may be used when a serious issue (for example, structural or health and safety) is identified during the SPI, a potential issue is reported to Tarion, a builder agrees to mitigate an identified risk and/or Tarion deems the inspection is appropriate.

It is important to note that these inspections do not replace inspections performed by municipalities required under the Ontario Building Code.

Throughout 2021, Tarion completed a total of 177 inspections under this program. Tarion conducted 12 TCIs. These inspections are generally a condition of enrolment and are specific to certain elements of construction that were identified as a particular risk for the subject builder. In addition, Tarion completed 165 SPIs. Of these, 59 were in response to builders with a history of claims related to Ontario Building Code violations and major structural defects, 71 were related to new builders with limited construction experience and 35 were for various other reasons, including randomly selected builders.

2021 Compliance Activities

As a warranty authority, Tarion's responsibilities include promoting builder compliance with their responsibilities under the *ONHWP Act*. In 2021, we conducted the following compliance activities:

177

risk-based inspections

1,267

qualification for enrolment applications reviewed and confirmed prior to vendors or builders being allowed to build or sell new homes

605

claim inspections to determine if builders completed warranted repairs

Legislative & Policy Changes

A number of very significant legislative and regulatory changes took effect in 2021.

The biggest change was that Tarion's licensing and regulation responsibilities for new home vendors and builders were transferred effective February 1, 2021 to the newly created HCRA. Tarion's mandate continued in two important areas. First, amendments to the ONHWP Act created a new process called Qualification for Enrolment. This is a process in which licensed vendors must apply to Tarion for QFE Confirmation for a home they are considering selling and Enrolment Confirmation for a home they are considering building. Secondly, Tarion continues to administer the Ontario New Home Warranties and Protection Plan under the ONHWP Act. This includes responsibility for administering the warranty claims process and for the stewardship of the Guarantee Fund used to fund compensation paid to warranty claimants.

An additional change to the ONHWP Act implemented a new regulation giving homeowners who wish to dispute a Tarion decision the right to request mediation facilitated by a third-party mediator.

Summaries of the legislative, regulatory and policy changes implemented in 2021 can be found in a dedicated section beginning on page 51.



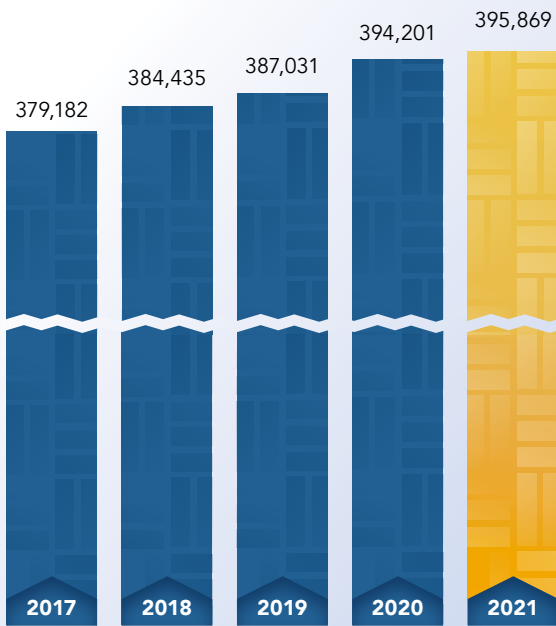
The New Home Warranties and Protection Plan in Action

When a homeowner is unable to resolve an issue with their builder and Tarion determines that the item is covered under the statutory warranty, we will work directly with the homeowner to resolve the matter.

In 2021, Tarion paid out \$22.5 million in claims for 988 homes. Claim payments in 2021 were marginally lower than in 2020. Claims paid represents the compensation paid to homeowners to address damages related to warranted defects and deposits. The claims paid amounts may trend higher or lower

relative to prior years subject to the timing of when the monies are paid out. A decrease or increase in any given year does not necessarily imply that the number of claims has increased or decreased since there is a lag between when a claim is made versus when the actual claim case is settled. However, a consistent trend upward can indicate an increasing number of claims and/or an increased severity of claims. 2021 showed an increase in the number of claim cases, but a decrease in dollars paid out – this is due to a cashflow timing difference.

Total Homes Under Warranty* (restated)



* The numbers are based on the Year of Possession and restated every year.

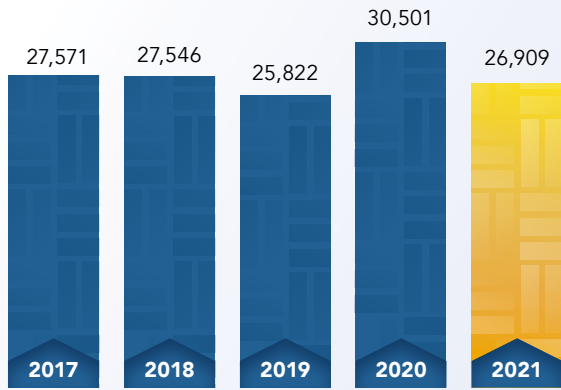
Number of Homes with Claims Paid



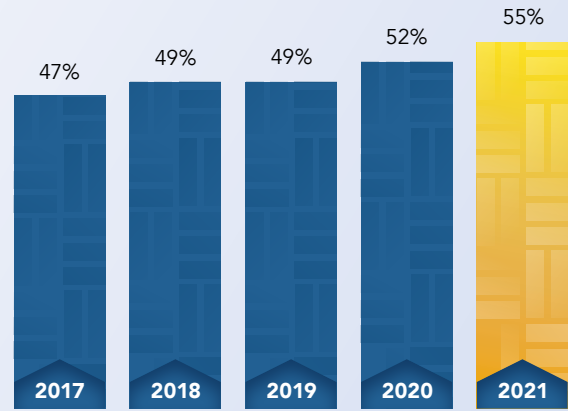
Number of Homes with an Inspection



Number of 30 Day Forms Submitted*

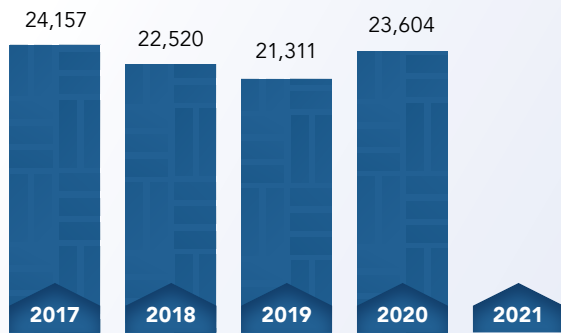


Percentage of Homes for which 30 Day Forms Submitted*

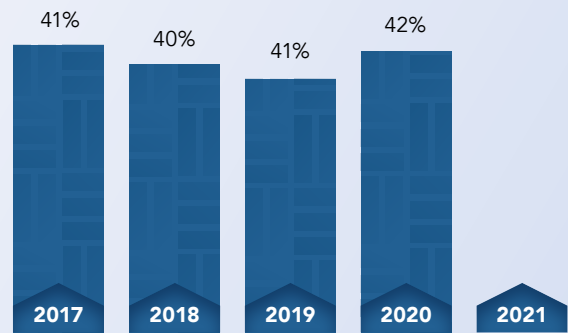


* The numbers are based on the Year of Possession and restated every year

Number of Year-End Forms Submitted*

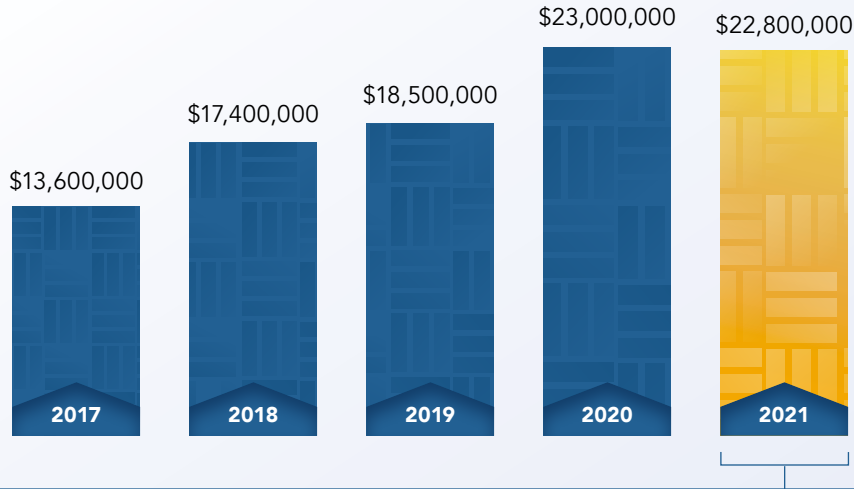


Percentage of Homes for which Year-End Forms Submitted*



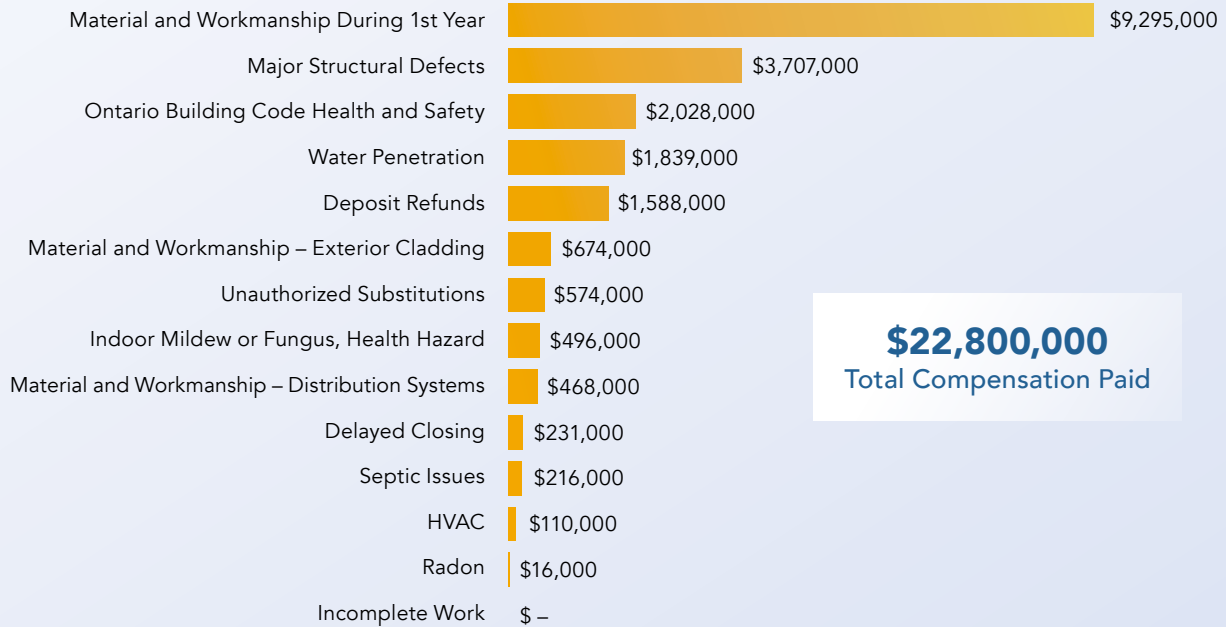
* The numbers are based on the Year of Possession and restated every year. Statistics are not provided for the year 2021 because possessions for 2021 are not yet eligible for the year-end form submission.

Total Claims Paid (\$)



2021 Homeowner Compensation

Claim Payments by Type of Coverage*



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



I am writing to express my gratitude and extend my sincerest compliments to the Tarion staff that have assisted my wife and I over the entire Tarion process. The builder of our house neglected to register with Tarion, and your staff provided my wife and I with sufficient information to report them. The Tarion investigator was courteous, knowledgeable and very helpful in explaining the process and was very good at communicating any updates or pertinent information. The warranty team was knowledgeable about which defects were covered under the warranty and was courteous and all around great.

The whole Tarion staff has been amazing to my wife and I and we would like to give the strongest possible positive feedback about our entire experience.

– HOMEOWNER

How the Warranty Process Works

The starting point of the warranty process is to understand that the warranties represent a promise from your builder to you relating to the construction of your home.

Accordingly, any issues you have with your home should first be raised with your builder.

The majority of issues raised by homeowners with their builders are successfully dealt with by the builder working with the homeowner to resolve them.

When disputes arise over whether or not items are warranted, or if there are delays in repairs, communication breakdowns or other problems, Tarion staff can help get the warranty process back on track.

Here is how the claims process works for freehold homes and condominiums (common elements have a different process as common elements have a separate warranty):

1. Making a Claim

As the provider of the warranty, the builder is responsible for resolving warranty claims directly with the homeowner. The homeowner must notify the builder when an issue arises and give them an opportunity to review it and address it. As part

of this process, the homeowner needs to provide the builder with access to the home to make any necessary repairs.

If the builder fails to resolve the claim, or does not feel that the item is warranted, Tarion can step in. We assess the claim and, if warranted, will take steps to resolve the issue.

To be eligible for Tarion's assistance, the homeowner must report the warranty claim within the relevant claim submission timeframe.

2. Builder Repair Period

When a homeowner submits a warranty form, that triggers a 120-day initial builder repair period during which the builder should repair or resolve items on the form that are covered by the warranty.

There can be exceptions to the standard 120-day period. For example, an emergency situation may require a shorter timeframe for repair, while certain types of repairs – such as a major structural defect – may take longer than 120 days to fix.

If the builder does not resolve the warranty items within the repair period, the homeowner can contact Tarion for assistance and request a conciliation. While homeowners do not need to wait until the end of the builder repair period to ask for our help, the request must be made within 40 days (30 days + 10-day grace period) after the end of the builder repair period.

We may determine that a builder is unwilling or unable to repair or resolve claim items covered by the warranty. If that happens, we are able to shorten or extend time periods in the statutory claims process and work directly with the homeowner to resolve the claim.

3. Conciliation

Conciliation is a process where Tarion assesses disputed items on a homeowner's warranty form and decides whether they are covered under the warranty set out in the *Ontario New Home Warranties Plan Act*. Conciliation may also be used to assess:

- Whether we agree with the way a repair was done or offered to be done by the builder;
- Whether we agree that a settlement offer by the builder is reasonable; and/or
- What, if any, compensation or repair the owner is entitled to receive from the builder or Tarion.

The homeowner must pay a refundable deposit of \$282.50 (\$250 + HST) for a conciliation. The deposit is refunded if we determine that one or more items we assess is covered by the warranty. This approach is a consumer-friendly alternative to the typical approach of using a deductible for claims in the private insurance industry – the conciliation fee is returned to the homeowner where there is a defect and it does not reduce the consumer's compensation, whereas an insurance deductible is not returned and does reduce the policy holder's compensation.

In most cases, conciliation involves an inspection at the home with the builder's representative in attendance. The inspection is conducted by an impartial Tarion Warranty Services representative who will make a decision on the warranty claim.

During the conciliation inspection, the Tarion representative may ask questions of the homeowner and builder; take notes, measurements and/or photographs; or bring in a specialist to help with an investigation. This ensures that we have the information we need to assess the items.

4. Conciliation Assessment

Following the conciliation inspection, Tarion provides the homeowner and the builder with a Conciliation Assessment Report (previously known as a Warranty Assessment Report) that indicates whether the items assessed are covered under the warranty and need to be resolved by the builder.

If the report contains items that are covered by the warranty, the builder has 30 days to resolve them. Tarion contacts the homeowner 30 days after the date of the report to confirm that all the warranted items listed in the report have been repaired or otherwise resolved by the builder.

If any of the warranted items remain outstanding at that time, we will work with the homeowner directly to resolve them.

If the report finds that some items are not covered by the warranty, the builder is not required to take any action on those items.

5. Resolution

If we determine that the builder failed to resolve a warranted claim, we will work with the homeowner directly and will provide monetary compensation for the value of the repairs or arrange for the repairs to be done by a third party.

Tarion typically sets out its warranty assessment in a Conciliation Assessment Report (CAR). Tarion will provide a copy of the most recent version of any third-party expert reports it may have used in making the assessment. If a homeowner disagrees with Tarion's assessment, they can request that we arrange an independent mediation described on page 19.

If the matter is not resolved at mediation or the homeowner elects not to engage in mediation, then the homeowner has the further option to appeal our warranty assessment decision to the province's independent tribunal, called the Licence Appeal Tribunal (LAT). Tarion's approach in connection with such appeals is to strive to make sure all relevant information made available has been considered and to achieve a fair and reasonable resolution.

Tarion as a general rule will use its internal legal resources to assist with these cases but may call upon outside counsel if, for example, there are scheduling issues, hearings that may result in major travel or matters requiring special expertise. The chart below outlines legal costs paid for external counsel for LAT cases in 2021, 2020 and 2019.

External Legal Fees & Disbursement		
2021	2020	2019
\$434	\$0	\$18,360

In past years, external legal costs for LAT matters have been higher and, for the reasons noted, may be higher in the future.

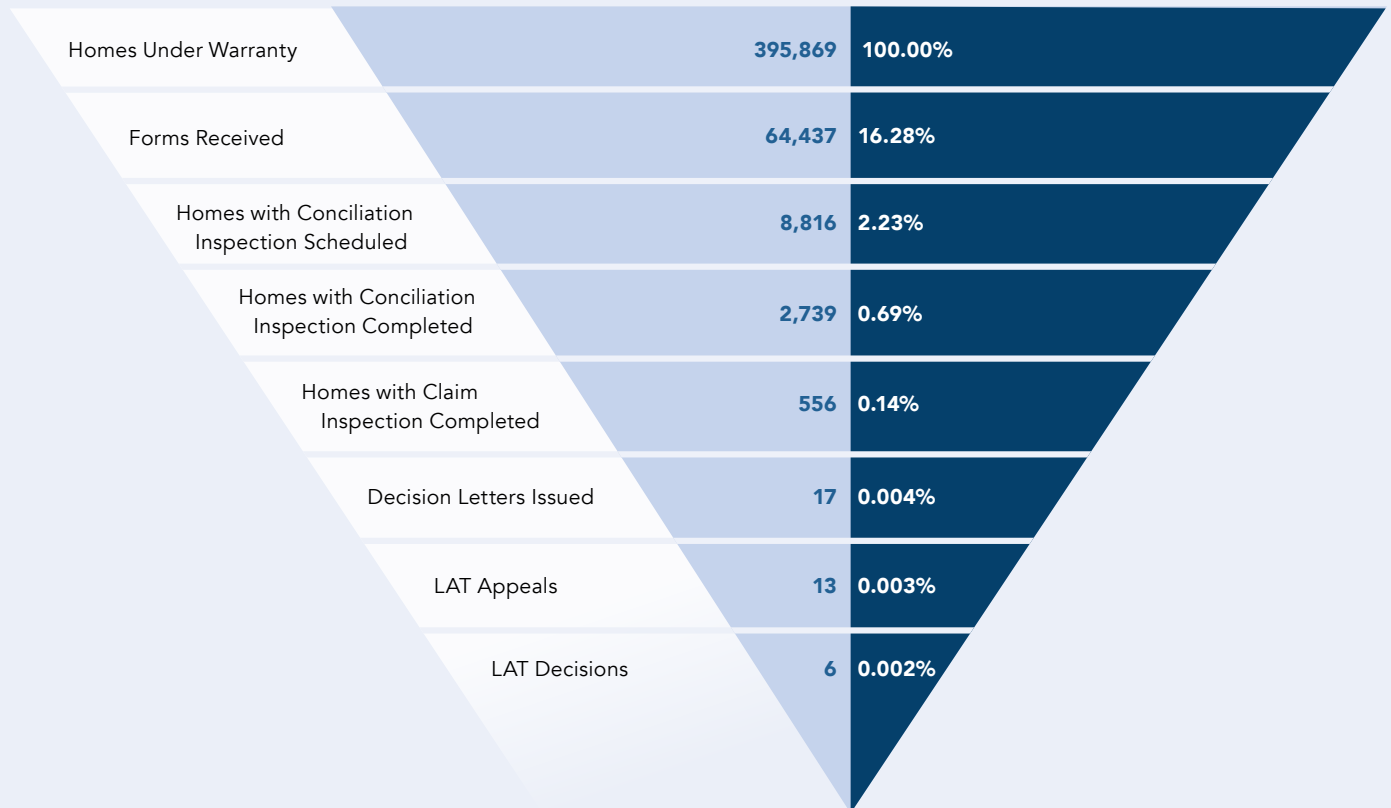


I wanted to take time to reach out to compliment your customer service agents. They are so very helpful and patient and take time in explaining everything so one is not lost. In today's day and age, when everyone is only in a rush, your company has excellent customer service people who deserve all the praise and more.

