ATTAINABLE HOMES
CALGARY CORPORATION

Financial Statements

For the year ended December 31, 2020

RSM

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, 2020 and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2020, and its results of operations and its cash flows for the year then ended 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, 2020 of $1,160,432 and has debt maturing within the next twelve months. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that may cast significant doubt on the Corporation's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information in the 2020 Annual Report but does not include the financial statements and our auditor's report thereon.

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 when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

The 2020 Annual Report is expected to be made available to us after the date to auditor's 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 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.

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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
April 9, 2021
Calgary, Alberta

Attainable Homes Calgary Corporation

Statement of Financial Position

As at December 31, 2020

		2020		2019
ASSETS				
Cash (Note 13)	**$**	**634,611**	$	1,350,714
Accounts receivable		**96,771**		58,066
Prepaid expenses		**88,701**		39,222
Inventory (Note 3)		**3,892,874**		5,370,452
Deposits on units (Notes 4 and 14)		**75,915**		518,805
Other deposits		**11,811**		11,811
Equity receivables (Note 5)		**5,410,779**		5,320,698
Land and site development costs		**4,631,228**		4,625,904
Projects under development and construction (Note 6)		**3,174,857**		4,312,609
Tangible capital assets (Note 7)		**13,341**		24,393
Total assets	**$**	**18,030,888**	$	21,632,674
LIABILITIES				
Accounts payable and accrued liabilities	**$**	**714,083**	$	577,841
Provision to complete construction		**156,678**		88,266
Credit facilities (Note 8)		**3,641,142**		5,933,746
Mortgage payable (Note 9)		**2,948,234**		3,278,804
Customer deposits		**117,790**		139,667
Deferred rent expense		**24,540**		19,342
Unearned revenue		**782**		6,937
Total liabilities		**7,603,249**		10,044,603
NET ASSETS				
Share capital (Note 12)		**1**		1
Operating reserve (Note 13)		**1,000,000**		1,000,000
Unrestricted surplus (Note 13)		**9,427,638**		10,588,070
Total net assets		**10,427,639**		11,588,071
Total liabilities and net assets	**$**	**18,030,888**	$	21,632,674

Going concern (Note 1)
Contractual obligations (Note 14)
Subsequent events (Notes 1, 8 and 16)

See accompanying notes to the financial statements.

On behalf of the Board of Directors

(signed) "Robin Lokhorst", Director *(signed) "Gerry Wagner",* Director

Attainable Homes Calgary Corporation

Statement of Operations

Year ended December 31, 2020

	2020	2019
Sales	$ 14,466,357	$ 20,928,556
Cost of sales	13,433,209	20,419,063
Gross margin (Note 11)	1,033,148	509,493
Other income	126,961	392,472
	1,160,109	901,965
EXPENSES		
Salaries and benefits (Note 10)	1,075,859	1,073,218
Professional fees	283,443	222,609
Marketing and sales	313,873	461,732
Occupancy expenses	105,411	122,248
General and administrative	58,902	101,285
Inventory carrying costs (Note 4)	324,278	316,120
Interest expense	110,654	336,879
	2,272,420	2,634,091
DEFICIENCY BEFORE THE FOLLOWING:	(1,112,311)	(1,732,126)
Amortization of tangible capital assets (Note 7)	11,052	13,507
Impairment of inventory (Note 3)	-	375,180
Realized loss (gain) on equity receivables (Note 5)	36,816	(3,303)
Bad debt expense	253	32,640
	48,121	418,024
OPERATING DEFICIENCY	$ (1,160,432)	$ (2,150,150)

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation
Statement of Changes in Net Assets
Year ended December 31, 2020

	2020	2019
NET ASSETS, BEGINNING OF YEAR	$ 11,588,071	$ 13,738,221
OPERATING DEFICIENCY	(1,160,432)	(2,150,150)
NET ASSETS, ENDING OF YEAR	$ 10,427,639	$ 11,588,071

