ATTAINABLE HOMES
CALGARY CORPORATION

Financial Statements

For the year ended December 31, 2018

RSM Alberta LLP

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Independent Auditor's Report

To the Shareholder of Attainable Homes Calgary Corporation

Opinion

We have audited the financial statements of Attainable Homes Calgary Corporation (the "Corporation"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations and accumulated operating surplus, changes in net financial assets and cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2018, and its financial statements and its cash flows for the year ended December 31, 2018 in accordance with Canadian public sector accounting standards.

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates the Corporation incurred a net loss for the year ended December 31, 2018 of $2,845,820 and had negative cash flows from operations of $5,827,051. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern. Our opinion is not modified in respect to this matter.

Other Matter

The financial statements of the Corporation for the year ended December 31, 2017 were audited by another auditor who expressed an unqualified opinion on those statements on April 19, 2018.

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

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

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.

Auditor's 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 auditor's 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 these 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 auditor's 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 auditor's 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.

We 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.

RSM Alberta LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
April 30, 2019

Attainable Homes Calgary Corporation
Statement of Financial Position

As at December 31,		**2018**		2017
ASSETS				
Cash (Note 14)	**$**	**1,195,144**	$	550,840
Cash held in trust		**65,852**		-
Accounts receivable		**42,111**		272,917
Prepaid expenses		**108,320**		12,774
Inventory (Note 3)		**12,052,125**		10,933,008
Deposits on units (Notes 4 and 15)		**856,081**		485,708
Other deposits (Note 5 and 7)		**45,237**		1,548,110
Equity receivables (Note 6)		**4,861,061**		5,214,212
Land and site development costs (Note 7)		**4,643,809**		4,952,065
Projects under development and construction (Note 8)		**5,664,111**		-
Tangible capital assets (Note 12)		**36,472**		31,062
Total assets		**29,570,323**		24,000,696
LIABILITIES				
Accounts payable and accrued liabilities	**$**	**2,062,483**	$	273,147
Credit facilities (Note 9)		**10,422,353**		3,850,974
Mortgages payable (Note 10)		**3,278,804**		3,278,804
Customer deposits		**59,786**		13,730
Deferred rent expense		**7,461**		-
Unearned revenue		**1,215**		-
Total liabilities		**15,832,102**		7,416,655
NET ASSETS				
Share capital (Note 13)		**1**		1
Operating reserve (Note 14)		**1,000,000**		1,000,000
Unrestricted surplus		**12,738,220**		15,584,040
Total net assets		**13,738,221**		16,584,041
Total liabilities and net assets	**$**	**29,570,323**	$	24,000,696

Obligations (Note 15)
Subsequent events (Note 9(b) and 15)

See accompanying notes to the financial statements.

On behalf of the Board

(signed) *"Robin Lokhorst"*, Director (signed) *"Luciano Sante"*, Director

Attainable Homes Calgary Corporation
Statement of Operations

Year ended December 31	2018	2017
REVENUE		
Sales	$ 12,877,996	$ 29,922,589
Other revenues	157,464	114,215
	13,035,460	30,036,804
EXPENSES		
Cost of goods sold	12,461,203	27,571,434
Salaries and benefits (Note 11)	951,145	916,677
Professional fees	422,645	257,879
Marketing and sales	286,139	242,455
Occupancy expenses	77,743	53,216
General and administrative	106,778	103,953
Inventory carrying costs	390,872	286,164
Realized (gain) loss on equity receivables (Note 6)	(9,295)	215,341
Bad debt expense	17,900	61
Recovery of deposits on units	-	(121,050)
Interest expense	268,247	140,047
	14,973,377	29,666,177
SURPLUS (DEFICIENCY) BEFORE THE FOLLOWING:	(1,937,917)	370,627
Amortization of tangible capital assets (Note 12)	13,680	11,089
Impairment of inventory (Note 3)	579,300	416,100
Impairment reversal of land and site development costs (Note 7)	-	(94,150)
Unrealized loss on equity receivables (Note 6)	314,923	1,843,921
	907,903	2,176,960
OPERATING DEFICIENCY	$ (2,845,820)	$ (1,806,333)

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation
Statement of Changes in Net Assets