– HOMEOWNER

Resolving Claims

Most homeowner issues are resolved by the builder directly or through Tarion’s dispute resolution efforts. The diagram below shows that in 2021 the warranty claims and dispute resolution process were successful in resolving the majority of claims earlier, resulting in fewer cases needing to advance to more formal steps in the process.





CASE STUDY ■ Homeowner Story

Tarion Helps Homeowners Resolve a Persistent Issue with Leaks

When a frustrated new homeowner reached out to Tarion about water leaks in their condo, a member of our Early Resolution team stepped up to help. After working with the builder to ensure repairs were completed, it was discovered that the work had still not fixed the problem.

The next step was to call in reinforcements from the Common Elements (CE) team. The CE representative identified the root cause as water penetration through the building envelope – a common elements issue – and reached out to the builder to make sure they understood the previous repairs had failed to mitigate the issue. When the builder was unwilling to commit to taking further action, the CE representative visited the condo building and met with a builder representative to show them that the water leaks originated from a large-scale building envelope defect visible from the exterior of the building. After this onsite meeting, the builder subsequently confirmed that they would be taking the necessary steps to complete the repairs on the building envelope. Tarion's CE representative continued to follow up with the builder as they conducted initial test investigations on the building envelope and then completed repairs within two weeks. Interior repairs on areas of the home damaged by the water penetration were completed within 1.5 weeks of the exterior repairs. Thanks to the assistance of the Tarion team, the homeowner could finally feel assured that the leaks had been resolved and they could enjoy their new home.

Accessibility

Tarion places a priority on consumers' access to services. In 2021, Tarion responded to 36 requests for accommodations. Typical requests included:

- Having a sign-language interpreter available for an inspection;
- Modifying procedures (like a home inspection) for homeowners with environmental health issues; and
- Paying for a homeowner's temporary lodging when work that needs to be done in the home is too disruptive or makes the home uninhabitable.

French Language Services

Tarion strives to respond in French to all enquiries or requests for services received in French. We employ a number of bilingual staff within Warranty Services who can provide French-language information to customers via emails, phone calls and in-person inspections.

Tarion also made improvements in 2021 in our ability to provide translation services for homeowners and builders who may not be fluent in English. In August, we launched a pilot project using a translation service provider that assists on a telephone conversation in real time. When the need arises, a Tarion Customer Service representative simply calls the service and is able to bring a translator on the line to be part of a three-way conversation. The service handles all languages and was an effective tool in responding to translation requests. From the start of the pilot, the service was used eight times (four for French language requests).

Complaints

Complaints are typically received by email or phone call by our Customer Service team. When a complaint is logged, their first step is to evaluate the complaint to determine if it is a complaint about Tarion. If it is not a complaint about Tarion, but rather a complaint about a builder, the builder's product (the new home), a question or inquiry, or takes any other form, the Customer Service team will triage it and route it to the appropriate person or department (or to the HCRA). In the case of complaints related to illegal building or vending, the HCRA is responsible for investigating and prosecuting these offences under the ONHWPA on Tarion's behalf.

All complaints about Tarion are evaluated to determine the type of complaint so the complaint can be handled efficiently. Tarion's Complaint Policy details the steps involved and is posted on [Tarion.com](https://www.tarion.com). Tarion handled 49 complaints in 2021 related to policy/process (24), staff (14), builders (7), technology (4) and general issues (2). Every complaint was responded to and resolved.

Consumer Education

As part of our consumer protection mandate, Tarion educates new home buyers and homeowners about the Ontario New Home Warranties and Protection Plan. Using a variety of channels, we strive to ensure that consumers have the information and the tools they need to build their confidence in the new home building industry, understand their warranty rights and responsibilities, and protect what is likely the largest investment of their lives.



Learning Hub

Tarion launched a new online Learning Hub in late 2020 that helps new home buyers understand their warranty and the warranty process.

This resource, www.Tarion.com/learninghub, includes two downloadable brochures that explain warranty coverage: one for freehold and contract homes and another for condominiums. In 2021, the Learning Hub officially replaced Tarion’s previous educational resource, the Homeowner Information Package.

The Learning Hub is structured according to stages in the home buying and ownership journey. Seven online learning modules offer consumers important information relevant to the following stages:

- **Before You Buy**, where homeowners can learn about different types of homes they can buy, basic warranty tips and how they can research a builder;

- **Making the Purchase**, which contains two modules – one for freehold homes and another for condominiums – with information about the agreements of purchase and sale as well as deposit protection for both;
- **Your Pre-Delivery Inspection**, where homeowners can learn how the inspection works, how to get items added to the PDI and how to work with their builder to have the items resolved;
- **Submitting a Claim**, where homeowners can learn how to submit a claim, how the process works and how Tarion can assist them with a disputed claim;
- **Delays**, which explains closing and occupancy dates, delays and warranty protection for delayed closings or occupancy; and
- **After You Move In**, with information about managing the warranty and learning about exceptions, exclusions and the steps required to get warranty items resolved.

The Learning Hub became a significant source of information for new home buyers in 2021, recording 65,031 visitors. The feedback from users was positive, with participants posting the following comments:

“Great info to keep us informed on our buying experience”

“This is great! So glad that I found these learning hubs”

“Module is clear and concise”

“Excellent source of information”

“Very informative and I like the quizzes to ensure you retained the knowledge”

“Easy to understand and follow”

Tarion promoted the Learning Hub through our social media channels, Your Home Matters newsletter, Open Door Blog, welcome emails to purchasers and via the Warranty Information Sheets that are attached to agreements of purchase and sale.

Warranty Information Sheets

Beginning February 1, 2021, builders and vendors were required to attach a Warranty Information Sheet to every construction contract or purchase agreement for a new home.

The Warranty Information Sheet, which is tailored to the type of home being sold, provides a basic overview of warranty coverage, including deposit protection and compensation for closing delays. It also reinforces the importance of the pre-delivery inspection and directs new home buyers to additional resources where they can go to learn more.

The Warranty Information Sheets are a key source of information about the important protections and warranty coverage they are entitled to after they sign a purchase agreement and once they take possession.

Purchaser Welcome Email

In the past, Tarion was not able to communicate one-to-one with new home buyers because we did not receive their contact information until they took possession of their new home. However, as of February 1, 2021, builders are required to share purchaser contact information with Tarion so that we can take steps to help purchasers gain awareness and understanding of their warranty protections prior to them taking possession of their home.

As a result of receiving this new contact information earlier in the process, we were able to send out a welcome email to 49,166 new home purchasers and a welcome letter to 222 more who did not have an email address.

The welcome email and letter include information about Tarion, the warranty program, the PDI and other sources of additional information for purchasers. Over 77 per cent of the recipients opened the email, which led to a significant increase in subscriptions to Tarion’s Your Home Matters e-newsletter and drove traffic to the Learning Hub.



Home Buying and Warranty Education

Buying a home is a journey and Tarion offers tips, advice and how-to information via a variety of media to help consumers understand the risks, responsibilities and processes involved. Throughout 2021, we published blogs, social media posts and articles covering topics ranging from buying a home during a pandemic to what to expect from a virtual inspection to home maintenance and home buying tips. In addition, a CP24 Know Your Rights segment featuring Tarion CEO Peter Balasubramanian covered five important tips for new home buyers. We achieved 278 media placements with a reach of more than 18 million impressions in regional and local media outlets across the province while the CP24 segment reached an estimated two million Ontarians in the Greater Toronto Area and beyond.



Virtual New Homeowner Information Sessions

In 2021, Tarion piloted a series of virtual new homeowner information sessions, some of which were held jointly with the Condominium Authority of Ontario. In total, 5,177 new homeowners were invited to participate in the six sessions. Survey feedback found that these sessions helped new homeowners navigate the warranty and brought awareness about homeowners’ rights and responsibilities in the warranty process. Due to the positive response to these sessions, Tarion will be holding additional sessions in 2022.

Builder Education

An informed marketplace is a safer marketplace. As a consumer protection organization, Tarion understands the need to keep an ear to the ground and to embrace our role in helping builders and vendors obtain the necessary knowledge and tools to contribute to a positive new home buying experience.

Tarion's main focus on builder outreach and engagement in 2021 was on the needs and challenges facing the industry in this ever-evolving environment. Whether discussing the impacts of the pandemic, Tarion's new application process, changes to the BuilderLink portal or the implementation of new consumer protection measures, we stayed connected with the industry to identify opportunities to support them in building confidence in the marketplace.

Breaking Ground and Tarion Industry Alerts

Tarion's online newsletters provided vendors and builders with quick updates on news and general information about topics of interest in the industry, including a heavy focus on COVID-19 related information.

Builder Updates

Tarion conducted spring and fall Builder Update sessions with vendors and builders to bring them up to speed on new developments at Tarion, new policies and procedures that resulted from the Auditor General's recommendations and current issues affecting the marketplace, particularly the COVID-19 pandemic.

Unlike past years, all of the sessions in 2021 were held virtually. And instead of holding regional meetings, we held four sessions for large-volume freehold builders, four for condominium developers and two for small-volume builders. This approach allowed for more targeted discussions around topics and issues pertinent to specific types of builders.

Webinars

Tarion continued with its popular webinar series in 2021, holding live sessions that had our presenters delivering information on a particular topic, followed by a Q&A session with participants. As many as 400 builders participated in some of the sessions.

One webinar series focused on the impact of COVID-19 on builders and Tarion operations, while a second walked builders through the new application process for enrolments. A third webinar series informed builders of upcoming changes to BuilderLink that enhance the functionality of the online builder portal. There were also several webinars with Q&A sessions about the launch of the HCRA and changes to Tarion's operations in 2021.

We also conducted a number of webinars for realtors and municipal partners.



I take this opportunity to write to you today in recognition of the extraordinary efforts of your Common Elements Tarion representative. She has approached our organization with professionalism and competence and has effectively supported us with our warranty mandate. She has demonstrated patience and a genuine willingness to educate and guide us toward responsible decision-making as a builder insofar as our Common Element Technical & Performance Audit. It is because of people that builders put to life the policy objectives outlined by Tarion for construction excellence.

Her extensive knowledge about construction and her keen insight about construction quality control have been invaluable. She really is the reason our internal processes regarding quality control have improved significantly.

– BUILDER

Digital Strategy

Tarion made significant investment in its digital infrastructure and tools in 2021 to deliver new, seamless functionality for both consumers and builders as well as enhanced cyber security for the organization.



1. Evolve

The most significant project in 2021 – called Evolve – involved the replacement of legacy customer relationship management (CRM) software that was used to manage our warranty and underwriting operations. The new software, Salesforce, allowed for the development of a new warranty management system that was implemented in late 2021.

Evolve is now Tarion’s system of record that:

- Maintains all information on homeowners and builders;
- Manages the Customer Service Standard (warranty forms, tracking of warranty issues, inspections, conciliations, etc.); and
- Provides greater reporting capabilities on everything Warranty Services does.

Evolve is much more flexible than its predecessor, allowing Information Systems and Warranty Services to make changes within the CRM system much faster and at less cost. The platform also delivers new services and faster access to information for homeowners, builders and Tarion’s customer service teams.

BuilderLink

The implementation of Evolve paved the way for Information Systems to develop a new BuilderLink platform (within Salesforce) that was launched in late 2021.

The new BuilderLink facilitates the new Qualification for Enrolment (QFE) process for builders that is now required by law.

As soon as the HCRA issues a licence to a builder, that information comes to Tarion via a real-time data-sharing platform. We then proceed with the QFE underwriting process to assess risk of the builder’s proposal. If we grant approval of the QFE, upon satisfaction of specified conditions the builder’s homes can be enrolled. BuilderLink allows the builder to send information to us electronically to start the QFE process and then allows us to grant approval, all within the portal.

The new BuilderLink platform enables enhanced connectivity and integration with other Tarion systems, paving the way for future collaboration initiatives between builders and homeowners.

Data Sharing with HCRA

Information Systems also created a new platform that supports a data-sharing agreement between Tarion and the HCRA. The agreement includes the sharing of such information as builder licence status, updated contact information for the builder, and other related parties to the builder including certain information used to populate the Ontario Builder Directory. As soon as the HCRA updates any information, it is transmitted to Tarion so that our system can be updated. We also send the HCRA claims and warranty data that appears on the OBD and is used within the HCRA licensing processes.

MyHome

In 2021, Tarion embarked upon a project to revamp its MyHome portal to make it a more effective tool for the more than 300,000 homeowners who are currently registered with the warranty program. Ninety-eight per cent of warranty forms sent to Tarion from homeowners come through MyHome, and the new platform will deliver faster, more comprehensive service to Ontario homeowners managing their new home warranty. By engaging directly with MyHome users, our project team was able to develop a more user-friendly interface, which will be rolled out along with the improved functionality in 2022.

70,562 *warranty forms submitted via MyHome in 2021*



2. Migration to the Cloud

Tarion made significant progress in migrating to cloud-based technology in 2021 – a project that began in 2017 and is slated to be complete in 2022.

The “Cloud First” Strategy gives us the ability to provide service to customers at all hours – an important feature given that more than 50 per cent of homeowner and builder engagements with Tarion occur outside of operating hours.

In addition, Tarion’s cloud-based technology is easily accessible, is impervious to power outages and has much increased capacity for delivering services in a secure environment.



3. Improved Cyber-Security

In 2021, Tarion moved to a new cyber-security model based on the “Zero Trust” principle that no device, user or system should be trusted by default. Instead, anything and everything trying to connect to our systems must be fully verified and authenticated before access is granted.

As an example, any time a staff member’s laptop gets connected to the network, it requires authentication. Multi-factor authentication will soon be required for builder access to their portal, BuilderLink, and will soon be added to the homeowner portal, MyHome.



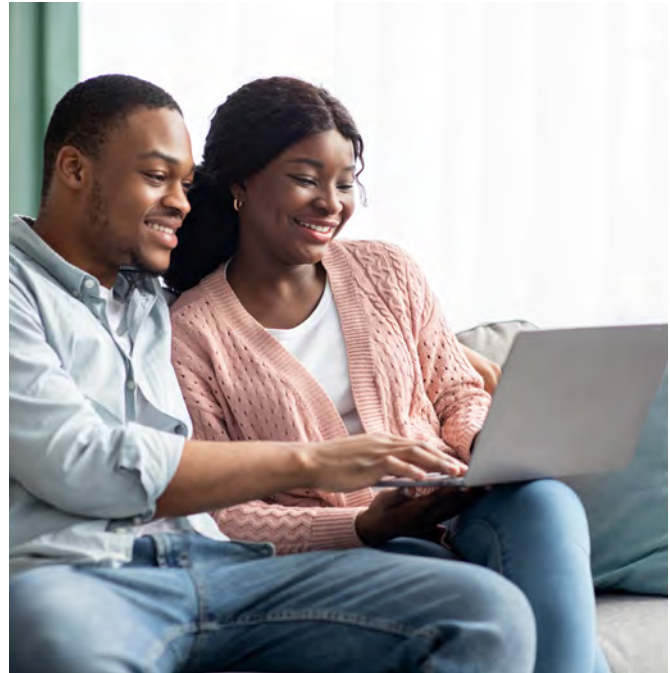
Performance Measurement

Tarion uses a number of measures to gauge and improve our customer service performance each year, and these metrics are included in our key performance indicators.

Annual Homeowner Surveys

Our annual customer satisfaction surveys give homeowners the opportunity to provide feedback on both their builder and Tarion based on their experience throughout the purchase, possession and after-sales stages of ownership. Homeowners are invited to participate in the surveys in the fall of each year. The surveys are conducted by a third party professional service provider. We use homeowner feedback about their builder to acknowledge best practices in customer service and to provide feedback to builders on how they can improve. Where responses are statistically valid, builders are provided with a copy of their results, as well as a comparison of their results to those in their category.

The following represents our survey sample and response rates for 2021.



Homeowner Satisfaction Survey	Number of Homeowners Invited to Take the Survey	Number of Survey Responses	Completion Rate
Homeowners in Year 1 of possession	47,595	7,604	16%
Homeowners in Years 2 to 7 of possession	217,717	13,780	6.3%

Homeowner Survey – Year 1

Survey results showed that over half of respondents (61 per cent) were first time new home buyers as compared to 31 per cent who were repeat buyers. 64 per cent of homeowners felt that their builder had met or exceeded their expectations while 55 per cent would recommend their builder to family or friends. These results are very consistent with 2020. In general, the 'likelihood to recommend' trended downward for all sizes of builders over 2020 (decreases of 2 to 6 percentage points) with the exception of high-rise builders, which had a 2 percentage point increase. Across all builder categories, there were

decreases in overall customer service satisfaction (3 to 7 percentage points) with micro builders scoring the highest at 60 per cent and high-rise builders the lowest at 42 per cent.

Satisfaction with Tarion – measured by the Service Orientation Index – continued its upward trend by increasing from 83.4 per cent in 2020 to 84.6 in 2021. This index is based on three measurables: accessibility, listening and ease of doing business. Tarion continues to rate the highest on accessibility, but all three measures increased over the previous year.

Key Performance Indicator Elements	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)
Tarion is accessible to homeowners	88.7	87.9	85.0	87.4	85.7
Tarion listens to the needs and concerns of homeowners	81.7	80.5	78.1	81.9	78.9
Tarion is easy to do business with	83.6	81.9	78.5	82.0	79.5
Homeowner Service Orientation Index	84.6	83.4	80.5	83.8	81.4

Annual Homeowner Survey – Years 2 to 7

Homeowners in Years 2 to 7 reported very similar satisfaction levels as in previous years in with regard to how their builder met expectations (61 per cent same as 2020) and with their builder’s commitment to customer service (71 per cent versus 71 per cent in 2020). Half of all homeowners who responded to the survey would recommend their builder (unchanged from 2020).

Homeowners’ interactions with Tarion decrease progressively the further they are in the warranty cycle with 71 per cent of homeowners in their second year reporting having contact with Tarion as compared to 15 per cent in year seven. Tarion’s scores on key indicators including accessibility, listening and ease of doing business continued to trend upward from 2020 and 2019. The majority of homeowners in years 2-7 also report that Tarion’s customer service has remained consistent or improved, with 44 per cent reporting that it has improved.

Respondents Agree Tarion...	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)
Is accessible	86	83	81	84	84
Helps new homeowners understand their warranty rights and obligations	79	78	75	78	78
Listens to needs and concerns	76	74	70	74	74
Is easy to do business with	77	74	71	74	74
Makes sure new home builders fulfill their warranty obligations	73	70	69	72	72

Annual Builder Survey

Tarion’s annual builder survey gathered feedback from 240 builders across all categories (micro, small, medium and large volume as well as high-rise). To ensure smaller builders in the province were well represented, over half the sample was micro or small builders. The overall index remained unchanged but there was a moderate increase in the rating for accessibility.



Key Performance Indicator Elements	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)
Tarion is accessible to builders	81	79	78	86	91
Tarion listens to the needs and concerns of builders	67	67	64	72	77
Tarion is easy to do business with	68	69	75	78	82
Service Orientation Index	72	72	72	79	83

Interaction Surveys

As COVID-19 continued to impact the repair and delivery of new homes throughout 2021, Tarion once again saw an increase in the number of calls and emails to our Customer Service team. Over the course of the year, the team received 93,504 calls (20 per cent increase over 2020) and fielded 100,262 emails (25 per cent increase over 2020). Of the total number of emails received, 8,250 were related to COVID-19.

Our interaction surveys help gauge our customer service in real time by asking homeowners or builders to rate their satisfaction with the service they received – including elements such as professionalism, courtesy, ability to answer questions and follow-through. A total of 5,967 homeowners and 84 builders completed surveys on their Contact Centre interactions. Homeowners rated their satisfaction as 93 per cent (as compared to 89 per cent in 2020) and builders rated their satisfaction as 84 per cent (as compared to 88 per cent in 2020). Both homeowners and builders gave Tarion staff the highest marks on courtesy, professionalism and responsiveness.