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation

Statement of Cash Flows

Year ended December 31, 2020

		2020		2019
CASH PROVIDED BY (USED IN):				
OPERATING				
Operating deficiency	**$**	**(1,160,432)**	$	(2,150,150)
Non-cash and non-operating items:				
Amortization of tangible capital assets		**11,052**		13,507
Amortization of deferred financing costs		**11,584**		906
Impairment of inventory		**-**		375,180
		(1,137,796)		(1,760,557)
Non-cash working capital and other operating balances:				
Accounts receivable		**(38,705)**		(15,955)
Prepaid expenses		**(49,479)**		69,098
Deposits on units and other deposits		**442,890**		370,702
Inventory		**1,477,578**		6,306,493
Equity receivables		**(90,081)**		(459,637)
Land and site development costs		**(5,324)**		17,905
Projects under development and construction		**1,137,752**		1,351,502
Accounts payable and accrued liabilities		**136,242**		(1,484,642)
Provision to complete construction		**68,412**		88,266
Customer deposits		**(21,877)**		79,881
Deferred rent expense		**5,198**		11,881
Unearned revenue		**(6,155)**		5,722
		3,056,451		6,341,216
Cash provided by operating activities		**1,918,655**		4,580,659
CAPITAL TRANSACTIONS				
Purchases of tangible capital assets		**-**		(1,428)
Cash used in capital activities		**-**		(1,428)
FINANCING TRANSACTIONS				
Repayment of mortgage payable		**(330,570)**		-
Proceeds from credit facilities		**6,788,495**		12,389,379
Repayment of credit facilities		**(9,080,673)**		(16,878,892)
Payment of deferred financing costs		**(12,010)**		-
Cash used in financing activities		**(2,634,758)**		(4,489,513)
Increase (decrease) in cash, during the year		**(716,103)**		89,718
Cash, beginning of year		**1,350,714**		1,260,996
Cash, end of year	**$**	**634,611**	$	1,350,714

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. These financial statements do not reflect the adjustments necessary to the presentation and carrying amounts of the assets and liabilities if the Corporation were not able to continue operations and as such adjustments and reclassifications could be material.

The Corporation incurred a loss of $1,160,432 for the year ended December 31, 2020 (2019 - $2,150,150). The Corporation's credit facilities (Note 8) and mortgage payable (Note 9) are due within the next twelve months. Subsequent to December 31, 2020 the revolving operating facility was replaced and has an initial due date of April 30, 2021 and upon the receipt of the renewed guarantee from the City of Calgary will be further extended to February 28, 2023 (Note 16). The Corporation is currently in negotiations with the City to extend its mortgage and loan guarantee.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020, declared COVID-19 a pandemic. The full impact of COVID-19 on the Corporation and the residential real estate sector is not yet known, however it could negatively impact the Corporation's operations, suppliers or other vendors, and customer base, specifically home buyers. As of the date of these financial statements, any new work related to the Corporation's project under development and construction will only commence once the conditions of construction start with the lender are satisfied. The extent to which the coronavirus impacts the Corporation's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

These factors indicate material uncertainties that cast significant doubt on 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;
- complete and sell the townhouse units under construction at or above its carrying cost at completion;
- sustain positive cash flows from operations;
- successfully extend the existing debt facility and guarantee with the City as a part of the regular review and renewal process; and
- continue to obtain support from its lenders or other parties to meet current and future liabilities and contractual obligations (Note 14).

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 when the significant risk and rewards of ownership has transferred, typically 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.

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, as well as costs transferred from projects under development and construction (Note 2(f)) as buildings are completed. 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 5) 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.

2. Significant accounting policies (continued)

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. Subsequent to initial recognition, 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.

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.

Costs capitalized to projects under development and construction include all direct costs relating to the project's carrying costs including interest on debt used to finance project acquisitions, insurance, property taxes and land acquisition costs. Corporate administration overhead is not capitalized.

The costs of the properties are allocated to each building using specific identification and further to each unit of a project based on projected revenues in the building. The cost of

2. Significant accounting policies (continued)

f. Projects under development and construction (continued)

a unit is allocated using the net yield method on the basis of the estimated total cost of the project prorated by the anticipated selling price of the unit over the anticipated selling price of the entire project.

As buildings within the project are complete, the construction costs specific to the building as well as a portion of land costs, which are allocated on a pro-rata basis, and estimated completion costs are transferred to inventory. The total estimated costs relating to the sold unit is recorded as a liability once the unit has sold. The unexpended portion of the total estimated costs is shown as a provision to complete construction in the statement of financial position. Whenever the estimate is determined to be materially different from the actual costs incurred or expected to be incurred, an adjustment is made to the provision with a corresponding adjustment to the cost of sales and inventory. Independent contractors and management calculate these estimates, however, until the building is completed, these costs are subject to measurement uncertainty.

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.