Year ended December 31		**2018**	2017
NET ASSETS, BEGINNING OF YEAR	**$**	**16,584,041**	$ 18,390,374
OPERATING DEFICIENCY		**(2,845,820)**	(1,806,333)
NET ASSETS, ENDING OF YEAR	**$**	**13,738,221**	$ 16,584,041

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation
Statement of Cash Flows

Year ended December 31	2018	2017
CASH PROVIDED BY (USED IN):		
OPERATING		
Operating (deficiency)	$ **(2,845,820)**	$ (1,806,333)
Non-cash and non-operating items:		
Amortization of tangible capital assets	**13,680**	11,089
Vendor take-back mortgages	**-**	(29,986)
Amortization of deferred financing costs	**15,082**	12,020
Unrealized loss on equity receivables	**314,923**	1,843,921
Impairment of inventory	**579,300**	416,100
Impairment reversal of land and site development costs	**-**	(94,150)
	(1,922,835)	352,661
Non-cash working capital and other operating balances:		
Accounts receivable	**230,806**	(76,690)
Prepaid expenses	**(95,546)**	17,101
Deposits on units and other deposits	**1,132,500**	(998,087)
Inventory	**(1,698,417)**	(1,040,074)
Equity receivables	**38,228**	(638,887)
Land and site development costs	**(1,165,944)**	(75,240)
Projects under development and construction	**(4,189,911)**	-
Vendor take-back mortgages	**-**	5,014,039
Accounts payable and accrued liabilities	**1,789,336**	120,615
Customer deposits	**46,056**	(46,767)
Deferred rent expense	**7,461**	-
Unearned revenue	**1,215**	-
	(3,904,216)	2,276,010
Cash provided by (used in) operating activities	**(5,827,051)**	2,628,671
CAPITAL TRANSACTIONS		
Purchases of tangible capital assets	**(19,090)**	(14,883)
Cash used in capital activities	**(19,090)**	(14,883)
FINANCING TRANSACTIONS		
Proceeds from credit facilities	**17,990,186**	14,693,251
Repayment of credit facilities	**(11,433,889)**	(16,596,710)
Mortgage repayment	**-**	(684,609)
Financing costs paid	**-**	(32,587)
Cash (used in) provided by financing activities	**6,556,297**	(2,620,655)
Increase (decrease) in cash, during the year	**710,156**	(6,867)
Cash, beginning of year	**550,840**	557,707
Cash, end of year	$ **1,260,996**	$ 550,840

See accompanying notes to the financial statements.

1. Nature of the business

Attainable Homes Calgary Corporation (the “Corporation”), a private not-for-profit corporation, is wholly-owned by The City of Calgary (the “City”) and was incorporated November 27, 2009 under the Business Corporations Act of the Province of Alberta. The Corporation provides working, moderate-income Calgarians, an opportunity for home ownership through private and public sector development of entry-level housing. The Corporation is exempt from tax under the *Canada Income Tax Act.*

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due.

The Corporation incurred a loss of $2,845,820 for the year ended December 31, 2018 (2017 - $1,806,333) and had negative cash flows from operations of $5,827,051 (2017 – positive cash flow from operations of $2,628,671), which included $4,189,911 (2017 – $nil) of costs related to the development and construction of a townhouse project. Costs related to this project have been financed through the existing revolving credit facility. Revenue related to this project is expected to be recognized in 2019 when the units close. Adjusted for this, cash flows from operations in 2018 was negative $1,637,140. In addition, the Corporation is currently offside on its covenants on its credit facilities, which as a result, are now due on demand from its lender and has approximately $16.3 million of obligations (Note 15) that are due in 2019. Subsequent to December 31, 2018, this commitment was reduced by $904,374 (Note 15). The lender is aware of the breach and the Corporation is working with them on a plan to address the breach. These conditions indicate the existence of material uncertainty which may cast significant doubt about the Corporation’s ability to continue as a going concern.

The Corporation’s ability to continue as a going concern is dependent upon its ability to sell the existing inventory and complete and sell the townhouse units under construction, attain profitable operations and generate funds therefrom, and to continue to obtain funding from its lender or other parties to meet current and future obligations.

2. Significant accounting policies

a. Basis of presentation

The financial statements are prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 series of standards, as issued by the Public Sector Accounting Board (“PSAS for Government NPOs”).

b. Revenue recognition

Revenue from the sale of housing units and land is recognized upon the transfer of title and when collectability is reasonably assured. Amounts received from customers that have not met the revenue recognition criteria are included in customer deposits.