In 2021, Tarion saw a significant increase in both responses and satisfaction scores for our post-conciliation surveys. This increase is due in part to the fact that conciliations were put on hold for several weeks in 2020 in response to public health restrictions. A total of 281 homeowners and 219 builders completed the survey as compared to 96 homeowners and 65 builders in 2020. Overall satisfaction with the conciliation was 81 per cent for homeowners and 90 per cent for builders (as compared to 74 per cent and 75 per cent, respectively, in 2020). Both groups gave Tarion staff the highest rating for courtesy and professionalism, with homeowners also giving high marks for staff's ability to answer questions and builders highlighting staff's ability to understand their needs.



Governance



Tarion reports to the Minister of Government and Consumer Services for the Province of Ontario. Tarion continued to transform its governance framework in line with the new legislation, administrative agreement, by-laws, policies and procedures, financial reporting standards and best practices to meet its new mandate. It is governed by a Board of 12 directors drawn from three categories: 4 elected by the Board from at-large applicants; 4 elected by the Board from new home building industry applicants; and 4 appointments made by the Minister of Government and Consumer Services.

Tarion is a large, complex and financially sophisticated public service institution that provides surety on new homes built by the industry for Ontarians. Since inception, Tarion has underwritten this protection for more than two million homes. In overseeing this service, Board members bring a wide variety of skills and competencies encapsulating consumer protection, dispute resolution, financial literacy, risk management, housing industry know-how, communications, business and strategic planning, information technology and corporate governance.

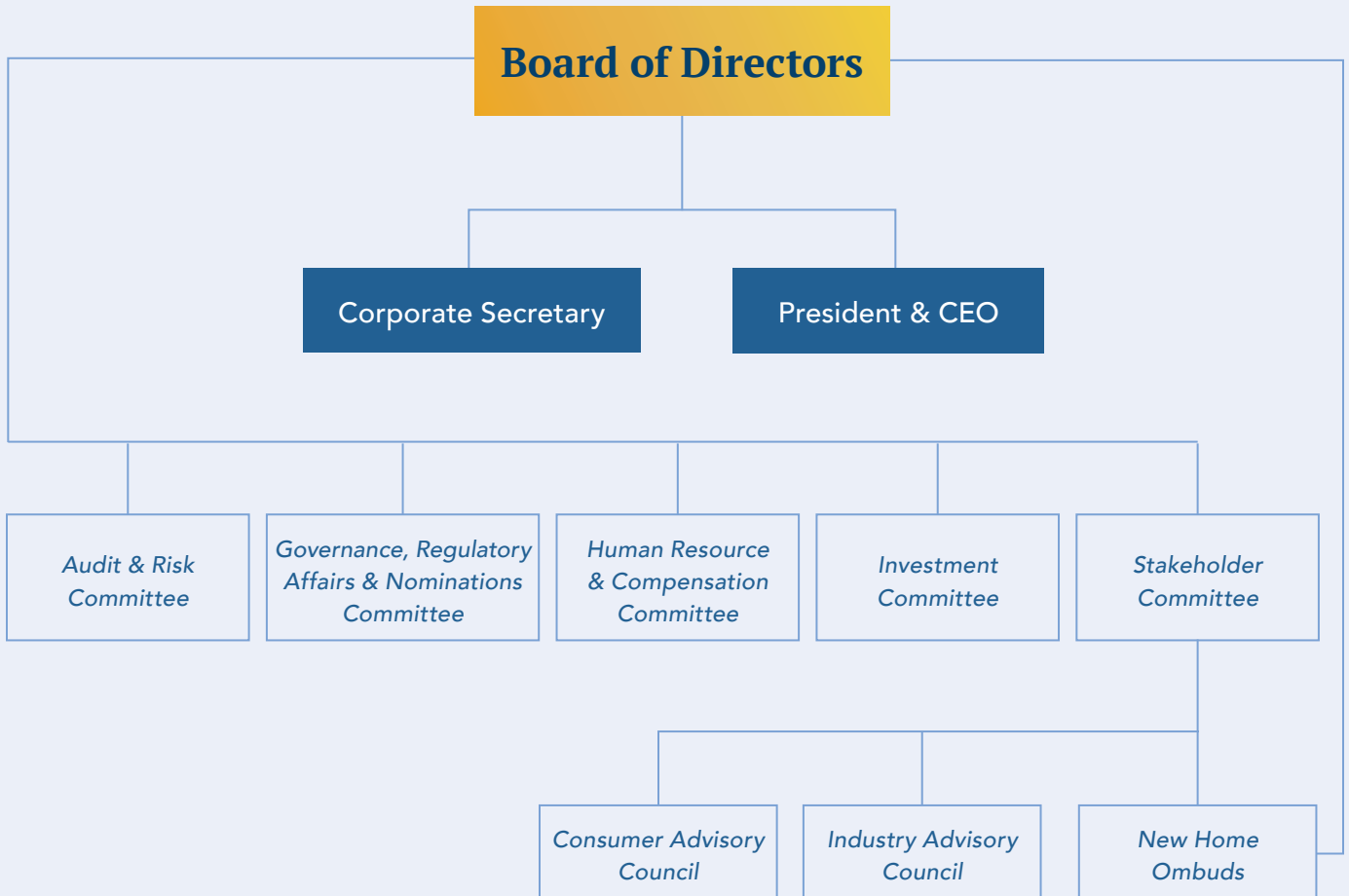
The Board is responsible for the overall stewardship of the organization, including sound governance practices, the hiring and performance evaluation of the CEO, conducting regulatory oversight and taking a leading role in setting the strategic direction of the organization. The Board has delegated day-to-day responsibility for operations to Management.

The following is a list of individuals who served on the Board for all or part of 2021.

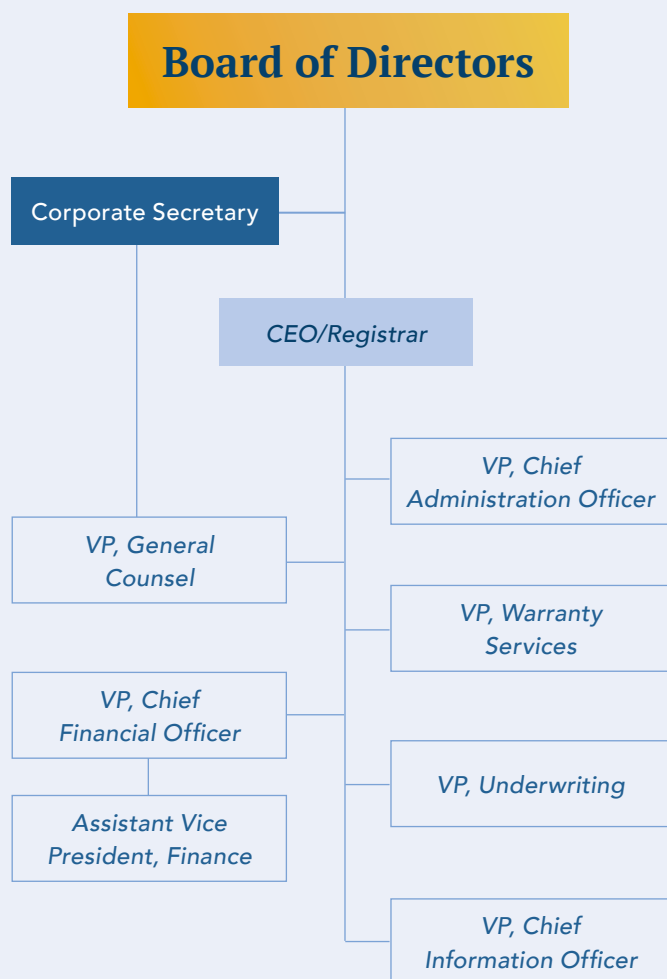
- Marni Dicker, LL.B., B.C.L., ICD.D
- RJ Falconi, B.Sc., J.D., ICD.D (reappointed November 2021)
- Greg Graham, Pro.Dir, ICD
- Andy Kenins, CPA, CA, ICD.D
- Sheldon Libfeld, BBA (on leave of absence August 18–December 21, 2021)
- John Macintyre, C.Dir, H.R.C.C.C
- Sameer Malik. B.A, ITIL, TOGAF Certified
- Glen Padassery, C.Dir (appointed – term expired April 2021)
- Hari Panday, FCPA, FCGA, ICD.D, NACD.DC
- Marc Sammons
- Peter Shurman (appointed – term expired October 2021)
- Toby Stolee
- David Tsubouchi, B.A., J.D., LL.D, D.S.Litt., C. Dir (appointed November 2021)
- Amanda Walton, B.A., ICD.D (appointed May 2021)

Board member profiles and terms are available on [Tarion.com/about/board-of-directors](https://tarion.com/about/board-of-directors).

Tarion's Governance Framework



Tarion's Corporate Leadership Team



Peter Balasubramanian

President & Chief Executive Officer, Registrar

Gena Argitis

Vice President, Chief Administration Officer

Kevin Brodie

Vice President, Underwriting

Edmond Lee

Vice President, Chief Financial Officer

Lesley Ross

Corporate Secretary

Tim Schumacher

Vice President, General Counsel

Tieu-Minh To

Assistant Vice President, Finance

Sophie Vlahakis

Vice President, Warranty Services

Bill Wallace

Vice President, Chief Information Officer

Profiles of the Corporate Leadership team are available on [Tarion.com/about/leadership-team](https://tarion.com/about/leadership-team).

Governance Structure, Policies & Practices

Tarion's Board has a governance structure that includes five standing committees, two stakeholder councils and the New Home Ombuds office. Its additional independent resources include the external auditor, internal auditor (a CPA firm), an actuary and other advisors when the Board sees the need for strengthening corporate governance and rigorous checks and balances.

The organization has dynamic, forward-looking policies and practices that support the operations providing public service and is accountable to the Province of Ontario through the Minister of the Government and Consumer Services.

The Board acts in the best interest of the corporation (fiduciary duty), taking into account its consumer protection mandate and the interests of its stakeholders. Some highlights of the Board's current governance practices include the following:

Meetings

The Board, its standing and ad hoc committees and the two councils meet regularly according to a schedule established every year by the Corporate Secretary. The prescribed meeting notice periods are followed. The New Home Ombuds office is empowered to call for a Board and/or Stakeholder Committee meeting at any time. In addition to the standard schedule, each one of these groups is free to meet as many times as necessary to satisfy Tarion's business needs.

Board Meeting and Performance

The Board Chair, Committee Chairs and the Councils develop their agendas in alignment with the work plans captured in their respective Terms of Reference and in consultation with the Corporate Secretary. Every meeting Chair arranges for an information package to be sent to each attendee well in advance to allow them to be well prepared for each meeting. During the meetings, each director is expected to participate actively in discussion and decision-making.

To facilitate this, the meeting Chairs are accountable for fostering an environment of open discussion. Further, the meeting Chairs are free to hold "in-camera" sessions as necessary.

On a biennial basis, the Board undertakes a full Board performance assessment with the assistance of an outside facilitator. The assessment analyzes individual and combined performance on a confidential basis, and the key areas of attention are acted upon under the Governance, Regulatory Affairs & Nominations Committee. In offsetting years, this assessment is conducted by the Corporate Secretary focusing on the standing committees and their respective Chairs.

Diversity and Independence

Diversity and independence are taken very seriously by the Board on an enterprise-wide basis. First, the Board does not have concentration of any single party with self-interest. Our Nomination Policy pays attention to electing independent directors fitting the approved skill-matrix and diversity, equity and inclusivity policy. Next, the Board Chair is elected by the directors, unless appointed by the Minister of Government and Consumer Services. The Board is comprised entirely of persons who are not employees of Tarion.

Code of Conduct, Confidentiality and Conflict of Interest Policy, and Whistleblower Policy

The Board has a Code of Conduct and a Confidentiality and Conflict of Interest Policy. Each member of the Board is required to sign it annually. These policies are intended to help the Board meet best practices, establish discipline and set the right tone from the top.

The Board and Senior Management take any allegation of wrongdoing very seriously. Reports of any wrongdoing and their remediation by Management are reported to, and overseen by, the Board. For any possible wrongdoing involving the President & CEO or a member of the Board, the investigation will be undertaken by the Board Chair or the Chair, Audit & Risk Committee.

Annual Business Plan, Budget and Strategic Planning

Under its administrative agreement with the Minister of Government and Consumer Services, the Board provides a draft of its annual business plan and budget to the Minister for review and feedback prior to final approval by the Board. In so doing, Tarion's Board monitors opportunities that would benefit homeowners and the new home industry and mitigate the related risks.

Keeping our mission, vision, values and the legislated mandate in mind, the strategic planning process each year identifies long-term business opportunities, consumer protection and service standards, capital expenditures, succession planning, operational and financial and non-financial risks, emerging risks and key performance indicators. The Board oversees Management's systems for managing business risk and periodically reviews reports about the strategic environment.

Throughout the year, the Board reviews corporate performance against the organization's annual business plan, the budget and the current strategic plan and makes adjustments as necessary.

Governance Matters for 2021

As part of its annual Work Plan, the Board reviewed all of its policies, terms of reference and position descriptions. In addition, the Board undertook a thorough review of the terms of reference for the New Home Ombuds office, preserving a balance between the Board's oversight and fiduciary duties and the New Home Ombuds office's independence.

In 2022, we expect to achieve compliance with the *Not-for-Profit Act, 2010* that was proclaimed on October 19, 2021.

Responsibilities of the Committees of the Board

The Board has established the following standing committees, councils and the New Home Ombuds office:

1. Audit & Risk Committee
2. Governance, Regulatory Affairs & Nominations Committee
3. Human Resources & Compensation Committee
4. Investment Committee
5. Stakeholder Committee – directly reporting to the Stakeholder Committee are:
 - a. *The Consumer Advisory Council (CAC); and*
 - b. *The Industry Advisory Council (IAC)*
 - c. *New Home Ombuds Office*

The Board has articulated roles, responsibilities and duties of directors in the Terms of Reference for each of the Board Committees and the Councils. Annually, we review these for changes and enhancements together with each of the work plans. For the New Home Ombuds office, we maintain a direct reporting to the Board and an administrative reporting relationship with the Stakeholder Committee.

Independent Ombudsperson

The mandate of the New Home Ombuds office is to investigate complaints from homeowners, independent of Tarion's Management and employees, about Tarion's conduct and to act as a source of information to help homeowners in getting assistance from Tarion. All such reports are presented to the Board/Stakeholder Committee. In the event of identifying systemic shortcomings, the New Home Ombuds makes recommendations for improvements. Tarion's independent Ombudsperson plays a key role in the organization's overall commitment to accountability, transparency and fairness.

Audit & Risk Committee

Andy Kenins, CPA, CA, ICD.D, Chair

Marc Sammons, Vice Chair

Sheldon Libfeld, BBA

Sameer Malik, BA, ITIL, TOGAF Certified

The Audit & Risk Committee, composed of up to five members of the Board, reviews the quarterly financial statements and key performance indicators, the annual business plan and budget, the annual audited financial statements and financial operating performance reported in Tarion's Annual Report, the assessment of reserves and the results of capital adequacy testing. The Committee is also responsible for the development and monitoring of policies to address risk management as well as the systems of internal control framework. It makes recommendations to the Board about the appointment of an external auditor, the internal auditor, the external actuary and any other independent assurance provider.

This Committee also provides advice on the external audit services and performs additional services, such as working jointly with the Human Resources & Compensation Committee to review Tarion's annual budget and to set corporate key performance indicators for the following year.

The Committee meets five times a year and at such other times as the Committee may determine.

The Committee meets without the presence of Management with the actuary and the internal and external auditors.

Risk Management

The Board, together with the Audit & Risk Committee, monitors, reviews and approves corporate policies that govern management of capital and the enterprise-wide integrated risk management framework, as well as compliance with company policies and regulatory requirements.

An executive risk management committee, composed of Tarion's senior executives, also identifies emerging issues and regularly reports to the Audit & Risk Committee. On a monthly basis, Management assesses Tarion's operational experience against established risk appetite limits and reports material breaches to the Board via the Audit & Risk Committee, highlighting any need for mitigating actions. In addition, a comprehensive dashboard of key risk metrics is reviewed quarterly with the Board.

The Board continues to apply and update Tarion's Risk Appetite Framework while utilizing as a best practice the Own Risk and Solvency Assessment guideline issued by the OSFI for federally regulated insurers.

Governance, Regulatory Affairs & Nominations Committee

Hari Panday, FCPA, FCGA, ICD.D, NACD.DC, Chair

Toby Stolee, Vice Chair

Marni Dicker, LL.B, B.C.L, ICD.D

Greg Graham, Pro.Dir, ICD

Sameer Malik, BA, ITIL, TOGAF Certified

The Governance, Regulatory Affairs & Nominations Committee (GRANC), composed of five Board members, provides recommendations to the Board about governance, regulatory and Board composition matters. It monitors compliance with Board governance policies, receives reports from Management or independent advisors, assesses any foreseeable governance risks and makes recommendations to the Board.

The Committee works with an external expert when it needs independent expertise on new legislative requirements, best practices, specific expectations of administrative authorities and the Board's performance self-assessment and peer evaluation. Further, GRANC tracks each director's attendance to support their annual reappointment criteria.

The Committee also assists the Board in:

- (a) periodically assessing the by-laws of Tarion;
- (b) fulfilling its oversight responsibilities pertaining to Tarion's regulation-making powers as provided under the *ONHWP Act*;
- (c) due diligence for the planning, research, stakeholder consultation and implementation of each proposed regulatory change;
- (d) evaluating the adequacy, alignment and effectiveness of current or proposed legislation or regulations to satisfy compliance with the mandate of the corporation; and
- (e) providing assistance in monitoring the implementation of its regulatory obligations and responsibilities as set out in Tarion's mandate.

Among its key responsibilities, the GRANC oversees matters related to Board composition, director selection in compliance with the by-laws and ministerial orders, director onboarding, continuing education, periodic peer evaluation, and adherence with the Code of Conduct, Whistleblower Policy, and Confidentiality and Conflict of Interest Policy. It submits its recommendations to the Board for approval and/or, in certain situations, for subsequent submission to the Members of the corporation.

Director Orientation (Onboarding) and Continuing Education

The GRANC is responsible for providing onboarding and charting out a continuing education program for the Board collectively and directors individually. Newly elected and appointed directors attend orientation with our business and operations management to familiarize themselves with organizational structure, strategic plans, underwriting and claims departments, finances, investment practices, opportunities and risks. They are also provided with an online resource that contains detailed information to assist them with learning about the organization. They meet with senior management, the Board Chair and Chairs of committees, and are offered an opportunity to attend at least one meeting of each committee. Each director serves on at least one standing committee. Most seasoned directors serve on two of our standing committees.

As part of ongoing education, Management personnel or outside experts make presentations to the Board from time to time on specialized topics; new issues and developments in consumer protection; and legal, regulatory and industry initiatives.

Tarion is a corporate member of the Institute of Corporate Directors (ICD), giving all directors and senior executives access to current research and ICD's director education programs as well as publications to enhance their knowledge.

Nominations Committee

The Nominations Committee role is incorporated into the overall mandate of the GRANC.

In 2021, the Committee re-examined the position descriptions for each key role within its Board structure: the Board Chair, Committee Chairs, all non-executive directors and members of the stakeholder councils. In addition, the Board updated its competency criteria to align with the new legislation, administrative agreement, guidance and ministerial orders, as well as several service agreements. Financial literacy skill at Tarion was elevated due to recognition of the company's nature, business, complexity and accounting standards being similar to property and casualty insurance companies.

In our nominations process, the Committee reaches out to a variety of sources if needed, including a search firm, the Institute of Corporate Directors, Women in Capital Markets, Women in Construction, homeowners and professionals involved in the residential real estate services sectors. Tarion also posts the Board openings on its website.

The Nominations Committee evaluates detailed submissions from prospective candidates. Successful candidates are invited for an in-person or virtual interview. In addition to the information obtained, the Committee satisfies itself regarding the candidate's character, commitment to continuing Board education, time availability and diversity. Finally, the Committee recommends selected names to the Board for acceptance and approval by the Members.

In 2021, all vacancies were filled in compliance with our by-laws.

Human Resources & Compensation Committee

Greg Graham, Pro.Dir, ICD, Chair

Marni Dicker, LL.B., B.C.L, ICD.D, Vice Chair

Andy Kenins, CPA, CA, ICD.D

John Macintyre, C.Dir, H.R.C.C.C

Toby Stolee

The Human Resources & Compensation Committee is composed of five members of the Board. The Committee oversees the implementation of talent management and Tarion-wide human resources issues, including corporate and labour legislation, remuneration policies and procedures, establishing or recommending to the Board the various components of compensation and key performance indicators for senior executives, and the Board's overarching company-wide compensation philosophy, which consists of base salary, annual incentives where applicable, benefit plans for all levels, pension plans and perquisites.

Additionally, the Committee leads the process of setting objectives for the President & CEO, the key performance indicators, performance valuation and compensation, benefits and incentives. It is responsible for making recommendations to the Board on the annual objectives for the President & CEO and for evaluating performance against those objectives. The Committee works with external expert compensation advisers to satisfy comparability with other similar organizations.

The Committee also undertakes an annual succession review of the senior management team in consultation with the President & CEO.

The Committee is also responsible for recommending director compensation.

Investment Committee

John Macintyre, C.Dir, H.R.C.C.C., Chair

Sheldon Libfeld, BBA, Vice Chair

Andy Kenins, CPA, CA, ICD.D

Greg Graham, Pro.Dir, ICD

Amanda Walton, B.A., ICD.D

The Investment Committee, composed of five members of the Board, is responsible for the warranty fund, corporate investment plans, policies and issues pertaining to corporate funds and pension plan(s).

The goals of Tarion's investment strategies and policies are to optimize risk-return within the Board-approved investment policy and to meet the liquidity, credit, market and interest rate risks, as well as the timing and magnitude of corporate, operational and reserve requirements.

The Investment Committee considers and recommends investment managers, strategies, plans and policies related to the invested assets of the company and conducts an asset mix study every five years with the assistance of an independent investment advisor. The Committee oversees the entire Request for Proposal (RFP) and appointment of its investment managers, and it reviews and recommends the investment policies of the company each year for the Board's approval.

It also reviews, on a quarterly basis, reports from fund managers on investment activities and measures investment results against the investment objectives of the company.

In addition, the Committee oversees Management's investment fund choices and management of the investment fund for the company's defined contribution pension plan.

Stakeholder Committee

RJ Falconi, B.Sc., JD., ICD.D, Chair

John Macintyre, C. Dir, H.R.C.C.C., Vice Chair

Marni Dicker, LL.B., B.C.L., ICD.D

Marc Sammons

Toby Stolee

Vacancy

The Stakeholder Committee is composed of six members of the Board. The Committee provides guidance, informed opinion and progressive ideas, and makes recommendations to the Board about the promotion of consumer interests and consumer protection initiatives related to Tarion's mandate and its commitment to new home buyers.

The Committee also assists Tarion's Management with consumer policy and warranty coverage development. It provides insight and input on issues by making recommendations on the development and delivery of consumer protection initiatives and policies by analyzing relevant consumer research data and by giving insight into current communication programs and trends.

The Committee oversees the New Home Ombuds office and the two Councils. Having both the Consumer Advisory and Industry Advisory Councils at the table assists us with hearing concerns and issues from our major stakeholders and helps the Board gain awareness and understanding of the concerns from both stakeholder groups.

The Committee met five times in 2021. The Chairs of the Councils provide an update to the Stakeholder Committee at each regularly scheduled meeting.

The Committee meets with the New Home Ombuds at every meeting without the presence of Management.

Consumer Advisory Council

Vincenza Galatone, Chair

Tania Perlin, Vice Chair

Steve Balshin

Graham Clarke

Sebastien Fournier

Bob Fraser

Dan Fried

Janice Mellary

Justin Tudor

The Consumer Advisory Council (CAC) consists of nine members and is a sub-committee of the Stakeholder Committee of the Board of Directors of Tarion. The purpose of the CAC is to act as an advisory body who provides ongoing advice from a home buyer/consumer perspective on proposed policies or other changes impacting new home buyer consumers.

The Council met four times in 2021. The Chair of the Advisory Council attends each meeting of the Stakeholder Committee to present a report outlining the recent work of the Council. The Council is comprised of individuals who have been recent new home buyers, professionals who have new home buyers as clients and professionals who have relevant experience with consumer advocacy. All individuals must have a positive orientation towards consumer advocacy.

At the meetings that took place in 2021, the CAC provided its consumer perspectives on a number of topics that affect new home buyers in Ontario, including Tarion's 2021 Customer Satisfaction Review (CSAT), Tarion's new Mediation Policy, the New Home Ombuds Compliance Review Report, stakeholder education, improvements to Tarion's website and the MyHome portal, and a number of Tarion public policies. Furthermore, the CAC provided its advice on proposals to address the remaining Auditor General recommendations, including proposed changes to the Customer Service Standard (CSS), proposed changes to municipal information sharing, a proposed unfinished items warranty, a proposed accommodation warranty, as well as a proposed increase to the warranty compensation limit.

Industry Advisory Council

Adam Carapella, Chair

Maria Kyveris, Vice Chair

Sam Biasucci

Adam Clarke

Melissa Gauthier

Rick Martins

Ken O'Shea

The Industry Advisory Council (IAC) consists of seven members and is a sub-committee of the Stakeholder Committee of the Board of Directors of Tarion. The purpose of the IAC is to act as an advisory body who provides ongoing advice from a regulated industry perspective on proposed policies or other changes impacting new home builders.

The Council held their inaugural meeting in spring 2021 and met a total of five times in 2021. The Chair of the Advisory Council attends each meeting of the Stakeholder Committee and is responsible for preparing a report outlining the recent work of the Council. The Council is comprised of individuals who possess a building sector competency in either freehold homes or condominiums.

At the meetings that took place in 2021, the IAC provided its industry perspectives on a number of topics that affect new home buyers and the new home industry in Ontario, including Tarion's 2021 Customer Satisfaction Review, Tarion's new Mediation Policy, the New Home Ombuds Compliance Review Report, stakeholder education, and improvements to Tarion's website and the BuilderLink portal. Furthermore, the IAC provided its advice on the proposals to address the remaining Auditor General recommendations, including proposed changes to the claims process, proposed changes to municipal information sharing, a proposed unfinished items warranty, a proposed accommodation warranty, as well as a proposed increase to the warranty compensation limit.

Board Compensation

Periodic reviews of Board compensation are undertaken by the Board with assistance from the Human Resources & Compensation Committee (HRCC) and independent specialist advisors. Tarion's Board members are skills-based professionals who have extensive experience and specialized expertise appropriate to Tarion's mandate, size and complexity. They understand the interests of key stakeholders, including new home buyers, builders, consumer advocates, the financial community, and the provincial and various municipal governments of Ontario.

The Board is responsible for the oversight of the organization, including promoting sound governance practices, and taking a leading role in setting the strategic direction of the organization in areas ranging from consumer protection and warranty administration and financial stewardship. They are compensated for their contributions of time and expertise, covering a full schedule of Board and committee proceedings and other supplementary meetings. The compensation for Tarion's Board is reviewed every two years by independent external experts and is benchmarked against other administrative authorities as well as other comparable private and broader public sector organizations.

Board compensation is composed of a thoroughly researched and highly competitive annual retainer and a per diem fee for meetings held. Directors receive an annual retainer of \$17,500 and the Board Chair receives \$45,000 per annum. Committee Chairs receive an additional \$6,000 per annum, except for the Chairs of the Audit & Risk and Investment Committees, who receive \$8,000. Advisory Council Chairs receive \$4,000 per annum. Directors receive a meeting fee of \$800 per meeting. Total Board remuneration for 2021 was \$535,620. Tarion provides public disclosure of board compensation on its website, as required by the Minister's Order issued in September 2019.

Directors' Attendance

The number of Board, Board standing committee and task force meetings held by the company during 2021 was as follows:

Board of Directors	22 meetings
Audit & Risk Committee	7 meetings
Governance & Regulatory Affairs Committee	5 meetings
Human Resources & Compensation Committee	5 meetings
Investment Committee	5 meetings
Stakeholder Committee	5 meetings
Consumer Advisory Council	4 meetings
Industry Advisory Council	5 meetings
TOTAL	58 meetings

The table below shows directors whose terms ended and/or commenced concurrent with the Annual Meeting of Members in April 2021.

Director	Board of Directors		Committee		Total	
	Held	Attended	Held	Attended	Held	Attended
Dicker, Marni	22	21	9	9	31	30
Falconi, RJ	22	21	5	5	27	26
Graham, Greg	22	20	15	13	35	33
Kenins, Andy	22	22	17	17	39	39
Libfeld, Sheldon	15	12	3	3	18	15
Macintyre, John	22	22	15	15	37	37
Malik, Sameer	22	21	8	7	30	28
Padassery, Glen*	7	5	2	2	9	7
Panday, Hari	22	22	6	6	28	28
Sammons, Marc	22	21	12	11	34	32
Shurman, Peter**	19	18	6	6	25	24
Stolee, Toby	22	22	15	15	37	37
Tsubouchi, David****	1	0	0	0	1	0
Walton, Amanda***	14	13	4	4	18	17

The President & CEO and key senior executives attend all meetings of the Board and each of its committees

* Appointment ended April 2021

** Appointment ended October 2021

*** Appointment started May 2021

**** Appointment started November 2021



Legislation and Policy Changes

Background

A number of legislative and regulatory changes took effect on February 1, 2021 and July 1, 2021. This summary relates to changes to the *Ontario New Home Warranties Plan Act* (ONHWP Act) and regulations and sets out some of the key changes.

General – New Responsibilities

Rebuilding Consumer Confidence Act – Schedules 4 and 5

This legislation transformed the builder licensing and new home warranty coverage framework. Amendments were made to ONHWPA and NHCLA as a result of RCCA (schedule 4 and 5) to facilitate the transfer of licensing responsibilities to the HCRA upon designation. Ultimately through later regulatory steps:

- The HCRA was designated as the new regulatory authority and licensing body for new home builders and vendors; and
- Tarion is no longer the licensing body for builders and vendors, but it does:
 - *Assess licensed vendors and builders and their plans for the purposes of determining whether or not the homes they propose to sell or build are qualified for enrolment (QFE) or can be enrolled under the amended Ontario New Home Warranties Plan Act (ONHWP Act); and*
 - *Continue to guarantee performance of new home vendor's statutory warranty obligations and administer the warranty and protection program under the ONHWP Act.*

Administrative Agreement

Under the ONHWP Act, Tarion is required to enter into an administrative agreement with the Crown. On February 26, 2021, Tarion's new administrative agreement with the Minister came into effect and replaced the former accountability agreement.

Information Sharing Agreements

Tarion and the HCRA entered into Information Sharing Agreements. The content of the arrangements required of Tarion and the HCRA are set out in regulations to the ONHWP Act and the New Home Construction Licensing Act, 2017 (NHCLA). Tarion continues to provide certain information fields needed to populate the Ontario Builder Directory, which is now the responsibility of HCRA.

Tarion is obliged to share prescribed information with the Minister of Government and Consumer Services, the HCRA and other persons (if any are prescribed).

Dispute Resolution

The following new statutory object was added to subsection 2(2) of the ONHWP Act:

“promoting the resolution of claims as soon as reasonably possible in accordance with this Act and the regulations.”

Specific reference to the Licence Appeal Tribunal (LAT) was removed and replaced with a reference to “tribunal”. A tribunal can be any adjudicative body prescribed. LAT has been prescribed as the “tribunal” at this juncture.

Promoting Construction of Properly Built Homes

A second new statutory object is “promoting the construction in Ontario of properly built homes for residential purposes.”

Ombudsperson

There is an express statutory requirement that requires Tarion to make available an ombudsperson to carry out specified duties in accordance with the administrative agreement and regulations.

Underwriting – Enrolments

Registration of Vendors and Builders – Revoked

HCRA has taken over the vendor and builder licensing function. As a result:

- Sections 6, 7, 8, 9 and 10 of the ONHWP Act have been revoked;
- The vendor/builder registration application provisions of Regulation 892 have been revoked; and
- Regulation 894 regarding registration has been revoked in its entirety.

Definitions – “Officer”, “Interested Person” and “Associated Persons”

Broad definitions for these terms have been added which align with the same terms uses in NHCLA. These definitions are relevant as they expand the entities and individuals who can be considered – principally for the criteria in connection with licensing by the HCRA, but also by Tarion in connection with Tarion’s ongoing role regarding qualification for enrolment and enrolment discussed below.

Application for Qualification for Enrolment and Enrolment

A new broad segment is added to the ONHWP Act as sections 10.1 to 10.7. These sections address the circumstance where, once a person (vendor or builder) is licensed by HCRA, they can then approach Tarion to apply for approval to sell and/or build new homes that will have Tarion’s warranty guarantee of performance of the new home vendor’s warranty obligations.

A vendor cannot sell or offer to sell a home unless and until it has licenced by the HCRA and has received confirmation from Tarion that it qualifies for enrolment in the Plan if construction of the home has not commenced, or has been enrolled in the Plan if construction of the home has commenced.

A builder cannot enter into a contract to build a new home nor commence construction unless and until it has been licenced by the HCRA and has received confirmation from Tarion that the applicable home(s) have been enrolled in the Plan.

See Regulation 634-20 referenced in Schedule A as well as new Registrar Bulletins 10-FH, 10-CH and 10-Condo.

An application to Tarion will be in a form and manner that Tarion’s Registrar requires and may have elements that are prescribed by regulation. Regulation 627-20 sets out a broad range of information that can be requested in the application process (see Schedule A). Tarion may refuse to grant an application and has the right to impose conditions before agreeing that a home qualifies for enrolment in the Plan or permit enrolment of a home in the Plan. Conditions may include those required by regulation, such as posting security, signing a vendor and/or builder agreement and paying applicable fees (see Reg. 634-20 and Reg. 637-20 referenced in Schedule A), as well as home- or project-specific conditions.

The Notice of Proposal (NOP) to refuse, approve subject to specified conditions or revoke a determination that a home qualifies for enrolment or can be enrolled can be challenged by the vendor/builder before the “tribunal”, which, as mentioned, continues to be LAT. The NOP and appeal processes are similar to the prior processes for registrations.

Sections 10.1 to 10.6 do not apply to residential condominium conversion projects (RCCP). To address this circumstance, the RCCP regulation was amended to create a QFE process which mirrors that described above (see Reg 522-17 as amended by Reg 639-20 referenced in Schedule A).

Generally speaking, a builder or vendor registered with Tarion was deemed as of February 1, 2021 to be licenced with the HCRA. Homes associated with an existing registration are deemed to have QFE approval but, if not enrolled, must still be enrolled with Tarion. Rights of Tarion and related materials (e.g., terms and condition letters, Vendor/builder agreements, security and third-party indemnities) remain valid and continue for homes enrolled prior to February 1. The transition rules are complex and are set out in both the NHCLA and the ONHWP Act regulations. See Reg 627-20 referenced in Schedule A. See also Tarion's Registrar Advisory dated February 1, 2021, which has a good summary of the transition provisions and a schedule of all the related regulatory provisions.

Warranty Matters

There are new definitions, and the provisions regarding warranty claims have been expanded and re-numbered.

Definitions

Some definitions have been added, including: administrative agreement, claim, common element condominium corporation, common expenses, common interest, condominium corporation, condominium declaration, condominium property, condominium unit, information sharing agreement, licensee, officer, owner-builder, regulatory authority, tribunal and vacant land condominium corporation.

Criteria for Definitions of "Vendor" and "Builder"

There was no change to current definitions of "vendor" and "builder" as related to warranty eligibility.

Owner-Builder

A definition of "owner-builder" has been added. It references prescribed requirements and restrictions. These matters have not yet been prescribed.

Plan Name

The words "and Protection" have been added. The name of the Plan is now the Ontario New Home Warranties and Protection Plan.

Claims Process Regulations

A new express provision is added referencing regulations that may be developed by the government regarding "timelines and procedures associated with claims for compensation". To date, no such regulations have been made.

Delay Compensation – Addenda

A new express provision has been added referencing a homeowner's potential entitlement to delay compensation as provided by the regulations which would be a reference to Reg 165-08 as amended (see Schedule A). This is a tacit suggestion that delay compensation is not really a warranty but in the nature of a "protection", like deposit protection and financial loss for contract homes.

Evidence Required of Claimant – Onus of Proof

A new provision states that a homeowner is not required to prove the cause of the concern, only the reasons for the concern and a description of the symptoms of the concern. It then falls to Tarion to investigate the concern and verify that it relates to an entitlement to receive compensation.

Appeal of Warranty Decision

The legislation continues to contemplate a decision letter which can be appealed to the "tribunal" (that is, LAT). A new provision authorizes Tarion to make available a voluntary mediation process (which Tarion has already done). A noteworthy change regarding LAT proceedings is that, unless LAT authorizes it, a builder is not a permitted party at a LAT proceeding.

Common Element Warranty Start Dates

Two provisions are added to clarify the warranty start dates for certain common elements. For Residential Condominium Conversion Project common elements and standard condominiums, it is the date of registration of the condominium corporation. For a new phase of a phased condominium, it is the date of registration of the amendments to the declaration and description. The date of registration of the condominium corporation remains the start date for standard condominiums. Common elements of common element corporations and of vacant land condominiums continue to be excluded from any coverage.

Certain Warranty Liability Limits Increased

For common elements in a condominium project where the first purchase agreement is signed after February 1, the common element liability cap is increased to the lesser of:

- (i) \$3,500,000 and
- (ii) \$100,000 multiplied by the number of condominium units.

For homes that are the subject of a purchase agreement or construction contract dated on or after February 1:

- The prior \$25,000 liability subcap for sewage disposal systems does not apply (henceforth no sewage system subcap exists); and
- The liability subcap for “environmentally harmful substances or hazards, deleterious substances, mould or any fungal or bacterial contamination” is increased to \$50,000 (from the prior subcap of \$15,000).

Regulations

Tarion’s existing ability to initiate and carry forward certain types of regulations (subject in most cases to the express approval of the Minister of Government and Consumer Services) is continued. An additional section has been added which permits the Lieutenant Governor in Council to make a host of new regulations.

The new and revised Regulations made under the auspices of the ONHWP Act are described in Schedule A below.