2. Significant accounting policies (continued)

Other revenues include application fees, customer deposits retained from rescinded purchase transactions, rental income earned from the rental of completed inventory units and administration fees related to the facilitation of sales of housing units not held by the Corporation but sold to individuals that qualify for the Corporation's housing program.

Revenue from application fees is recognized upon the customer paying a non-refundable fee in order to hold the unit selected. Customer deposits retained from rescinded purchase transactions are recognized when a client cancels the transaction after the 10-day rescission period has passed and the waivers have been signed by the client and the Corporation. Rental income is recognized monthly, as the rental occurs. Administration fees are recognized when a firm deal on a housing unit is signed and possession date has been set, the amount can be reasonably estimated and collection is reasonably assured.

Interest revenue is recognized on an accrual basis, using the effective interest method.

c. Inventory

The cost of inventory consists of purchase costs of housing units and other costs incurred in preparing the units to be ready for sale. Inventories are measured at the lower of cost and net realizable value, with cost being determined using specific identification. Net realizable value is the estimated selling price in the ordinary course of business less any estimated costs needed to sell the units.

d. Equity receivables

Equity receivables are recognized by the Corporation on the date the Corporation assumes the risks associated with, and acquires the right to receive repayment of principal plus any shared appreciation, in accordance with the terms of the equity loan agreement (Note 8) and when the amount of the loan can be reliability measured. This normally coincides with the disbursement of funds and sale of a housing unit.

Equity receivables are initially reported at cost. Valuation allowances are used to reflect the equity receivable at the lower of cost and net recoverable value. Net recoverable value is the amount determined by management to be the amount of loan receivable that will ultimately be collected. Valuation allowances are determined using the best estimates available in light of past events, current conditions and taking into account all circumstances known at each financial reporting date. Valuation allowances recognized on inception of the equity receivable are offset against revenue recognized related to the home sale. Subsequent to this, valuation allowances are recognized as unrealized losses on the statement of operations. If it is determined that the net recoverable value has subsequently increased, equity receivables can be written back up to their original cost and this reversal of a previously recorded allowance is offset against unrealized losses on the statement of operations in the period that the reversal takes place. Gains or losses are realized in the statement of operations in the period in which the equity receivables are settled.

2. Significant accounting policies (continued)

e. Land and site development costs

Land and site development costs are carried at the lower of cost and net realizable value, with cost being determined using specific identification. Net realizable value is the estimated selling price in the ordinary course of business less any costs necessary to sell the land.

Land will be used for the construction and development of housing units and is recorded at the fair market value of the land at time of acquisition.

Site development costs consist of the capitalized expenditures related to the construction and development of land. Any incidental revenues related to the land inventory have been netted against the site development costs.

f. Projects under development and construction

Projects under development and construction are carried at the lower of cost and net realizable value, with cost being determined using specific identification. Net realizable value is the estimated selling price in the ordinary course of business less any costs necessary to sell the project under development and construction.

Projects under development and construction consist of land on which a multi-family dwelling is being constructed and the cumulative construction costs to date of the multi-family dwelling.

g. Tangible capital assets

Tangible capital assets are recorded at historical cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

	Years
Computers	5
Office equipment and furniture	5
Leasehold improvements	3

One-half of the annual amortization is charged in the year of acquisition and one-half in the year of disposal.

2. Significant accounting policies (continued)

h. Impairment of assets

When conditions indicate that a tangible capital asset, inventory, site development costs or land no longer contributes to the Corporation's ability to provide goods and services, or that the value of future economic benefits associated with the asset are less than its net book value, the cost of the asset, is reduced to reflect the decline in the asset's net realizable value. When the opposite occurs on an asset that has previously been impaired, an impairment reversal is recorded, up to the assets original cost before any impairments. Any write-down, or reversal of write down, is included in the statement of operations.

i. Financial instruments and fair values

All the Corporation's financial instruments have been measured at cost or amortized cost.

j. Use of estimates

The financial statements are prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the year. Significant estimates include valuation of inventory, land and site development costs and allowance for doubtful equity receivables. Actual results could differ from those estimates.

3. Inventory

Inventory consists entirely of housing units held for re-sale. During the year ended December 31, 2018 inventory was written down by $579,300 (2017 - $416,100) to its net realizable value, which has been included in impairment of inventory on the statement of operations.