SCHEDULE A

February 1, 2021

Regulation Changes – ONHWPA

Regulation	Amendments
<p>Reg 627-20 (ONHWP Act LGIC General Reg)</p>	<ul style="list-style-type: none"> ▪ Expanded definitions of persons of interest in connection with an application for qualification or enrolment. ▪ Specifies the information that must be shared by Tarion with the HCRA and the Ministry (this is a very broad obligation consisting of anything the HCRA requests that relates to its mandate. There is a reciprocal obligation on the HCRA in the regulations under NHCLA to provide specific information to Tarion. There must also be an information sharing agreement between the parties addressing how information is to be shared and referencing mutually agreed upon exceptions to information sharing (for example, financial and Board matters). ▪ Describes the information that can be requested by Tarion in connection with an application for qualification for enrolment or enrolment. ▪ Sets out a statutory indemnity obligation on vendors and builders for losses sustained by Tarion (extends beyond just licensees). ▪ Transition provisions: <ul style="list-style-type: none"> ▪ <i>Carries forward terms and conditions that relate to warranties and the Guarantee Fund;</i> ▪ <i>Carries forward vendor and builder agreements;</i> ▪ <i>Bridges all security documents and collateral;</i> ▪ <i>Carries forward all guarantees and indemnities;</i> ▪ <i>Carries forward any then existing enrolments;</i> ▪ <i>Deems homes associated with a then current registration to be qualified for enrolment;</i> ▪ <i>Information collected by Tarion as at the effective date can be maintained and used to fulfill its objectives;</i> ▪ <i>Licence Appeal Tribunal cases are continued.</i> <p>(See also Registrar Advisory dated February 1, 2021.)</p>
<p>Reg 894 (Terms and Conditions of Registration) (Revoked by Reg 634-20)</p>	<p>Revoked.</p>
<p>Reg 634-20 (Regulation re: QFE and Enrolments)</p>	<ul style="list-style-type: none"> ▪ Describes the new conditions that can be imposed upon a qualification for enrolment or enrolment: <ul style="list-style-type: none"> ▪ <i>Complete the full application and submit documents and attestations;</i> ▪ <i>Provide satisfactory security and/or indemnities;</i> ▪ <i>Pay applicable fees; and</i> ▪ <i>Enter in a vendor and builder agreement with Tarion.</i> <p>(There is no ability to create statutory “terms” [that is, covenants or obligations that survive enrolment]. Any such ongoing obligations have to be contractual [for example, a vendor/builder agreement].)</p>

Regulation	Amendments
<p>Reg 637-20 (Regulation re: Vendor and Builder Agreements)</p>	<ul style="list-style-type: none"> ■ Describes the types of provisions that can be included in vendor agreements and builder agreements: <ul style="list-style-type: none"> ■ <i>Representations and warranties regarding, for example, status and characteristics of the vendor, compliance with law, status of material obligations, and truth and accuracy of information submitted to the Registrar;</i> ■ <i>Submission of all necessary application information;</i> ■ <i>Submission of updated and supplemental information from time to time;</i> ■ <i>Ongoing covenants to duly and diligently perform vendor obligations;</i> ■ <i>Consents, authorizations and permissions regarding credit checks, disclosure of information and similar matters;</i> ■ <i>Requirements to provide security and other assurances in respect of vendor obligations at the time of application and from time to time;</i> ■ <i>Requirements to co-operate with the Corporation in the exercise of its mandate;</i> ■ <i>Access to records, business premises and construction sites;</i> ■ <i>Acknowledgement and covenant that neither a qualification for enrolment nor an enrolment is transferable; and</i> ■ <i>Payment of fees or assurances of payment of fees as determined by the Registrar.</i>
<p>Reg 522/17 (Condo Conversion) (Amended by Reg 639-20)</p>	<ul style="list-style-type: none"> ■ The approval process for residential condominium conversion projects is supplemented with express provisions relating to qualification for enrolment and enrolment.
<p>Addendum Reg 165/08 (Amended by Reg 636-20)</p>	<ul style="list-style-type: none"> ■ The regulation addresses delay compensation, and the addendum requires housekeeping changes. ■ Responsibility for ensuring the addendum is attached to purchase agreements is now shared by Tarion and HCRA.
<p>Reg 892 (General Warranty Program) (Amended by Reg 635-20)</p>	<ul style="list-style-type: none"> ■ Revoke registration provisions in Part III of the regulation. ■ Extend registration period by 150 days for registrants whose terms would otherwise expire between November 1 and March 31. ■ As part of the Auditor General's recommendations, there are also changes to delivery requirements of vendors so that they no longer supply the Homeowner Information Package but instead: <ul style="list-style-type: none"> ■ <i>Attach the Warranty Information Sheet which describes the program, emphasizes the importance of the pre-delivery inspection, and has prompts for MyHome, Tarion's website and new Homeowner Learning Hub;</i> ■ <i>Submit contact information of purchasers to Tarion right after the sale to allow Tarion to reach out directly to purchasers and push out helpful information.</i>
<p>Reg 242/21 (Regulation re: Mediation prior to Notice of Decision)</p>	<ul style="list-style-type: none"> ■ This regulation enacted by LGIC codifies the mediation process piloted by Tarion. It includes provisions concerning entitlement to mediation, how mediators are chosen, conduct of the mediation and confidentiality of information.

Tarion Policy Updates

The following chart summarizes updates to external-facing policies that were implemented in 2021. Details regarding the rationalization and re-launch of Tarion’s Registrar Bulletins, which occurred in the wake of the launch of the HCRA, are included in a separate chart.

Policy	Date of Update	Changes
Procurement Policy	July 2021	Updated to include a section on applicable parties and replaced Chief Operating Officer approver level with VP General Counsel as Chief Operating Officer position is vacant.
Access to Information and Privacy Code	March 2021	Revised in consultation with Ministry of Government and Consumer Services – it is Schedule G to the administrative agreement entered into in February 2021.
Code of Conduct for Compliance and Enforcement Personnel	December 2021	New policy.
Vaccination Policy	October 2021	New policy.
Travel & Reimbursement Policy	September 2021	Updated to include a section on applicable parties and to amend expense reimbursement approval levels.
Policy on Handling Complaints about Tarion		New policy.
Board of Directors Policies		
Access to Information	February 2021	Updated to be in line with the administrative agreement.
Board Remuneration Policy	August 2021	Updated to reflect new remuneration rates coming out of Mercer’s Board compensation review.
CEO Succession Planning	October 2021	Updated to reflect steps to be taken for a planned departure of a CEO and steps to be taken in recruiting a new CEO.
Code of Conduct, Conflict of Interest and Confidentiality Policy	April 2021	Amended to reflect Ministry of Government and Consumer Services recommendations on Schedule E of the new administrative agreement.
Payments in Excess of Regulatory Liability Caps	December 2021	Updated to provide greater clarity on the excluded payments that are within Management’s purview and what must go to the Board.
Operational Conflicts	February 2021	Updated to reflect the fact that Tarion is no longer responsible for licensing.

Rationalization and Relaunch of Registrar Bulletins (formerly Builder Bulletins)

In the chart below, the bulletins labelled with “conforming changes” are those that have had changes in title, number and content to ensure the information and obligations conform to Tarion’s new processes and revised mandate. A very brief summary is included for new Registrar Bulletins.

Registrar Bulletin #	Former Builder Bulletin #	Title of Bulletin	Changes
01	42	Customer Service Standards	Conforming changes.
02	49	Claims Process – Condominium Common Elements	Conforming changes.
03	24	Seven-Year Warranty Framework – Major Structural Defects	Conforming changes.
04	20	How Chargeability Is Determined and Applied	Conforming changes.
		COVID-19 Temporary Supplement to RB 04 (February 1, 2021)	Chargeability moved to the claim inspection.
		COVID-19 Temporary Supplement to RB04 (November 29, 2021)	Chargeability moved back to the time of conciliation; temporary COVID-19 exception to chargeability implemented.
05	34	Builder Deliveries	Conforming changes.
06-F	46	Delayed Closing Warranty – Freehold	Conforming changes.
06-C	47	Delayed Closing Warranty – Condominium	Conforming changes.
06-P	48	Delayed Closing Warranty – Parcels of Tied Land	Conforming changes.
07			Unassigned.
08	41	Builder Arbitration Forum	Conforming changes.
09	31, 38	Risk-Based Inspections	New. Describes Tarion’s new risk-based inspection program.
10		Warranty and Protection Plan Enrolment Process for Freehold	New. Describes Tarion’s new processes for confirmation of qualification for enrolment and enrolment of freehold homes.
10-Condo		Warranty and Protection Plan Enrolment Process for Condominiums	New. Describes Tarion’s new processes for confirmation of qualification for enrolment and enrolment of condominiums
10-CH		Warranty and Protection Plan Enrolment Process for Contract Homes	New. Describes Tarion’s new processes for confirmation of qualification for enrolment and enrolment of contract homes
11-F	28F	Freehold Security Requirements	Conforming changes. Replaced by three bulletins organized by product types (Registrar Bulletin 11-F).

Registrar Bulletin #	Former Builder Bulletin #	Title of Bulletin	Changes
11-L	28L	Low-rise Security Requirements	Conforming changes. Replaced by three bulletins organized by product types (Registrar Bulletin 11-L).
11-H	28H	High-rise Security Requirements	Conforming changes. Replaced by three bulletins organized by product types (Registrar Bulletin 11-H).
12	43	Escalating Consequences	Conforming changes. This bulletin has conforming changes so it relates to new qualification for enrolment and enrolment processes.
13	22	Floor Area Calculations	Discontinued. Addressed in HCRA Advisory.
14	44	Waiver of Indemnity of Builders	Conforming changes
15	27	Enrolment Fees	New. Replaces Builder Bulletin 27 and describes new enrolment fee framework.
16			Unassigned.
17		Additional Condominium Provisions	New. Sets out a number of requirements of condominium vendors currently included as standard terms and conditions.
18	51	Residential Condominium Conversion Projects	Conforming changes.
19	19	Condominium Projects Design and Field Review Reporting	Conforming changes.
	10	Conciliation Fees	Discontinued. Information is outdated and is communicated in other bulletins or communication channels.
	14	Manage Addendums to Agreements of Purchase and Sale	Discontinued. Relates to pre-2008 regime – now irrelevant.
	25	Delayed Closing – Delayed Occupancy	Discontinued. Relates to pre-2008 regime and current framework is covered in Builder Bulletins 46, 47 and 48 (now Registrar Bulletins 06F, 06C and 06P).
	26	Registration and Renewals	Discontinued. Pertains to matters of vendor/builder registration and is no longer needed.
	30	Expanded Registration Requirements	Discontinued. Pertains to matters of vendor/builder registration and is no longer needed.

Registrar Bulletin #	Former Builder Bulletin #	Title of Bulletin	Changes
	31	Targeted Inspections	Discontinued. This was updated and replaced by materials specific to the Risk-Based Inspection bulletin (Registrar Bulletin 09).
	32	Cap Liability on Private Sewage Disposal Systems Claims	Discontinued. Not in use, therefore no longer needed.
	33	Certification of Private Sewage Disposal Systems	Discontinued. Not in use, therefore no longer needed.
	35	Manage Registration and Enrolment of Hi-Rise and Low-Rise Condominium Projects	Discontinued. Not in use, therefore no longer needed.
	36	Rating Criteria for After Sales Service	Discontinued. Not in use, therefore no longer needed.
	37	Manage Lease to Own Agreements	Discontinued. These types of eligibility matters are now addressed in an HCRA Advisory.
	38	Low-Rise Condominium Inspection Program	Discontinued.
	39	Deposit Coverage for Freehold Homes and Financial Loss Coverage for Contract Homes	Discontinued. Information is outdated and up-to-date information is available in other communications and on website.
	45	Set Aggregate Maximum Coverage Amounts for One-Year, Two-Year and Major Structural Defect Warranties	Discontinued. Information is outdated and up-to-date information is available in other communications and on website.



Financial Statements

Tarion Warranty Corporation

For the year ended December 31, 2021

Table of Contents

Management’s Responsibility for Financial Reporting	62
Annual Report	63
Independent Auditors’ Report	65
Appointed Actuary’s Report	68
Statement of Financial Position	69
Statement of Comprehensive Results of Operations	70
Statement of Changes in Equity	71
Statement of Cash Flows	72
Notes to Financial Statements	73-111

Management's Responsibility For Financial Reporting

The accompanying financial statements of Tarion Warranty Corporation ("Corporation") are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards. When alternative accounting methods exist, or when estimates and judgment are required, management has selected those amounts that present the Corporation's financial position and results of operations in a manner most appropriate to the circumstances.

Appropriate systems of internal control, policies and procedures have been maintained to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by management.

The actuary appointed by the Audit & Risk Committee (the "Appointed Actuary") is responsible for ensuring that assumptions and methods used in the determination of warranty liabilities are appropriate to the circumstances and that the liabilities will be adequate to meet the Corporation's future obligations under the Ontario New Home Warranties Plan Act.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. These responsibilities are carried out primarily through an Audit & Risk Committee of the Board of Directors.

The Audit & Risk Committee meets periodically with management, the internal auditors, the external auditors and the Appointed Actuary to discuss internal control over the financial reporting process, auditing matters and financial reporting issues. The Audit & Risk Committee reviews the financial statements prepared by management and then recommends them to the Board of Directors for approval. The Audit & Risk Committee also recommends to the Board of Directors, the appointment of external auditors and approval of their fees.

The responsibility of the external auditors is to carry out an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report regarding the fairness of presentation of the Corporation's financial statements in accordance with IFRS. In carrying out their audit, the Auditors also make use of the work of the Appointed Actuary and his report on the warranty liabilities. The Auditors' report outlines the scope of their audit and their opinion.

Peter Balasubramanian
President & Chief Executive Officer
April 28, 2022

Edmond Lee
Vice President & Chief Financial Officer
April 28, 2022

Annual Report

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) provides relevant insights into the assessment of the financial condition and results of Tarion. This MD&A should be read in conjunction with Tarion's audited financial statements for the year ended December 31, 2021, which are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Financial Highlights

Tarion's 2021 financial results were driven by record high enrolments, strong investment returns and increased severity in claims. The Corporation also successfully completed the transition of its licensing activities to the new regulator, Home Construction Regulatory Authority.

Global capital markets performed well in 2021, showing signs of momentum and strong profit growth and Tarion's Guarantee Fund grew by \$69.5M to \$754.2M; however financial markets experienced volatility in the latter part of the year as inflation fears persisted and expectations grew that the U.S. Federal Reserve would tighten monetary policy in the near term. Despite the volatility, the Guarantee Fund annual return was 6.1% in 2021, resulting in investment gains (excluding investment fees) of \$42.4M for the year.

The year ended with total enrolment levels at 74,022 compared to 68,599 in 2020, 8.0% higher, mainly driven by higher volumes of freehold units. Enrolment levels continued to show great resiliency during 2021 despite the pandemic. Earned enrolment fees were higher due to freehold deferred revenue from prior years being recognized in revenue.

In 2021, Tarion paid out \$22.7M to resolve warranty claims from new home buyers. The 2021 net claims incurred of \$36.0M was \$14.1M higher than 2020. The increase in claims payments was mainly driven by first- and second-year claims on freehold, and condominium common elements.

Total operating expenses (excluding net claims incurred) increased by \$3.5M to \$54.0M. The Corporation incurred higher operating expenses during the year to address continued high workloads in Operations due to the impact of COVID 19, to support computer and data security enhancements to address an increase in cyber risks and to support the implementation of new initiatives and the recommendations from the Auditor General report.

Tarion transferred its regulatory mandate to register and license home builders and vendors to HCRA effective February 1, 2021. As part of the Government's initiative to improve the licensing of new home builders, Tarion committed to fund HCRA during the first three years of its launch (2021 to 2023) to ensure HCRA has adequate funds to operate and build up a reserve fund.

Tarion ended the year with the Guarantee Fund growing to \$754.2M of which \$388.7M supports warranty liabilities and \$297.5M is available for future warranty and service

improvements and protection against possible catastrophic warranty losses or other black swan events.

Equity

Tarion's total equity balance increased by \$7.3M to \$297.4M driven by the current year's positive bottom line of \$6.2M, plus an actuarial gain due to the change in discounting rate on post-employment benefits plan of \$1.1M.

Capital Expenditures

The Corporation continues to invest in its information system and infrastructure. The capital addition of \$7.0M in 2021 is for Intangible Assets relating to a new warranty management system, a platform to enhance Homeowner and Builder digital services and a system enhancement to incorporate the new Qualification for enrolments process. Other additions to Property, Plant and Equipment which increased by \$1.5M related mostly to leasehold improvements to the Corporate office.

Impact of COVID 19

While COVID 19 caused significant global supplies chains and business disruptions, it did not have significant financial impact to the Corporation in 2021. Management will continue to monitor the government easing of restrictions and monetary policy, the impacts on the supply chain of home builders and the housing markets.

Independent Auditors' Report

To the Board of Directors of Tarion Warranty Corporation

Opinion

We have audited the financial statements of Tarion Warranty Corporation (the "Corporation"), which comprise:

- the statement of financial position as at December 31, 2021
- the statement of comprehensive results of operations for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in a document likely entitled "2021 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2021 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up

to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads "KPMG LLP". The letters are in a cursive, slightly slanted font. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

April 28, 2022

Appointed Actuary's Report

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, 2021 and their change in the Statement of Comprehensive Results of Operations for the year ended December 31, 2021 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.



Nicolas Beaudoin
Fellow, Canadian Institute of Actuaries
April 28, 2022

Tarion Warranty Corporation

Statement of Financial Position

For the year ended December 31, 2021 (\$CAD thousands)

	Notes	2021	2020
ASSETS			
Cash and cash equivalents	4	5,579	8,746
Trade and other receivables from vendors and builders	5	16,218	10,932
Prepaid expenses and other assets	6	27,049	808
Investments	7	754,256	684,771
Unearned reinsurance premium	8	4,944	4,377
Property, plant and equipment	9	4,196	4,037
Intangible assets	10	12,801	8,561
TOTAL ASSETS		825,043	722,232
EQUITY AND LIABILITIES			
LIABILITIES			
Accounts payable and accrued liabilities	11	40,528	11,671
Lease obligations and inducements	13	2,725	3,517
Warranty liabilities	14	388,708	333,985
Funds held as security	15	86,201	73,692
Derivatives	7	675	-
Employee future benefits liabilities	16	8,713	9,216
TOTAL LIABILITIES		527,550	432,081
EQUITY		297,493	290,151
TOTAL EQUITY AND LIABILITIES		825,043	722,232

Commitments and contingencies 12

See accompanying notes to financial statements.

Approved by the Board of Directors

Hari Panday,
Director and Chair of the Board

Andy Kenins
Director and Chair of Audit & Risk
Committee

Tarion Warranty Corporation

Statement of Comprehensive Results of Operations

For the year ended December 31, 2021 (\$CAD thousands)

	Notes	2021	2020
REVENUE			
Gross home enrolment fees earned	14	57,013	52,103
Earned reinsurance premium	8	(592)	(501)
Net home enrolment fees earned		56,421	51,602
Builders' registration and renewal fees	1	154	3,129
Investment results			
Investment income	17	42,376	35,687
Investment management fees		(1,972)	(1,414)
Other revenue		1,254	439
TOTAL REVENUE		98,233	89,443
EXPENSES			
Net claims incurred	14	36,029	21,850
Salaries and benefits		32,560	31,092
General and administrative		16,976	14,726
Depreciation and amortization	9, 10, 13	4,090	4,139
Interest expense	18	439	563
TOTAL EXPENSES		90,094	72,370
EXCESS OF REVENUE OVER EXPENSES BEFORE TRANSFORMATION COSTS		8,139	17,073
Transformation costs	12B	1,877	4,478
EXCESS OF REVENUE OVER EXPENSES		6,262	12,595
OTHER COMPREHENSIVE RESULTS OF OPERATIONS			
<i>Amounts not subsequently classified to Statement of Results of Operations</i>			
Actuarial gains/(losses) for employee future benefits	16	1,080	(1,407)
TOTAL COMPREHENSIVE RESULTS OF OPERATIONS FOR THE YEAR		7,342	11,188

See accompanying notes to financial statements.

Tarion Warranty Corporation

Statement of Changes in Equity

For the year ended December 31, 2021 (\$CAD thousands)

	2021	2020
Beginning of the year	290,151	278,963
Excess of revenue over expenses for the year	6,262	12,595
Other comprehensive result of operations		
<i>Amounts not subsequently classified to Statement of Results of Operations</i>		
Actuarial gains/(losses) for employee future benefits	1,080	(1,407)
TOTAL EQUITY, END OF YEAR	297,493	290,151

See accompanying notes to financial statements.

Tarion Warranty Corporation

Statement of Cash Flows

For the year ended December 31, 2021 (\$CAD thousands)

	Notes	2021	2020
NET INFLOWS (OUTFLOWS) OF CASH RELATED TO THE FOLLOWING ACTIVITIES			
OPERATING			
Home enrolment fees received		85,926	76,253
Builders' registration fees received		155	3,129
Recoveries from builders for claims and conciliation fees		8,762	6,972
Securities receipts from builders, net of releases		12,731	9,013
Payments to employees for salaries and benefits		(33,038)	(31,999)
Payments to suppliers for general and administrative expenses		(13,423)	(12,950)
Claims payments		(22,799)	(23,076)
Reinsurance premium paid		(1,160)	(1,180)
Interest expenses		(661)	(646)
Other miscellaneous fees received		185	813
HCRA Funding	12B	(292)	(13,162)
Transformation costs	12B	(4,160)	(3,607)
Cash provided by operating activities		32,226	9,560
INVESTING			
Dividend received		13,425	11,638
Interest received		11,830	10,127
Proceeds from sale and maturity of investments		1,153,653	863,816
Purchase of investments		(1,204,597)	(892,205)
Investment management fees		(1,784)	(1,438)
Purchase of intangible assets		(7,007)	(5,376)
Purchase of equipment and leaseholds		(1,348)	(503)
Proceeds from settlement of derivatives		1,375	1,339
Cash used in investing activities		(34,453)	(12,602)
FINANCING			
Payment on lease obligation		(940)	(978)
Cash used in financing activities		(940)	(978)
EQUIVALENTS DURING THE YEAR		(3,166)	(4,020)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		8,746	12,766
CASH AND CASH EQUIVALENTS, END OF YEAR		5,579	8,746

See accompanying notes to financial statements.

Tarion Warranty Corporation*Notes to financial statements*

For the year ended December 31, 2021 (\$CAD thousands)

1. CORPORATION OPERATIONS

Tarion Warranty Corporation (the “Corporation”), domiciled in Ontario, Canada, was designated in 1976 by the Government of Ontario to administer the Ontario New Home Warranties Plan Act (the “Act”). The objectives of the Act include consumer protection, builder regulation and providing consumers and builders with a broad range of services including information and education. The Corporation collects home enrolment fees and invests available funds (Guarantee Fund) which is used for the purposes of settling warranty claims from homeowners and other administrative costs related to its responsibilities in administering the Act. Among other things, the Act affords new home buyers a right of compensation 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 builder construction and contractual warranties for defects in work or material; and
- the effects of delays in closing, under certain circumstances.

As part of a provincial legislation that was passed in December 2017, effective February 1, 2021, the Corporation transferred its regulatory mandate to register and license home builders and vendors in Ontario to a separate regulator, the Home Construction Regulatory Authority (“HCRA”) while retaining its mandate to administer new home warranty in Ontario. As such, the Corporation no longer collects builders’ registration and renewal fees effective February 1, 2021. During the start-up and post-open doors phase, the Corporation has a funding agreement with HCRA to provide financial support. See Note 12B for details.

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 and actuarial gains / (losses) for employee future benefits. 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, 2021, were approved by the Corporation’s Board of Directors and authorized for issue on April 28, 2022.

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (“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.

A. Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and at the bank, any short-term deposits with a maturity of up to three months on the date of purchase, net of any bank overdrafts payable on demand. Cash equivalents held for investment purposes are included in the fixed income portfolio.

B. Prepaid expenses and other assets

Prepaid expenses are measured at historical costs which approximates their fair value due to their short-term nature. Prepaid expenses are generally settled within one year.

Other assets include unsettled investment trade receivable. These are investments trades made within three business days of the end of the reporting period and are generally settled immediately after the end of the reporting period.

C. Financial Instruments

Financial assets are classified 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 through profit or loss.

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

Cash and cash equivalents, the fixed income portfolio, the equity portfolio, and derivative assets are classified as FVTPL. Financial assets at FVTPL are measured initially on trade date at fair value with any gains / (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 method. Dividend income on the equity portfolio is recognized as of the declaration date in investment income. The gains / (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 less accumulated impairment. 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, the existence of guarantees, other forward-looking information and the time value of money.

Tarion Warranty Corporation*Notes to financial statements*

For the year ended December 31, 2021 (\$CAD thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under IFRS 9, loss allowances will be established for all financial assets impaired based on a 12-month expected credit losses or life-time expected credit losses if the credit risk increases significantly.

The Corporation has elected to apply the IFRS 9 Simplified Approach, which measures expected credit losses based on a lifetime expected loss allowance. This represents expected credit losses that result from all possible default events over the expected life of a financial instrument.

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 impairment loss on trade and other receivables as part of the net claims incurred, at an amount that reduces the carrying value of the financial assets to their recoverable amounts. See note 5C Movement in Trade Receivables for impairment charge.

- Derivatives

The Corporation holds currency forward contracts to manage its U.S. dollar exchange exposure arising from its financial assets. These derivative financial instruments are classified as FVTPL assets or liabilities and are initially recorded at fair value. The fair value of derivative financial instruments is based on quoted market prices, unless they are non-publicly traded in which case fair value is estimated on the basis of models and includes an element of credit risk.

The Corporation has presented derivative financial instruments on a net basis where the Corporation has the right and intent to offset. When the net fair value is positive, a net asset is reported and when the net fair value is negative, a net liability is reported. Where the Corporation does not have the right and intent to offset, derivative financial instruments with a positive fair value are recorded as an asset while derivative financial instruments with a negative fair value are recorded as a liability.

Realized gains and losses are recorded as realized gains (losses) and changes in the fair value of these contracts are recorded as unrealized gains / losses on derivative assets which is a component of investment income/(expense) on the statement of comprehensive results of operations.

- Other financial liabilities

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

D. Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment. The assets' residual values, useful lives and the method of depreciation are reviewed at the end of each reporting period and adjusted as necessary on a prospective basis. The depreciation expense on property, plant and equipment is disclosed separately in Note 9 to the Financial Statements and included in the Statement of Comprehensive Results of Operations.

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation is provided at the following rates:

Recognized in accordance to IAS 16 – Property, plant and equipment:

Computer equipment	Straight-line over three years
Furniture and office equipment	Declining balance at 20% a year
Leasehold improvements	Straight-line over the shorter of its estimated useful life and the lease term

Recognized in accordance to IFRS16 – Leases:

Right of use assets	Straight-line over the shorter of its estimated useful life and the lease term
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Right of use assets

The Corporation recognizes right of use assets at the commencement date of the lease. Right of use assets are measured at cost, less any accumulated depreciation and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease inducements receivable. Unless the Corporation is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. If the right of use asset is impaired, the Corporation reduces the carrying amount of the asset to its recoverable amount and recognizes that impairment loss in the Statement of Comprehensive Results of Operations.

Short-term leases and leases of low-value assets

The Corporation applies the short-term lease recognition exemption to its short-term leases (i.e. leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases. Lease payments on short-term leases and leases of low-value assets are recognized as a General and Administrative expense as incurred.

The gains / (losses) 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 revenue.

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Intangible assets

Intangible assets consist of acquired software and applications 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 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 10 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

F. Leases

Lease liabilities

In calculating the present value of lease payments, the Corporation uses the incremental borrowing rate at the measurement date if the interest rate implicit in the lease is not readily determinable. The lease liabilities are increased to reflect the accreted interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities will be remeasured if there is a modification, a change in the lease term, a change in the in-substance of fixed lease payments or a change in the assessment to acquire the underlying asset.

G. Warranty liabilities

Warranty liabilities include estimates of costs for claims reported and in process, 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, and deferred home enrolment fees to be taken into revenue as earned based on the expected claims experience over the warranty period.

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, which is further described in Note 3. Annual reviews are performed by management and reviewed by the 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 warranty claims 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 income 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 actual timing of settlements may differ from expected timing.

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

Tarion Warranty Corporation*Notes to financial statements*

For the year ended December 31, 2021 (\$CAD thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Claims recoveries include amounts recovered in the current year from builders on claims incurred during the current or 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 in trade and other receivables from vendors and builders as described in Note 5.

H. Excess loss reinsurance premium

Benefits to which the Corporation is entitled under its reinsurance contract are recognized as reinsurance assets. Amounts recoverable are dependent on the expected claims and benefits arising under the related reinsured new home warranty contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts. The reinsurance premium paid are recognized as an expense over the terms of coverage they provide. The enrolment-based policy is expensed based on the same earnings pattern recognized for the home enrolment over the life of the warranty period.

The Corporation assesses its reinsurance assets for impairment on an annual basis. If the reinsurance asset is impaired, the Corporation reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in the Statement of Comprehensive Results of Operations. A reinsurance asset is impaired if there is objective evidence, which is determined using the same approach adopted from non-financial assets.

The Corporation reflects reinsurance balances on the Statement of Financial Position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to homeowners and on a gross basis in the Statement of Comprehensive Results of Operations to indicate the results of home enrolment fees earned.

I. Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, 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.

J. Employee future benefits liabilities

The Corporation offers a (i) defined contribution pension plan and (ii) a post-employment medical and dental benefits plan for its employees.

The costs of 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 retirement ages of employees and expected health care costs.

Tarion Warranty Corporation*Notes to financial statements*

For the year ended December 31, 2021 (\$CAD thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Actuarial gains / (losses) are recognized in the Statement of Comprehensive Results of Operations in the period they occur. They are not reclassified to excess of revenue over expenses in subsequent periods.

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. 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 determined based on market price information.

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.

K. Revenue recognition

Home enrolment fees are remitted by builders during the year. These fees are deferred to the Statement of Financial Position as warranty liabilities and taken into revenue as gross home enrolment fees earned based on the expected claims experience over the warranty period. The earning patterns are reviewed annually. When the initially selected patterns for prior years' enrolments differ from the actual claims emergence, the patterns are updated prospectively. 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.

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 upon the delivery of the services. Within other revenue are homeowner conciliation fees which are refundable if the conciliating item is found to be warrantable as well as builders conciliation fees which are charged if items are found warrantable and the builders failed to repair or resolved the item(s) during the applicable repair period. These fees are deferred to the Statement of Financial Position as a liability and earned into revenue when the conciliation inspection results in unwarrantable items. The Corporation has recorded the contract liability under accounts payable and accrued liabilities.

L. 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 method. Accrued interest is included within the carrying value of the interest-bearing liability.

M. Impairment of non-financial assets

The Corporation assesses at each reporting date for 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 to not be recoverable.

Tarion Warranty Corporation*Notes to financial statements*

For the year ended December 31, 2021 (\$CAD thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**N. 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 exchange 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. Currency exchange gains / (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 exchange rate on the transaction date.

O. Future accounting changes*IFRS 17 – Insurance Contracts*

On May 18, 2017 the IASB issued *IFRS 17 – Insurance Contracts* ("IFRS 17").

The new standard is effective for annual periods beginning on or after January 1, 2023 and will replace IFRS 4 Insurance Contracts. IFRS 17 introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums. There will be new financial statement presentation for insurance contracts and additional disclosure requirements.

IFRS 17 is to be applied retrospectively. Where full retrospective application is impracticable, the modified retrospective or fair value methods may be used.

The Corporation intends to adopt IFRS 17 in its financial statements for the annual period beginning on January 1, 2023. The Corporation is assessing the impact of this standard and expects that it will have a significant impact on the financial statements. However, The Corporation is not able to estimate reasonably the quantitative impact that IFRS 17 will have on its financial statements at the present time.

P. Changes in Significant Accounting Policies

Two new amendments were issued by the IASB with application required January 1, 2021. COVID-19-Related Rent Concessions is an amendment to *IFRS 16 - Leases* and has no impact on the financial statements as the Corporation did not receive rent concessions.

Interest Rate Benchmark Reform – Phase 2 are amendments to *IFRS 9 – Financial Instruments*, *IFRS 7 - Financial Statements Disclosures*, *IFRS 4 – Insurance Contracts*, and *IFRS 16 - Leases*. The Corporation does not have exposure to this amendment as affected assets are not held directly by the Corporation, but within an investment fund.

Tarion Warranty Corporation*Notes to financial statements*

For the year ended December 31, 2021 (\$CAD thousands)

3. KEY ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

A. Key management judgments

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

Internally generated software enhancements

Internally generated software enhancements costs are capitalized if, and only if, all of the following criteria are met:

- the technical feasibility can be demonstrated;
- management has the intention to complete the intangible asset and use it;
- management has the ability to use the intangible asset;
- the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial, and other resources to complete the development and use the intangible asset; and
- expenditures attributable to the intangible asset can be measured reliably.

COVID-19 Pandemic Impact

In March 2020, the World Health Organization (WHO) declared a global pandemic as a result of the outbreak of COVID-19 coronavirus. In 2021, government-issued emergency orders resulted in further suspension of in-person conciliations and inspections of homes during the year. As a result, the warranty assessment timelines had to be extended. Further, the pandemic continues to impact global financial markets with volatility. The Corporation continues to manage the impact of this disruption to business and believes that its operations and financial position remain strong.

The extent of its impact on the Corporation will depend on the impact of the unwinding of the monetary policies by central banks and governments, impacts on the supply chain of home builders and the evolving market demand for new homes. As a result, there will continue to be uncertainty around estimates, assumptions and judgements used in preparing these Financial Statements.

B. 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:

Tarion Warranty Corporation*Notes to financial statements*

For the year ended December 31, 2021 (\$CAD thousands)

3. KEY ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)*Valuation of warranty claims liabilities*

Warranty claims liabilities involve a high level of estimation uncertainty. The amount of claims liabilities equals the present value of cash flows on account of claims and related expenses incurred before the reporting date. The cost of outstanding claims is estimated by using actuarial valuation techniques, taking into account the Corporation's claims handling practices, actuarial assessments, the judgment of management, difference between actual and expected claims settlement amounts, historical precedents and trends, prevailing legal, economic, social, and regulatory environments, and expectations of future developments.

Details of the key assumptions used in the estimates are contained in Note 14. The warranty liabilities amounts presented for these claims are stated at the 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 are measured at amortized cost less accumulated impairment, which approximates fair value. The carrying value is based on management's best estimate of recoverable value determined by considering past collection experience, financial condition of the builders, security held, legal action sought, and judgments awarded. Details of the key assumptions used in the estimates are contained in Note 5.

Revenue recognition of home enrolment fees earned

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

Valuation of employee future benefits liabilities

The costs of 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 benefits such estimates are subject to significant uncertainty. Details of the key assumptions used in the estimates are contained in Note 16G.

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

4. CASH AND CASH EQUIVALENTS

At December 31, 2021, cash and cash equivalents was solely cash at the bank and on hand of \$5,579 (2020: \$8,746) with no short-term deposits or bank overdrafts payable on demand.

The Corporation also has a \$2,000 (2020: \$2,000) unsecured demand operating facility it can draw on of which the amount outstanding at December 31, 2021 is nil (2020: Nil).

5. TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS

Trade and other receivables from vendors and builders consist of four components:

- 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 accumulated impairment. Amounts receivable from licensed 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 fees. In 2020, the balance included both enrollment fees and registration fees. The collection of registration fees was transferred to HCRA effective February 1st, 2021.
- Recoverable on incurred but not yet reported ("IBNR") represents the actuarial valuation adjustment that incorporates the historical claims recovery experience on the Trade and Other receivables from vendors and builders related to the warranty liabilities under the gross basis presentation.

	2021	2020
Gross trade receivables	43,706	36,702
Less: Allowance for impairment	(37,991)	(32,463)
Trade receivables	5,715	4,239
Amounts recoverable from vendors and builders	9,430	7,618
Other receivables from vendors and builders	1,546	673
Recoverable on IBNR	(473)	(1,598)
Total trade and other receivables from vendors and builders	16,218	10,932

The Corporation undergoes an underwriting process for new and existing licensed builders 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 for each applicant may vary, 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 when new enrolments are submitted for approval by the applicant.

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

5. TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS (continued)

As at December 31, 2021, there was four vendors and builders (2020: four vendors and builders) 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, 2021 was limited to \$2,006 (2020: \$2,762).

As described in Note 15, the Corporation obtains security from builders to minimize its financial losses from future warranty claims. At December 31, 2021 there is \$5,942 (2020: \$6,305) of cash and non-cash security held associated with the trade and other receivables from vendors and builders.

A. Unlicensed vendors and builders

Warranty coverage is also available for homes which were built by unlicensed builders. However, under the Act, unlicensed builders are deemed to be building illegally, subject to prosecution and are required to indemnify the Corporation for any financial loss the Corporation incurs with respect to the homes the unlicensed vendors and builders built. Included in the total trade and other receivables from vendors and builders as at December 31, 2021 are amounts recoverable from unlicensed vendors and builders of \$291 (2020: \$131).

B. Expected credit losses and impact on discounting

In determining the lifetime expected credit losses of 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 and builder, their current and expected financial condition, security held, legal action sought, and judgment awarded. Other forward-looking information such as ongoing builder interactions is also considered during the assessment to determine the builder's financial outlook. For accounts less than \$50, a historical 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. The Corporation has determined that incorporating forward-looking information to the recovery rate will have an immaterial impact on the net trade receivables balance.

Actual recovery on these balances may differ if the financial health of the vendor and 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, judgments awarded, and other forward-looking information.

As at December 31, 2021, the trade and other receivables from vendors and builders includes \$4,437 (2020: \$3,578) that are greater than 90 days past due but not considered to be impaired. The Corporation considers licensed builders who have past due but not impaired balances to be able to pay their debts. In addition, the credit quality of these builders' receivables is enhanced by the existence of indemnities and / or guarantees. The trade receivables may take significant time to settle and collect due to complex claims cases and / or when litigation is involved. A discount rate of 3.45% (Prime + 1%) has been applied on the trade receivables balance greater than 360 days, which is consistent with the fair value measurement of funds held as securities.

	2021	2020
1 to 90 Days	1,278	661
91 to 360 Days	2,624	2,966
Over 360 Days	1,813	612
Total trade receivables	5,715	4,239

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

5. TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS (continued)

C. Movement in trade receivables

	2021	2020
Gross Trade Receivables		
Beginning of year	36,702	27,485
New Bills Issued	16,965	18,745
Write-offs Processed	(1,265)	(2,556)
Recoveries	(8,696)	(6,972)
End of year	43,706	36,702
Allowance for Impairment		
Beginning of year	(32,463)	(23,508)
Expected Credit Loss Allowance	(6,793)	(11,511)
Write-offs Processed	1,265	2,556
End of year	(37,991)	(32,463)
Total trade receivables, end of year	5,715	4,239

The Corporation employs various methods to collect its receivables which could extend over multiple years. Trade receivables are written off when the likelihood of further collection is considered remote, or when a settlement agreement is reached. Until such time, an allowance for impairment is carried; included in the 2021 change in allowance is a reversal of \$598 (2020: \$2,704) which relates to amounts previously written off.

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consist of the following.

	2021	2020
Unsettled investment trades	25,559	158
Prepaid expenses	1,490	650
Total prepaid expenses and other assets	27,049	808

7. FINANCIAL INSTRUMENTS

Investments in the fixed income portfolio, and the equity portfolio represent accumulated proceeds from the enrolment and builder registrations fees. Registration fees were collected until registration activities were transferred to HCRA on February 1st, 2021. These investments are made by the Corporation in accordance with the Statement of Investment Policies and Procedures, and represent the guarantee fund which supports:

- i. The Corporation's ability to fulfil current and future estimated warranty obligations: Due to the long warranty coverage period of up to seven years and to other factors explained in Note 14, warranty obligations are subject to a high level of measurement uncertainty and variability;
- ii. Funds held as security from the builders: 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, as noted in Note 14. Security received in cash is invested as part of the Corporation's investment portfolio, and is recorded at amortized cost on the Statement of Financial Position as a liability; and

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

7. FINANCIAL INSTRUMENTS (continued)

- iii. Financial stability of the Corporation: Financial stability of the Corporation is achieved by applying the capital management framework, as noted in Note 19, which has been modeled after the framework used by the property and casualty insurance industry in Canada. Carried capital of the Corporation has been determined by management to be sufficient to cover possible losses from future catastrophic events and is supported by the annual financial condition testing performed by the Corporation's appointed actuary during the year and reflects the Corporation's inability to raise capital in traditional ways.

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 Corporation has classified the fixed income portfolio, the equity portfolio and derivative assets as FVTPL financial assets. These 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, equities and foreign currency forward contracts denominated in foreign currencies, if any, are translated into Canadian dollars at the exchange rate in effect as at the reporting date.

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 5 on the valuation methodology used.

The carrying value for accounts payable and accrued liabilities approximates fair value due to their short-term nature. Under *IFRS 13 – Fair Value Measurement*, 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. The key inputs include cash flow received from builders as security, the estimated duration periods of such funds by building types and a discount rate of 3.45% (2020: 3.45%).

Fair value hierarchy

Fair value measurements are classified using a three-level fair value hierarchy, described below, for disclosure purposes. Each level reflects the types of 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 measured at fair value and classified by fair value hierarchy as at December 31, 2021 and 2020:

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

7. FINANCIAL INSTRUMENTS (continued)

	2021			2021 Fair Value
	Level 1	Level 2	Level 3	
Financial assets measured at FVTPL				
Fixed income portfolio:				
Canadian treasury bills and short-term notes	-	16,261	-	16,261
Canadian government and agency	-	166,147	-	166,147
Canadian corporate bonds	-	263,853	-	263,853
Canadian Commercial Term Mortgage (1)	-	71,282	-	71,282
Foreign Diversified Fixed Income Fund (2)	-	51,170	-	51,170
Fixed income portfolio	-	568,713	-	568,713
Equity portfolio	-	185,543	-	185,543
Total investments	-	754,256	-	754,256
Cash and cash equivalents	5,579	-	-	5,579
Total financial assets	5,579	754,256	-	759,835
Financial liabilities measured at FVTPL				
Derivatives	675	-	-	675
Financial liabilities measured at amortized cost				
Funds held as security	-	-	81,629	81,629
Total financial liabilities	675	-	81,629	82,304

(1) Consist of assets held in the ACM Commercial Mortgage Fund; First and second mortgages secured by Canadian commercial real estate.