The movement in inventory during the year consists of the following:

	2018		2017	
	Units	**$**	Units	$
Balance, beginning of year	**47**	**$ 10,933,008**	48	$ 10,309,034
Purchases	**49**	**13,998,388**	109	28,548,310
Sales	**(46)**	**(12,299,971)**	(108)	(27,508,236)
Impairment	**-**	**(579,300)**	-	(416,100)
Balance, end of year	**50**	**$ 12,052,125**	47	$ 10,933,008

4. Deposits on units

As at December 31, 2018, the Corporation has paid $856,081 (2017 - $485,708) in non-refundable deposits for 68 (2017 – 35) housing units.

5. Other deposits

As at December 31, 2018, the Corporation has paid $45,237 (2017- $1,548,110) in other deposits related to a security deposit on the Corporation's rental space leased in 2018 as well as refundable deposits paid to builders on units.

The balance at December 31, 2017 related to a deposit related to the purchase of a parcel of land. That purchase was completed in 2018 with the value of the deposit transferred to projects under development and construction.

6. Equity receivables

Equity receivables comprise amounts that customers owe the Corporation for the purchase of housing units through participation in the Corporation's housing programs. The amount recorded is approximately 5% of the original sales value of each unit and is stipulated in each equity loan contract signed by the Corporation and the customer.

For agreements entered into prior to April 1, 2018, at such time that the customer sells or refinances their unit, they are obligated to pay the greater of the predetermined minimum repayment amount or a shared participation amount. The shared participation amount is calculated as a percentage of the appraised current market value less the customer's deposit and secured first mortgage.

For agreements entered into after April 1, 2018, at such time that the customer sells or refinances their unit, they are obligated to pay the predetermined minimum repayment amount plus a shared participation amount. The shared participation amount is calculated as a percentage of the appraised current market value less the customer's deposit and secured first mortgage and equity loan receivable.

The length of ownership of the unit by the customer is calculated as the period between the closing date and the disposition date. The number of years the customer owns the property dictates the percentage used in the shared participation calculation; as follows:

For agreements entered into prior to April 1, 2018:

Length of ownership of the unit by the customer	% of the shared participation due to the Corporation
From the closing date to the first anniversary of the closing date	100%
From the first anniversary to the second anniversary of the closing date	75%
From the second anniversary to the third anniversary of the closing date	50%
From the third anniversary until the disposition of the unit	25%

6. Equity receivables (continued)

For agreements entered into subsequent to April 1, 2018:

Length of ownership of the unit by the customer	% of the shared participation due to the Corporation
From the closing date to the first anniversary of the closing date	100%
From the first anniversary to the third anniversary of the closing date	75%
From the third anniversary to the fifth anniversary of the closing date	50%
From the fifth anniversary until the disposition of the unit	25%

Equity receivables consist of the following:

	2018	2017
Face value of equity receivable, beginning of year	**$ 8,838,650**	$ 8,278,710
Add: Face value of sales in the year	**565,093**	1,311,779
Less: Face value of loans settled in the year	**(610,626)**	(751,839)
Face value of equity receivable, end of year	**8,793,117**	8,838,650
Net recoverable allowance, beginning of year	**3,624,438**	1,859,464
Add: Difference between face value and minimum repayment on sales	**220,843**	-
Less: Net recoverable allowance on loans settled in the year	**(228,427)**	(78,736)
Add: Write down to net recoverable value on prior year loans	**250,826**	1,820,446
Add: Increase in foreclosure allowance	**64,376**	23,264
Net recoverable allowance, end of year	**3,932,056**	3,624,438
Equity receivable, net, end of year	**$ 4,861,061**	$ 5,214,212

During the year ended December 31, 2018, $610,626 (2017 - $751,839) of gross equity receivables, net of previously recorded allowances of $228,427 (2017 - $78,736) were settled for cash proceeds of $391,494 (2017 - $457,762) resulting in a realized gain of $9,295 (2017 – realized loss of $215,341) which has been included in the statement of operations.

The Corporation holds encumbrances and security over the property to which the equity receivable relates.

7. Land and site development costs

During the year ended December 31, 2017, the Corporation reversed an impairment of $94,150 that was recorded in the year ended December 31, 2015, on two parcels of land, based on an appraisal that was completed during the year ended December 31, 2017. There were no write-downs or reversal of write downs of land during the year ended December 31, 2018.