(2) Consist of debt securities held in the PIMCO Global Investors Series Diversified Income Fund (Hedged in CDN\$). The Fund invests at least two-thirds of its assets in a diversified portfolio of Fixed Income Instruments (a combination of both sovereign and corporate debt instruments) of varying maturities from global and emerging markets. The remaining assets in the portfolio consist of PIMCO Funds (i.e., Asia Strategic Interest Bond Fund, Asia High Yield Bond Fund, European High Yield Bond Fund, US Short Term Fund, US Dollar Short-term Floating NAV Fund, and US Dollar Short Maturity UCITS ETF). A small percentage of the assets (i.e., <1%) are centrally cleared/over-the-counter financial derivative instruments, and Futures.

	2020			2020 Fair Value
	Level 1	Level 2	Level 3	
Financial assets measured at FVTPL				
Fixed income portfolio:				
Canadian treasury bills and short-term notes	-	33,098	-	33,098
Canadian government and agency	-	133,297	-	133,297
Canadian corporate bonds	-	265,902	-	265,902
Canadian Commercial Term Mortgage (1)	-	12,395	-	12,395
Fixed income portfolio	-	444,692	-	444,692
Equity portfolio	57,144	182,262	-	239,406
Derivatives	673	-	-	673
Total investments	57,817	626,954	-	684,771
Cash and cash equivalents	8,746	-	-	8,746
Total financial assets	66,563	626,954	-	693,517
Financial liabilities measured at amortized cost				
Funds held as security	-	-	69,775	69,775
Total financial liabilities	-	-	69,775	69,775

(1) Consist of assets held in the PH&N Commercial Mortgage Fund; first mortgages secured by Canadian commercial real estate.

There were no transfers among Levels 1, 2 and 3 in the year ended December 31, 2021 (2020: Nil).

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

7. FINANCIAL INSTRUMENTS (continued)

B. Market risk

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

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

Interest rate risk

Interest rate risk is the risk that the 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)	2021				Total
	Due within one year	Due one through five years	Due five through ten years	Due after ten years	
Canadian Government					
Federal	8,591	73,854	4,420	-	86,865
Yield to Maturity (YTM)	0.9%	1.3%	1.3%	-	1.3%
Provincial	-	78,086	813	-	78,899
YTM	-	1.4%	1.6%	-	1.4%
Treasury Bills	16,255	-	-	-	16,255
YTM	0.2%	-	-	-	0.2%
Total Canadian Government	24,846	151,940	5,233	-	182,019
YTM	0.6%	1.4%	1.3%	-	1.4%
Canadian Financial Institutions	2,007	127,612	14,350	-	143,969
YTM	0.4%	2.0%	2.6%	-	2.1%
Other Canadian Corporate	21,159	94,677	2,495	-	118,331
YTM	1.1%	1.8%	2.2%	-	1.8%
Canadian Mortgage Trust Fund	10,357	46,569	14,356	-	71,282
YTM	4.7%	4.1%	3.7%	-	4.0%
Foreign Diversified Fixed Income Fund	-	-	-	51,170	51,170
YTM	-	-	-	4.2%	4.2%
Total Fixed Income	58,369	420,798	36,434	51,170	566,771
Accrued Interest	1,942	-	-	-	1,942
Total Fixed Income with Accrued Inte	60,311	420,798	36,434	51,170	568,713
YTM	0.9%	1.8%	2.8%	4.2%	2.3%

(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.

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

7. FINANCIAL INSTRUMENTS (continued)

Terms of Maturity (1)	2020				Total
	Due within one year	Due one through five years	Due five through ten years	Due after ten years	
Government					
Federal	36,773	35,135	2,611	-	74,519
Yield to Maturity (YTM)	0.2%	0.6%	1.8%	-	0.4%
Provincial	-	45,878	12,452	-	58,330
YTM	-	0.6%	0.9%	-	0.6%
Municipal	-	-	-	-	0
YTM	-	-	-	-	-
Treasury Bills	33,091	-	-	-	33,091
YTM	0.1%	-	-	-	0.1%
Total Government	69,864	81,013	15,063	-	165,940
YTM	0.2%	0.6%	1.0%	-	0.4%
Financial Institutions	1,803	111,884	8,465	-	122,152
YTM	0.8%	0.8%	2.1%	-	0.9%
Other Corporate	12,911	115,344	13,558	-	141,813
YTM	0.5%	0.8%	1.1%	-	0.8%
Mortgage Trust Fund	2,916	5,932	3,535	13	12,396
YTM	1.0%	2.5%	2.8%	2.4%	3.4%
Total Fixed Income	87,494	314,173	40,621	13	442,301
Accrued Interest	2,391	-	-	-	2,391
Total Fixed Income with Accrued Interest	89,885	314,173	40,621	13	444,692
YTM	0.3%	0.7%	1.4%	2.4%	0.7%

(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.

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 through its pooled fund investments. The Corporation's equity portfolio is diversified and invested in well established, active, and liquid markets.

	2021		2020	
Information Technology	34,419	19%	12,431	5%
Financials	34,186	18%	58,499	24%
Industrials	26,315	14%	44,399	19%
Health Care	23,360	13%	7,062	3%
Consumer Discretionary	23,273	13%	28,589	12%
Consumer Staples	17,194	9%	17,174	7%
Telecommunication	13,994	7%	18,627	8%
Materials	5,807	3%	30,899	13%
Cash	3,280	2%	2,667	1%
Energy	1,903	1%	15,725	7%
Utilities	1,812	1%	2,145	1%
Real Estate	0	0%	1,189	0%
Total equity portfolio	185,543	100%	239,406	100%

Taron Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

7. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates versus the Canadian dollar. The 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 U.S. denominated investments. As at December 31, 2021, the Corporation had approximately 31.0% (2020: 19.9%) of its fair value of the total investments with foreign currency risk; the largest foreign currency exposure was to the U.S. dollar of 14.1% (2020: 9.1%) of the total portfolio. The Corporation manages its foreign currency exposure by limiting the foreign content in the investment portfolio.

To mitigate the foreign currency risk, the Corporation has access to a foreign currency hedging facility and various hedging strategies are initiated when certain pre-determined foreign exchange fluctuations occur. Based on predetermined thresholds, hedging facilities remained active in 2021 and the Corporation continued to roll into 3-month forward contracts to mitigate U.S. dollar foreign currency risk. The values associated with the derivative assets are presented below. The Notional amount serves as a basis for payments calculated under the forward contracts and are not exchanged.

	2021				2020			
	Term to maturity			Total	Term to maturity			Total
	Under 1 year	1 to 5 Years	Over 5 Years		Under 1 year	1 to 5 Years	Over 5 Years	
<u>Foreign exchange contracts</u>								
Forward contracts:								
Net fair value	(675)	-	-	(675)	673	-	-	673
Notional amount	51,279	-	-	51,279	29,400	-	-	29,400

Sensitivity analysis on market risk

The table below shows the potential impact on the Statement of Comprehensive Results of Operations and Statement of Changes in 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 2021 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 minus 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 applied on the carrying value of the funds held as security excluding accrued interest as 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 all foreign currencies in the portfolio.

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

7. FINANCIAL INSTRUMENTS (continued)

	2021						
	Fair Value	Interest Rate Risk		Equity Price Risk		Foreign Exchange Rate Risk	
		-25 BP	+25 BP	-10%	+10%	-5%	+5%
Financial Assets							
FVTPL investments:							
Fixed income portfolio excl Mortgage							
Canadian Dollar	441,443	3,023	(2,998)				
Other currencies	55,988	468	(467)			(2,799)	2,799
Mortgage Trust Fund	71,282	356	(359)				
Equity portfolio							
Canadian Dollar	7,811			(781)	781		
United States Dollar	106,126					(5,306)	5,306
Euro	26,988					(1,349)	1,349
Great Britain Pound	15,409					(771)	771
Other currencies	29,209					(1,461)	1,461
Foreign	177,732			(17,773)	17,773	(8,887)	8,887
Financial Liabilities							
Derivatives	675					2,598	(2,598)
Funds held as security	81,629	204	(204)				

	2020						
	Fair Value	Interest Rate Risk		Equity Price Risk		Foreign Exchange Rate Risk	
		-25 BP	+25 BP	-10%	+10%	-5%	+5%
Financial Assets							
FVTPL investments:							
Fixed income portfolio	444,692	2,977	(2,971)				
Equity portfolio							
Canadian Dollar	103,229			(10,323)	10,323		
United States Dollar	62,505					(3,125)	3,125
Euro	17,295					(865)	865
Great Britain Pound	14,980					(749)	749
Other currencies	41,397					(2,070)	2,070
Foreign	136,177			(13,618)	13,618	(6,809)	6,809
Derivative Assets	673					1,436	(1,436)
Financial Liabilities							
Funds held as security	69,775	174	(174)				

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 investments, and trade and other receivables from vendors and builders. The carrying value of financial assets, including 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:

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

7. FINANCIAL INSTRUMENTS (continued)

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 and derivatives at the time an investment is purchased. At December 31, 2021, 91.5% (2020: 99%) of the debt securities have a rating of A or better while 100% (2020: 100%) of the derivatives have a rating of A or better.
- Cash and cash equivalents and investments are placed with governments, well-capitalized financial institutions and other creditworthy counterparties.
- The Corporation assesses new and existing licensed builders' risk profile, including their financial position, during the underwriting process. Based on the assessment, a builder's project may qualify for enrolment and as disclosed in Note 15, security is obtained in the form of cash, letters of credit, and other guarantees from the builder in order to reduce the risk of financial loss related to future warranty claims from homeowners.

D. Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to daily cash requirements from settlement of claims, operating expenses and cash security releases. The settlement of claims have no fixed terms and is dependent on the timing of the repair work involved. The cash security release has no fixed terms and is contingent upon fulfilment of certain requirements (see Note 15). Liquidity risk is considered low as a significant percentage of the investment portfolio is traded in an active market and can be readily converted into cash.

The Corporation also has a \$2,000 (2020: \$2,000) unsecured demand operating facility it can draw on of which the amount outstanding at December 31, 2021 is nil (2020: Nil).

8. EXCESS LOSS REINSURANCE PREMIUM

The Corporation entered into a reinsurance contract on an "excess-of-loss" basis for premiums of \$1,160 (2020: \$1,180). The reinsurance contract limits the Corporation's exposure by providing a maximum of \$45,000 in coverage on claims from specified enrolment years in excess of the retained amount of \$75,000. The reinsurance contract does not relieve the Corporation of its primary warranty obligation to homeowners.

In 2021, the reinsurance premium earned was \$592 (2020: \$501). The unearned reinsurance premium at the end of the year was \$4,944 (2020: \$4,377) which is recorded on the Statement of Financial Position. The reinsurance asset for recoveries under the contract as at December 31, 2021 was nil (2020: Nil).

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

9. PROPERTY, PLANT AND EQUIPMENT

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

	Right-of-Use Assets	Computer Equipment	Furniture and office equipment	Leasehold improvements	Total
<i>At cost</i>					
Balance at J anuary 1, 2020	2,322	1,590	1,563	1,203	6,678
Additions	3,214	500	3	-	3,717
Disposals	-	(381)	-	-	(381)
Balance at December 31, 2020	5,536	1,709	1,566	1,203	10,014
Balance at J anuary 1, 2021	5,536	1,709	1,566	1,203	10,014
Additions	162	265	-	1,084	1,511
Disposals	-	(689)	(872)	(1,160)	(2,721)
Balance at December 31, 2021	5,698	1,285	694	1,127	8,804
<i>Accumulated depreciation</i>					
Balance at J anuary 1, 2020	1,254	1,304	1,473	1,121	5,152
Depreciation expense	809	313	18	66	1,206
Disposals	-	(381)	-	-	(381)
Balance at December 31, 2020	2,063	1,236	1,491	1,187	5,977
Balance at J anuary 1, 2021	2,063	1,236	1,491	1,187	5,977
Depreciation expense	963	329	15	16	1,323
Disposals	-	(689)	(840)	(1,163)	(2,692)
Balance at December 31, 2021	3,026	876	666	40	4,608
<i>Carrying amount</i>					
Balance at J anuary 1, 2020	1,068	286	90	82	1,526
Balance at December 31, 2020	3,472	473	74	16	4,037
Balance at December 31, 2021	2,672	409	28	1,087	4,196

Taron Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

10. 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, 2020	19,730	5,450	25,180
Additions	4,991	385	5,376
Balance at December 31, 2020	24,721	5,835	30,556
Balance at January 1, 2021	24,721	5,835	30,556
Additions	6,395	612	7,007
Balance at December 31, 2021	31,116	6,447	37,563
Accumulated amortization			
Balance at January 1, 2020	14,324	4,737	19,061
Amortization expense	2,558	376	2,934
Balance at December 31, 2020	16,882	5,113	21,995
Balance at January 1, 2021	16,882	5,113	21,995
Amortization expense	2,506	261	2,767
Balance at December 31, 2021	19,388	5,374	24,762
Carrying amount			
Balance at January 1, 2020	5,406	713	6,120
Balance at December 31, 2020	7,839	722	8,561
Balance at December 31, 2021	11,728	1,073	12,801

Research and other costs were recognized as an expense under general and administrative in the Statement of Comprehensive Results of Operations during the year amount to \$1,966 (2020: \$2,028).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

These amounts are expected to be settled within one year from December 31:

	2021	2020
Salaries and benefits	2,681	3,307
Trade and supplier accruals	4,020	2,760
Amounts due to vendors and builders	2,247	2,085
Unsettled investment trade payable	27,596	42
Contract liabilities	901	465
Other liabilities	2,224	1,262
Payable to HCRA (Transformation costs)	859	1,750
Total accounts payable and accrued liabilities	40,528	11,671

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

12. COMMITMENTS AND CONTINGENCIES

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 warranty liabilities on the Statement of Financial Position.

A. Indemnification

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, 2021 and 2020.

B. Transformation Costs

In December 2017, the Ontario New Home Warranties Plan Act was amended to authorize the Corporation to use the Guarantee Fund to make payments or loans to any corporation that is designated to administer any successor Act or that, according to the Minister, may be so designated. A funding agreement was executed between the Corporation and Home Construction Regulatory Authority ("HCRA") on May 31, 2019 and amended on November 2020. The funding commitment by the Corporation to HCRA consists of three funding phases: the *Initial start-up phase*, the *Build out phase*, and *Post-doors open phase*.

- In 2020, during the pre-launch phases of HCRA, the Corporation advanced \$13,162 to HCRA as part of its commitment to support the creation of the new regulator.
- During Post-doors open phase, the Corporation has committed to provide funding over a 3-year period in two parts: (a) annual lumpsum funding amounts subject to annual enrolment level reaching or exceeding 56,000; and (b) quarterly repayable funding over a 3-year period (2021 to 2023) contingent on if the quarterly enrolment level falls below 14,000; the amounts are repayable in 2024 if the 3-year average annual enrolments equals to or exceeds 56,000 and HCRA operating reserve is at or exceeds \$4,500. The lumpsum funding advanced was nil in 2021 (2020 - \$1,250). The Corporation advanced \$292 of quarterly contingency funding to HCRA in the first quarter of 2021 to support the establishment of a new regulator to regulate and license builders and vendors. On December 2021, the estimated total funding payable for the remainder of the years' (2022 to 2023) based on projected enrolment levels was reassessed and reduced from \$1,542 to \$859 because the estimated average annual enrolments are expected to be at or higher than 56,000 based on projected enrolment levels and the continued resiliency demonstrated by the housing market.
- In addition, the Corporation incurred total costs of \$4,160 (2020: \$2,357) which includes system development and consulting fees in connection with the Transformation process.

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

12. COMMITMENTS AND CONTINGENCIES (continued)

The funding support by the Corporation is conditional upon that the aggregate sum of the Funds requested by HCRA and advanced by the Corporation in any given year will not materially negatively impact the capital requirements of the Guarantee Fund and be of such an amount as to compromise the Corporation Board's fiduciary obligation to prudently manage the Guarantee Fund in accordance with the ONHWP Act and the risk framework adopted by the Corporation's Board.

The Corporation also entered into an agency agreement to collect the regulatory oversight fee on behalf of HCRA, on an interim basis. In 2021, \$9,800 were collected from the builders and remitted to HCRA.

C. Guarantee Fund

As part of the Asset Mix Implementation for the Guarantee Fund, Tarion has committed to allocate \$56 million to Infrastructure investment pooled funds in 2022

13. LEASES**A. Right-of-use assets**

The cost of the right of use assets arising from office space, computer and office equipment is reported as property, plant and equipment on the Statement of Financial Position and includes deductions for lease inducements receivable.

I. Right-of-use assets

	Office building	Computer and office equipment	Total
Balance at December 31, 2020	3,348	125	3,473
Depreciation charge for the year	(820)	(143)	(963)
Additions to right-of-use assets	-	162	162
Derecognition of right-of-use assets	-	-	-
Balance at December 31, 2021	2,528	144	2,672

II. Amounts recognized in Statement of Comprehensive Results of Operations

During the year December 31, 2021	
Interest on lease liabilities	91
Expenses relating to short-term leases	120
Expenses relating to low-value lease assets, excluding short-term leases of low-value assets	19
During the year December 31, 2020	
Interest on lease liabilities	39
Expenses relating to short-term leases	149
Expenses relating to low-value lease assets, excluding short-term leases of low-value assets	17

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

13. LEASES (continued)

III. Amounts recognized in Statement of Cash Flows

During the year December 31, 2021	
Financing Activities - cash outflow for finance lease liabilities	(940)
Operating Activities	
Cash outflow for finance lease liabilities - interest expense	(91)
Cash outflow for short-term and low-value leases	(139)
Total cash outflow for leases	(1,170)
During the year December 31, 2020	
Financing Activities - cash outflow for finance lease liabilities	(978)
Operating Activities	
Cash outflow for finance lease liabilities - interest expense	(39)
Cash outflow for short-term and low-value leases	(166)
Total cash outflow for leases	(1,183)

B. Lease liabilities

The balance of the right of use asset obligations arising from office space, computer and office equipment are reported as lease liabilities and inducements on the Statement of Financial Position and include deductions for lease inducements receivable.

The total value of the right of use asset obligations as at December 31, 2021 is \$2,670 (2020: \$3,472). Interest expense of \$91 was incurred during 2021 (2020: \$39) 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 Corporation.

Future minimum lease payments and the present value of the net minimum right of use asset obligations are as follows:

	2021	
	Minimum lease payments	Present value minimum lease payments
Within one year	747	679
Between one and five years	2,182	2,046
	2,929	2,725
Less amounts representing finance charges	204	-
Present value of minimum lease payments	2,725	2,725

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

14. WARRANTY LIABILITIES

A. Components of warranty liabilities

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

	2021	2020
Deferred home enrolment fees, beginning of year	289,988	265,838
Fees received	85,926	76,253
Fees earned	(57,013)	(52,103)
Deferred home enrolment fees, end of year	318,901	289,988
Warranty claims liabilities, beginning of the year	43,997	38,215
Claim losses incurred:		
Relating to current occurrence year	37,031	25,655
Relating to prior occurrence years	9,882	2,036
Change in provision for adverse deviation impact	2,393	392
Change in discounting and inflation impact	(697)	775
	48,609	28,858
Claim losses paid:		
Relating to current occurrence year	(8,627)	(6,692)
Relating to prior occurrence years	(14,172)	(16,384)
	(22,799)	(23,076)
Warranty claims liabilities, end of year	69,807	43,997
Total warranty liabilities, end of year	388,708	333,985

Claim losses incurred relating to prior occurrence years increased in 2021 primarily on account of recent developments causing increased complexity and costs which were subject to governance approval processes under the appropriate regulatory liability limits during the reporting period. These claims relate to resolving warranty claims on certain on high-rise condominiums and freehold homes enrolled in previous years.