8. Projects under development and construction

During the year ended December 31, 2018, the Corporation purchased a parcel of land from The City of Calgary for $1,474,200. Title transferred on January 10, 2018 at which time the deposits previously paid (Note 5) were recognized.

Projects under development and construction consists of the following:

	December 31, 2018	December 31, 2017
Land	**$ 1,474,200**	$ -
Multi-family dwelling under construction	**4,189,911**	-
	$ 5,664,111	$ -

9. Credit facilities

a) On February 24, 2015, the Corporation entered into an agreement for a $10 million revolving operating credit facility with a financial institution that was due February 28, 2018 with an option to extend for an additional 364 days, at the discretion of the lender. During the year ended December 31, 2018, the facility's term was extended to February 28, 2020, with an additional one year extension. The credit facility is available by way of prime-based loans, guaranteed notes and letters of credit (to an aggregate maximum of $3,000,000).

Interest is payable monthly at an annual rate of prime less 0.75%. As at December 31, 2018 the Corporation had $7,878,885 (2017 - $3,399,060) outstanding on the credit facility, comprised of $7,363,240 (2017 - $3,091,215) outstanding on the revolving credit facility and three (2017 - one) letters of credit of $515,645 (2017 - $307,845) in favour of The City of Calgary that expire between May 20, 2019 and September 19, 2019 and renew automatically on expiry.

Borrowings under this credit facility are secured by a general security agreement. In addition, The City of Calgary has provided a continuing $10 million guarantee in exchange for first ranking fixed charge on all the Corporation's present and after acquired property.

b) On February 21, 2017, the Corporation entered into an agreement for a $10 million evergreen loan facility with a financial institution, that is payable in full on demand by the Lender. It is to be used for purchase of completed units from various housing projects and developments in the City of Calgary.

The balance of all amounts owing under each advance are payable by the end of twelve months from the date of such advance, except the advance relating to Orchard Sky units, which is due by the end of twenty-four months from the date advanced.

9. Credit facilities (continued)

Interest is payable monthly at an annual rate of prime plus 0.35% and a mandatory repayment of 100% of net sale proceeds of each unit is to be applied as a principal repayment under the facility. The Corporation had the following amounts outstanding:

	December 31, 2018		December 31, 2017	
	Due date	**Amount**	Due date	Amount
Chalet No. 6	**April 11, 2019**	**$ 564,598**	-	$ -
Buffalo	**December 20, 2019**	**2,500,000**	-	-
Orchard Sky	-		April 20, 2019	780,326
		$ 3,064,598		$ 780,326

Borrowings under this credit facility are secured by a $10 million first fixed charge over the Chalet No. 6 and Buffalo units and any other eligible units financed under this facility. The City of Calgary subordinates and postpones security interest (see Note 10(a)) as it relates to any eligible units financed under this facility. The book value of the assets secured under this facility is $3,995,152 (2017 - $2,448,600).

Subsequent to December 31, 2018, the Corporation received approval to extend the due date on its Chalet No. 6 loan to May 27, 2019.

Financing costs of $32,587 were incurred during the year ended December 31, 2017 are netted against the outstanding loan balance and are being amortized over the term of the loan. Financing costs remaining at December 31, 2018 were $5,485 (2017 - $20,567).

Both credit facilities include financial covenants based on the interest coverage ratio and the total debt ratio. The Corporation did not meet its interest coverage ratio as at December 31, 2018 and as such all facilities are due on demand.

The credit facilities are scheduled for their next annual review on May 31, 2019.

10. Mortgages payable

The Corporation and the City entered into a Mortgage and a purchase and sale agreement on April 7, 2011, whereby the Corporation received the deemed principal sum of $5,188,312 by advancement of the transfer of four parcels of land (the “Lands”) by the City to the Corporation. The maturity date of the Mortgage is the earlier of (i) August 3, 2021, (ii) in the event the Corporation sells any parcel of land, then a portion of the principal sum allocated to the sold parcel as outlined in the Mortgage agreement or (iii) in the event the Corporation sells the Lands in a single transaction, then on the date the Corporation receives the net proceeds of the sale. The balance owing on the mortgage is $3,278,804 as at December 31, 2018 (2017 - $3,278,804). The book value of the properties secured by the mortgage is $4,643,808 (2017 - $4,643,808). There is no interest on the principal sum provided the Corporation is not in default of any obligations under the Mortgage. Should the Corporation be in an event of default, the interest rate on the Mortgage is the floating annual prime rate as established by the Royal Bank of Canada and is payable on the outstanding principal sum from the date of event of default to the maturity date. The Corporation was not in default at December 31, 2018 or 2017.