Claims losses incurred during the year are recorded net of recoveries in the Statement of Comprehensive Results of Operations as noted below:

	2021	2020
Gross claims incurred for the year	48,609	28,858
Recoveries net of impairment	(12,580)	(7,008)
Net claims incurred for the year	36,029	21,850

Amounts recoverable from vendors and builders are included in trade and other receivables on the Statement of Financial Position and are described in Note 5.

Tarion Warranty Corporation*Notes to financial statements*

For the year ended December 31, 2021 (\$CAD thousands)

14. WARRANTY LIABILITIES (continued)**B. 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.

C. Significant risks and assumptions relate to warranty claims liabilities and deferred enrolment fees

The market in which the Corporation participates is unique. The Corporation is the sole provider for mandatory 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.

Earnings pattern

As home enrolment fees are collected, they are deferred and taken into 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 expected pattern of incurrence of claim costs over the warranty period, or 'earning pattern'. The actual emergence of claims may differ from the initial expected pattern. The earnings pattern is reviewed annually. When an update of the pattern is required for prior years' enrolments, it will result in the estimate change for the unamortized deferred enrolment fees not yet recognized into revenue. The impact of changes in the earnings pattern is set out in the sensitivity analysis in Note 14F.

The earnings period for high-rise and low-rise are 12 years based on the changes in claims experience of severity and frequency; freehold home types earning period is 10 years.

Insurance risk

As the administrator of the Act, the Corporation is exposed to insurance risk similar to a property and casualty insurance company. The insurance risk is the risk of loss if the Corporation pays compensation from the guarantee fund because builders have failed to perform their warranty obligations to the new homeowners. For major structural defect warranty coverage after June 30, 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; post-2012, builders are fully responsible for major structural defect warranties but have the option to elect a co-share payment where the costs are shared by the builder and the Corporation according to a set formula. Generally, the Corporation is primarily concerned with the number and nature of the warrantable events and the uncertainty of the amount of the potential resulting claims and loss.

Insurance risks are managed through the Corporation's underwriting process where new and existing licensed builders are verified that they have the technical experience, customer service capabilities and financial capacity required to build new homes in compliance with the terms and conditions of the Act. The Corporation has entered into an excess loss reinsurance contract with a third-party insurance company to reinsure its insurance

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

14. WARRANTY LIABILITIES (continued)

risk for warrantable claims for specified enrolment periods in accordance with the Corporation's risk management framework starting in 2016. The reinsurer has a rating of A++ as at December 31, 2021. (2020: A++)

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

- Collection of home enrolment fees from builders prior to construction of each home to help discharge the related liabilities;
- Obtain securities in the form of cash, letters of credit and other guarantees from the builders during the underwriting 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 liabilities 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 judgment and experience. Actual settlements may also differ significantly from the estimates of these liabilities due to the measurement uncertainty involved in establishing assumptions for such variables as future rates of claim frequency, severity, inflation, the ability of builders to fulfill their obligations to home buyers, and administrative costs. The Corporation is exposed to the following claims provisioning risks in the process of administering the Act:

- *Future claims adjustment cost* – This assumption reflects the costs generally related to claims administration, including claims staff salaries and 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.
- *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 in Note 14E.
- *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), which can occur due to actual experience differing from the experience assumed.
- *Discounting and Inflation* – As claims will be settled in the future, the cost to settle the claims will be subject to inflationary pressure. Accepted actuarial practice requires that warranty claims be

Taron Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

14. WARRANTY LIABILITIES (continued)

discounted to reflect the time value of money over the periods between the reporting date and the settlement date.

The developments of assumptions for future claims are based on the Corporation's experience and known cases or potential issues. Such assumptions require a significant amount of professional judgment; therefore, actual experience may be materially different than the assumptions made by the Corporation. Home builder payment patterns, renewals, withdrawals and surrender activities can be influenced by many factors including market and general economic conditions. Their behavior also has an impact on assessing future claims. The impact of changes in adverse deviation is set out in the sensitivity analysis in Note 14E.

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 underwriting process. The table below shows the warranty claim liabilities by claim types as at December 31:

	2021			Total
	Freehold	High-rise Condo	Low-rise Condo	
Unpaid claims	19,579	10,089	610	30,278
Incurred but not reported	11,865	7,221	417	19,503
Provision for adverse deviation	3,645	2,357	149	6,151
Unallocated loss adjustment expense	8,387	4,949	337	13,673
Discount and inflation impact	(386)	555	33	202
	23,511	15,082	936	39,529
Total warranty claim liabilities (gross basis)	43,090	25,171	1,546	69,807

	2020			Total
	Freehold	High-rise Condo	Low-rise Condo	
Unpaid claims	6,327	9,803	480	16,610
Incurred but not reported	8,627	5,204	273	14,104
Provision for adverse deviation	1,561	2,093	102	3,756
Unallocated loss adjustment expense	4,497	3,880	249	8,626
Discount and inflation impact	(105)	963	43	901
	14,580	12,140	667	27,387
Total warranty claim liabilities (gross basis)	20,907	21,943	1,147	43,997

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

14. WARRANTY LIABILITIES (continued)

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with warranty liabilities. The Corporation is exposed to daily cash requirements from settlement of claims, cash security releases and operating expenses. Liquidity risk is considered low as the majority of its investment portfolio are traded in a highly liquid market and can be readily converted to cash.

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 reporting 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 claims liabilities. The impact of changes in interest rate is set out in the sensitivity analysis in Note 14E.
- *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 in Note 14E.

D. Excess of loss reinsurance

During 2021, no claims expenses exceeded the retention of \$75,000 layer of the reinsurance coverage, as such, no claims and claims expenses included in the Statement of Comprehensive Results of Operations were decreased on account of the reinsurance arrangements. Such reinsurance arrangements limit the Corporation's liability in the event of large losses in excess of \$75,000 (2020: \$75,000), up to \$45,000 (2020: \$45,000) for each enrolment year; the corporation currently has policies in force for enrolment years 2016 to 2021.

E. Sensitivity analysis and maturity profile on warranty claims liabilities

The following table illustrates the assumptions used in developing the adequate warranty claim liability required for the Statement of Financial Position:

	2021	2020
Discount rate	1.65%	0.85%
Inflation rate	4.02%	4.28%
Future claims adjustment costs	21.5%	20.0%

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

14. WARRANTY LIABILITIES (continued)

Sensitivity analysis on warranty claims liabilities

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

	Change in assumption	Impact on warranty liability		Impact on comprehensive results of operations		Impact on equity	
		Increase	Decrease	Increase	Decrease	Increase	Decrease
2021							
Discount rate	1.0%	(1,166)	1,201	1,166	(1,201)	1,166	(1,201)
Inflation rate	1.0%	564	(555)	(564)	555	(564)	555
Future claims adjustment costs	1.0%	521	(521)	(521)	521	(521)	521
2020							
Discount rate	1.0%	(782)	807	782	(807)	782	(807)
Inflation rate	1.0%	408	(401)	(408)	401	(408)	401
Future claims adjustment costs	1.0%	316	(316)	(316)	316	(316)	316

Maturity profile of warranty claims liabilities

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

	Due within one year	Due one through five years	Total
2021	45,530	24,276	69,806
2020	27,437	16,560	43,997

F. Sensitivity analysis on deferred home enrolment fees

Shifts in claims patterns affect the earning pattern and how enrolment fees are recognized. 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, comprehensive results of operations, and equity. Below is the sensitivity analysis of a +/- 2.5% change in the 2021 earning factors for all enrolment years, presented net of reinsurance:

	Change in assumption	Impact on warranty liability		Impact on comprehensive results of operations		Impact on equity	
		Accelerated	Decelerated	Accelerated	Decelerated	Accelerated	Decelerated
2021							
Earning Pattern	2.5%	(16,489)	13,829	16,489	(13,829)	16,489	(13,829)
2020							
Earning Pattern	2.5%	(13,653)	12,062	13,653	(12,062)	13,653	(12,062)

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

14. WARRANTY LIABILITIES (continued)

G. Claims 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 before reinsurance that the Corporation has settled; there was nil reinsurance impact in 2021:

	All prior years claims with outstanding liability	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Estimate of ultimate claims													
All prior years	54,522												
At end of occurrence year		14,599	7,581	8,420	11,256	15,391	18,001	16,102	17,015	19,655	20,049	26,530	
One year later		15,095	6,534	6,538	9,505	13,448	17,501	15,547	17,530	20,355	26,874		
Two years later		15,160	6,387	6,411	10,044	13,837	17,369	17,697	20,113	27,776			
Three years later		13,677	6,026	6,487	10,328	14,055	18,166	19,565	21,042				
Four years later		11,455	6,485	6,747	10,348	13,843	17,943	20,507					
Five years later		10,587	6,209	6,762	10,305	13,852	16,136						
Six years later		9,941	6,459	6,749	10,175	14,475							
Seven years later		9,409	6,779	6,706	10,244								
Eight years later		8,977	6,662	6,801									
Nine years later		8,807	6,746										
Current estimate of ultimate claims reported	54,522	8,807	6,746	6,801	10,244	14,475	16,136	20,507	21,042	27,776	26,874	26,530	240,460
Claims paid													
All prior years	54,255												
At end of occurrence year		3,628	2,267	3,046	3,474	4,776	5,270	3,881	5,953	6,906	6,692	8,627	
One year later		2,635	1,877	2,333	3,689	5,290	5,703	8,195	6,946	7,898	7,262		
Two years later		681	905	585	1,832	1,948	2,239	2,695	5,158	4,216			
Three years later		1,149	485	275	855	443	1,579	2,299	1,281				
Four years later		508	288	13	132	196	266	612					
Five years later		25	228	41	22	175	198						
Six years later		12	158	19	33	328							
Seven years later		104	103	20	26								
Eight years later		8	449	18									
Nine years later		84	230										
Cumulative claims paid	54,255	8,834	6,990	6,350	10,063	13,156	15,255	17,682	19,338	19,020	13,954	8,627	193,524
Current reported provision before discounting	267	(27)	(244)	451	181	1,319	881	2,825	1,704	8,756	12,920	17,903	46,936
Provision for adverse deviation impact	6	1	22	33	31	173	541	277	330	1,196	1,654	3,232	7,496
Discounting and inflation impact	0	0	11	5	12	41	234	79	60	130	(27)	27	572
Present value of Warranty claim liabilities (Net of Recoveries)													55,004
Recoveries	(11)	(15)	(21)	(57)	(67)	(134)	(1,954)	(526)	(657)	(1,632)	(2,990)	(6,739)	(14,803)
Present value recognized on the Statement of Financial Position (Gross of Recoveries)													69,807

Tarion Warranty Corporation*Notes to financial statements*

For the year ended December 31, 2021 (\$CAD thousands)

15. FUNDS HELD AS SECURITY

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

Security received in cash is invested as part of the Corporation's investment portfolio. As at December 31, 2021, the funds held as security of \$86,201 (2020: \$73,692), presented at amortized cost 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, 2021 of \$2,107 (2020: \$2,329).

The fair value of the funds held as security is \$81,629 as at December 31, 2021 (2020: \$69,775). 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 \$348 (2020: \$524) on cash security deposits. Interest is calculated based on Prime less 2%, adjusted every sixth month.

16. EMPLOYEE FUTURE BENEFIT PLANS

The Defined Contribution Pension Plan for Employees of Tarion Warranty Corporation ("DC Plan") was set up effective May 1, 2018 upon the wind up of the Closed Pension Plan in 2018.

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

A. 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 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") that operates on an unfunded basis 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. See Note 16F for the notional contribution and liabilities relating to the SERP.

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

16. EMPLOYEE FUTURE BENEFIT PLANS (continued)**B. Other post-employment benefits**

The Corporation has a December 31 measurement date for financial reporting purposes. The results of the OPEB are based on valuation of the OPEB performed as at December 31, 2020.

C. Pension plan regulatory framework

The DC Plan is registered with the Financial Services Regulatory Authority of Ontario (# 1322577) and with the Canada Revenue Agency. The expected Employer contributions in respect of current accruals to the DC Plan in 2022 are \$1,383 (employee contributions are expected to be \$813).

D. Plan governance

The Human Resources & Compensation Committee and the Investment Committee are responsible for the management and administration of the DC 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. LifeWorks, 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 DC Plan. All external providers report to the plan administrator.

E. Significant risks to which the plan exposes the Corporation

The OPEB plan is exposed to the traditional risks (interest rate risk, and longevity risk, etc.), the plan exposes the Corporation to no other unusual risk. The amounts recognized in the Statement of Financial Position for employee future benefits liabilities at the reporting date are shown in the table below:

	2021	2020
	OPEB & SERP	OPEB & SERP
Fair value of DB assets	-	-
Present value of the defined benefit obligation	(8,713)	(9,216)
Net Defined benefit surplus (obligation)	(8,713)	(9,216)
Impact of asset ceiling	-	-
Accrued liability	(8,713)	(9,216)
Employer contributions	181	223
Employee contributions	-	-
Benefit Payments and transfers to other plans	181	223

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

16. EMPLOYEE FUTURE BENEFIT PLANS (continued)

The present value of the SERP obligation as at December 31, 2021 was \$1,096 (2020: \$1,095), which is included in the OPEB & SERP amount in the table above. The benefit payments from the SERP paid during the year ended December 31, 2021 were \$86 (2020: \$141). For the year ended December 31, 2021, the employer contributions to the DC Plan were \$1,294 (2020: \$1,194), and the employee contributions to the DC Plan were \$791 (2020: \$702). The net notional employer contributions for the SERP were \$38 (2020: \$77).

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

	2021	2020
Accrued Benefit Obligation, OPEB	7,617	8,121
Accrued Benefit Obligation, SERP	1,096	1,095
Net Employee Benefits Obligation Reported	8,713	9,216
Financial/Experience adjustments on employee future benefits liabilities	1,080	(1,407)

As of December 31, 2021, the current liabilities were \$95 (2020: \$81) with respect to the OPEB plan and \$86 (2020: \$141) with respect to the SERP plan.

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

	2021	2020
	OPEB & SERP	OPEB & SERP
Beginning of year	(9,216)	(7,460)
Current Service Cost	(470)	(361)
Past Service Cost	-	-
Interest Costs	(288)	(210)
Benefit Payments	181	223
Actuarial Gain/(Loss) arising from plan experience	-	(120)
Actuarial Gain/(Loss) arising from changes in demographic assumptions	-	(597)
Actuarial Gain/(Loss) arising from changes in financial assumptions	1,080	(691)
Actuarial Gain/(Loss) arising from settlement	-	-
Curtailments/Settlements	-	-
Accrued Obligation, end of year	(8,713)	(9,216)

The OPEB and SERP are unfunded obligations:

	2021	2020
	OPEB & SERP	OPEB & SERP
Beginning of year	-	-
Contributions by Employer	181	223
Expected Income on Plan Assets	-	-
Actuarial Gains/(Losses)	-	-
Benefits Payments (including Settlement)	(181)	(223)
Administration Costs*	-	-
Curtailments/Settlements	-	-
Plan Assets, end of year	-	-

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

Taron Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

16. EMPLOYEE FUTURE BENEFIT PLANS (continued)

A discount rate of 3.40% per annum was used for the disclosures at December 31, 2021 for the OPEB. Specifically, the discount rate was determined as the single discount rate that would produce the present value of obligations determined by discounting the plan cash flows using Corporate AA spot rates at December 31, 2021.

The amounts recognized in the Statement of Comprehensive Results of Operations in respect of the employee benefits liabilities are as follows:

	2021	2020
	OPEB & SERP	OPEB & SERP
Current Service Costs	470	361
Administration Costs (non-investment related)	n/a	n/a
Past service cost (including curtailment)	-	-
Loss (gain) on settlement	-	-
Service Cost	470	361
Interest Cost on the defined benefit obligation	288	210
Expected income on plan assets	-	-
Interest on the effect of the asset ceiling	-	-
Net interest on the net defined benefit liability (asset)	288	210
Expense (income) recognized in profit or loss	758	571
Remeasurements of the net defined benefit liability (asset)		
Actuarial loss (gain) on the defined benefit liability (asset)	(1,080)	1,407
Return on plan assets less expected income on plan assets	-	-
Change in the effect of the asset ceiling (excluding interest)	-	-
Total amount recognized in Other Comprehensive Income	(1,080)	1,407

The net expense for the SERP in 2021 was \$88 (2020: \$78) included in the OPEB & SERP amounts above. The net expense for the DC Plan in 2021 was \$1,294 (2020: \$1,194).

Service cost is reported as part of the Corporation's salaries and benefit expense in the Statement of Comprehensive Results of Operations.

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

16. EMPLOYEE FUTURE BENEFIT PLANS (continued)

F. Significant assumptions

The discount rate was determined with reference to market interest rates of AA corporate bond yields. The principal actuarial assumptions used in determining the pension benefit obligation for the Corporation's plans are as follows:

	2021 OPEB	2020 OPEB
Accrued Benefit Obligation as of December 31:		
Discount rate	3.40%	2.80%
Salary Increase	N/A	N/A
General Inflation	2.00%	2.00%
Mortality	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B
Form of benefit elected	N/A	N/A
Benefit Cost for the Period:		
Discount rate	2.80%	3.20%
Salary Increase	N/A	N/A
General Inflation	2.00%	2.10%
Mortality	Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B
Assumed Health Care Cost Trend Rates		
Initial health care cost trend rate	5.57%	5.57%
Cost trend rate declines to	3.57%	3.57%
Year that the rate reaches the rate it is assumed to s	2040	2040

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

16. EMPLOYEE FUTURE BENEFIT PLANS (continued)

G. Sensitivity analysis for OPEB

Assumed health and dental care cost trend rates and discount 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:

Valuation Assumptions	1% Change in Health and Dental Care Trend Rates		1% Change in Discount Rate	
	Increase	Decrease	Increase	Decrease
Accrued benefit obligation as at December 31, 2021 at 3.40% per annum	7,617	(1,450)	(1,420)	1,912

Valuation Assumptions	1% Change in Health and Dental Care Trend Rates		1% Change in Discount Rate	
	Increase	Decrease	Increase	Decrease
Accrued benefit obligation as at December 31, 2020 at 2.80% per annum	8,121	(1,598)	(1,592)	2,167

17. INVESTMENT INCOME/(LOSS)

	2021	2020
Realized and change in unrealized gains / (losses) of equity portfolio	30,422	(2,233)
Dividends from equity portfolio	13,313	11,653
Realized and change in unrealized gains / (losses) of fixed income portfolio	(13,018)	13,764
Interest income from fixed income portfolio	11,631	10,491
Realized and change in unrealized gains / (losses) on Derivative Assets	28	2,012
Total investment income/(Loss)	42,376	35,687

18. INTEREST EXPENSE

	Notes	2021	2020
Interest on funds held as security	15	348	524
Interest on lease obligations	13	91	39
Total interest expense		439	563

Tarion Warranty Corporation

Notes to financial statements

For the year ended December 31, 2021 (\$CAD thousands)

19. 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 14. As part of the Corporation's capital management framework, a reinsurance arrangement was put in place since 2016; the excess loss limits from the reinsurance arrangement were established after a review of large historic claim losses of other jurisdictions.

In applying the framework, the total equity of the Corporation as at December 31, 2021 and 2020 has been determined by management to be sufficient to cover possible losses from plausible future event as supported by the annual financial condition testing performed by the Corporation's appointed actuary during the year.

20. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Corporation provides a broad range of services to homeowners 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, 2021, there are collection and litigation account receivables and cash securities recognized due from related parties of \$2 (2020: Nil). 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 payable is set by the Government of Ontario based on its cost recoverability. In 2021, the Corporation incurred a fee of \$611 (2020: \$499).

Key management personnel compensation

The key leadership personnel of the Corporation are members of the board of directors and the corporate management leadership team. Compensation for these leadership personnel includes the following expenses:

	2021	2020
Short-term employee benefits	1,914	1,960
Board of directors fees	536	463
Post-employment benefits	196	254
Compensation for key leadership personnel	2,646	2,677

Contact Information

Email Us

Help us direct your questions to the right people.
Write to us at customerservice@tarion.com.

Call Us

Our representatives are available to assist you
by phone from 8 am to 5 pm, Monday to Friday.
1-877-9-TARION (1-877-982-7466)

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