10. Mortgages payable (continued)

During the year ended December 31, 2017, the Corporation used the proceeds from the repayment of vendor-take-back mortgages to pay mortgages with the City of $684,609.

11. Pension plan

The Corporation provides a contributory pension plan for qualifying employees through participation in the Local Authorities Pension Plan ("LAPP"). LAPP is a multi-employer defined benefit pension plan offered to various unrelated employers throughout Alberta. The responsibility for high level strategic guidance of the pension plan is held by the LAPP Board of Directors. The pension plan is administered by the Board of Trustees who sets contribution rates and investment policy. The plan provides a defined benefit pension based on the employee's earnings and length of service.

The most recent actuarial report of the plan discloses a funding surplus. LAPP is not able to provide information which reflects AHCC's specific share of the defined benefit obligation or plan assets that would enable the Corporation to account for the plan as a defined benefit plan. Therefore, the Corporation has accounted for its participation in the plan using defined contribution accounting.

During the year ended December 31, 2018, the expense funded and recognized by the Corporation was $66,971 (2017 - $89,085), which has been included in salaries and benefits on the statement of operations.

12. Tangible capital assets

			December 31, 2018
	Cost $	Accumulated Amortization $	**Net Book Value** **$**
Computers	67,118	48,333	**18,785**
Office equipment and furniture	62,132	51,994	**10,138**
Leasehold improvements	98,482	90,933	**7,549**
Total tangible capital assets	227,732	191,260	**36,472**

			December 31, 2017
	Cost $	Accumulated Amortization $	Net Book Value $
Computers	55,498	41,468	14,030
Office equipment and furniture	58,610	48,561	10,049
Leasehold improvements	94,534	87,551	6,983
Total tangible capital assets	208,642	177,580	31,062

13. Share capital

The Corporation is authorized to issue an unlimited number of common shares. The shares can be issued only to the City, its agent or successor and are not otherwise transferable. As at December 31, 2018 and December 31, 2017 one share was issued and outstanding.

14. Accumulated operating surplus

Accumulated operating surplus consists of:

Operating reserve	**$ 1,000,000**	$ 1,000,000
Unrestricted surplus	**12,393,486**	15,584,040
	$ 13,393,486	$ 16,584,040

During the year ended December 31, 2016, the Board of Directors of the Corporation approved a transfer of $1,000,000 to the operating reserve. The Corporation funded 50% of the reserve. The remaining reserve will be funded through future operating surpluses.

15. Obligations

At December 31, 2018 the Corporation has the following obligations:

a) The Corporation has entered into contracts with builders that require the Corporation to buy inventory units from the builders if the units are not sold within specific time limits.

At December 31, 2018, the contractual obligations related to these contracts are as follows:

(i) Up to $8,232,634 for up to 36 inventory units, to be purchased in two tranches, beginning in March 2019. The Corporation shall not be required to complete more than five closings per calendar month, unless the Corporation determines in its sole discretion to increase such amounts.

Once the Corporation has achieved eighteen unconditional sales, an appraisal will be conducted on one unit type to determine if values have increased or decreased. In the case that values have increased to a point where the Unit value has increased by $7,500 or greater (exclusive of net GST), then the Unit Purchase Price shall increase by the difference between the original agreed upon Unit price and 89% of the updated appraisal value, but in no event shall the Unit Purchase Price for unit increase by greater than 10%, for the remaining 18 units. In the case of a decrease in value, a similar adjustment will be made to ensure the Unit Purchase Price remains 89% of the market value on remaining Units.

(ii) Up to $6,224,151 for up to 24 inventory units. If the Corporation does not have a firm sale in place, once an occupancy permit has been issued by the City of Calgary on a substantially completed unit, the Corporation will close the purchase within 30 days thereafter up to a maximum of 2 units per month starting no sooner than May 1, 2019.

15. Obligations (continued)

Once the Corporation has achieved twelve unconditional sales, an appraisal will be conducted on one unit type to determine if values have increased or decreased. In the case that values have increased, then the Unit Purchase Price shall increase by the difference between the original agreed upon Unit price and 91% of the updated appraisal value, but in no event shall the Unit Purchase Price for unit increase by greater than $10,000, for the remaining 12 units. In the case of a decrease in value, the Corporation shall be able to make the same price adjustment to ensure the unit values remain 9% less than market value (exclusive of net GST).

(iii) Up to $1,808,748 for up to 8 inventory units. If the Corporation does not have a firm sale in place, once an occupancy permit has been issued by the City of Calgary on a substantially completed unit, the Corporation will close the purchase within 30 days thereafter.

Any units purchased by the Corporation after December 31, 2018 are subject to revised pricing. Once the Corporation has achieved six unconditional sales (of an initial 12 unit commitment), an appraisal will be conducted on the unit type to determine if values have increased or decreased. In the case that values have increased to a point where the units have a value of $270,000 or greater (exclusive of net GST), then the Unit Purchase Price shall increase by the difference between the original agreed upon Unit price and 91% of the updated appraised value, but in no event shall the Unit Purchase Price for unit increase by greater than $10,000 for the remaining 6 units. In the case of a decrease in value, the Corporation shall be able to make the same price adjustment to ensure the purchase price remains 9% less than market value (exclusive of net GST).

Subsequent to December 31, 2018, the Corporation purchased two units relating to this obligation, for a total of $475,986, less deposits previously paid of $23,799.

Subsequent to December 31, 2018, the Corporation renegotiated this commitment with the builder to reduce the remaining commitment to two units that will be purchased in 2019. The $47,599 deposit paid on the other four units will be returned to the Corporation.

b) The Corporation has a lease commitment for its office lease that ends on December 31, 2023 as follows:

2019	$ 13,368
2020	13,368
2021	22,280
2022	6,736
2023	31,192
	$ 106,944

16. Financial instruments

Financial instruments consist of cash, cash held in trust, accounts receivable, equity receivable, other deposits, accounts payable and accrued liabilities, credit facilities, mortgages payable and customer deposits. The carrying value of the cash, cash held in trust, restricted cash, accounts receivable, other deposits, accounts payable, accrued liabilities and customer deposits approximates their fair value due to the short term nature of these financial instruments. The carrying value of the credit facilities approximates fair value due to the facilities bearing interest at market rates. The estimated fair value of the mortgages payable is $3,076,630 (2016 – $2,968,158). Calculation of the estimated fair value of the mortgages payable is based on lending rates obtainable at December 31, 2018 for loans with comparable maturities from the City's primary lender, the Alberta Capital Finance Authority ("ACFA").

a) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate cash flow risk to the extent that credit facilities bear interest at floating interest rates. Interest rate risk is limited for mortgages payable as interest is only payable in the event of default.

b) **Credit risk**

Credit risk is the risk that one party's financial instruments will cause a financial loss for the other party by failing to discharge an obligation. The financial instruments that potentially subject the Corporation to a significant concentration of credit risk consist primarily of cash, cash held in trust, accounts receivable, equity receivable and other deposits.

The Corporation mitigates its exposure to credit loss by placing its cash and restricted cash with major financial institutions. Cash held in trust and other deposits are amounts that are held in trust with lawyers and refundable deposits, due from reputable home builders, and the Corporation's landlord, respectively. Credit risk associated with equity receivables are mitigated by encumbrances and security over the property to which they relate.

c) **Liquidity risk**

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation's financial liabilities consist of accounts payable and accrued liabilities, credit facilities, mortgages payable and customer deposits. As at December 31, 2018, the Corporation has available $2,121,115 relating to its revolving credit facility, and $6,935,402 relating to its term loan facility and in addition to its revolving operating credit facility extended to February 28, 2020 (Note 9(a)), the Corporation anticipates that it will be able to repay all financial liabilities as they come due. The Corporation is currently working with its lender to address the breach of covenants.

The Corporation is required to maintain a $1,000,000 operating reserve; funded to 50% with a one-time contribution (Note 14). The operating reserve fund may be used to pay operating and maintenance expenses, if required.

16. Financial instruments (continued)

d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Corporation's financial instruments are not subject to substantial market risk.

17. Comparative figures

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