When conditions indicate that a tangible capital asset no longer contributes to the Corporation’s ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset, is reduced to reflect the decline in the asset's value. The net write-down of tangible capital assets is included in the statement of operations and is not reversed.

h. Financial instruments

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

2. Significant accounting policies (continued)

i. 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, allowance for doubtful equity receivables and provision to complete construction. 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, 2020 inventory was written down by $nil (2019 - $375,180) 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:

	2020		2019	
	Units	**$**	Units	$
Balance, beginning of year	**23**	**$ 5,370,452**	50	$ 12,052,125
Purchases	**38**	**8,839,859**	19	4,941,739
Transfers from projects under development	**14**	**3,115,772**	36	9,037,114
Inventory sold	**(57)**	**(13,433,209)**	(82)	(20,285,346)
Impairment	**-**	**-**	-	(375,180)
Balance, end of year	**18**	**$ 3,892,874**	23	$ 5,370,452

4. Deposits on units

As at December 31, 2020, the Corporation has paid $75,915 (2019 - $518,805) in non-refundable deposits for 6 (2019 – 36) housing units.

The movement in deposits on units during the year consists of the following:

	2020		2019	
	Units	**$**	Units	$
Balance, beginning of year	**38**	**$ 518,805**	68	$ 856,081
Additions	**6**	**75,915**	-	43,200
Carrying costs incurred	**-**	**178,959**	-	74,954
Possessions	**(38)**	**(518,805)**	(19)	(238,231)
Deposits released	**-**	**-**	(11)	(142,245)
Write-off of carrying costs	**-**	**(178,959)**	-	(74,954)
Balance, end of year	**6**	**$ 75,915**	38	$ 518,805

During the year ended December 31, 2020 a Purchase Agreement was signed to acquire 6 units on or before May 17, 2021 and a non-refundable deposit of $75,915 was paid (Note 14(a))

During the year ended December 31, 2020, $178,959 (2019 - $74,954) of carrying costs were incurred due to the Corporation deferring the purchase of inventory units. These amounts were determined to not be recoverable and have been written off through the statement of operations as a part of inventory carrying costs.

During the year ended December 31, 2019, amendments were made to Purchase Agreements, resulting in the units originally agreed to be purchased being exchanged for a different unit. This exchange did not result in a net change in quantity of units and deposits made on the original units were transferred to the new units. The exchange increased the deposit on two units, as noted in the additions above. As a part of these amendments to the Purchase Agreements, 11 units were removed from the original contracts and the deposits were released back to the Corporation during the year.

5. 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%

5. 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:

	2020	2019
Face value of equity receivable, beginning of year	**$ 8,708,445**	$ 8,572,274
Add: Value of loans issued in the year	**585,499**	871,761
Less: Value of loans settled in the year	**(862,246)**	(735,590)
Face value of equity receivable, end of year	**8,431,698**	8,708,445
Net recoverable allowance, beginning of year	**3,387,747**	3,711,213
Less: Net recoverable allowance on loans settled in the year	**(366,828)**	(323,466)
Net recoverable allowance, end of year	**3,020,919**	3,387,747
Equity receivable, net, end of year	**$ 5,410,779**	$ 5,320,698

During the year ended December 31, 2020, $862,246 (2019 - $735,590) of gross equity receivables, net of previously recorded allowances of $366,828 (2019 - $323,466) were settled for cash proceeds of $458,602 (2019 - $415,427) resulting in a realized loss of $36,816 (2019 – gain of $3,303) which has been included in the statement of operations.

During the year ended December 31, 2020 and 2019, no additional allowances were recorded or reversed as it was determined that the carrying value of all equity receivables reflected their net recoverable amount.

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

6. Projects under development and construction

Projects under development and construction consist of land and development costs on a multi-family project located in the north-east of Calgary. The balance consists of:

	2020	2019
Opening balance	**$ 4.312,609**	$5,664,111
Cost incurred:		
Project costs	**1,978,020**	7,685,612
Transfers to inventory	**(3,115,772)**	(9,037,114)
Closing balance	**$ 3,174,857**	$ 4,312,609

7. Tangible capital assets

			December 31, 2020
	Cost $	Accumulated Amortization $	**Net Book Value $**
Computers	26,035	17,192	**8,843**
Office equipment and furniture	15,452	11,619	**3,833**
Leasehold improvements	9,197	8,532	**665**
Total tangible capital assets	50,684	37,343	**13,341**

			December 31, 2019
	Cost $	Accumulated Amortization $	Net Book Value $
Computers	68,546	54,580	13,966
Office equipment and furniture	62,132	55,431	6,701
Leasehold improvements	98,482	94,756	3,726
Total tangible capital assets	229,160	204,767	24,393

8. Credit facilities

Credit facilities outstanding consist of $3,641,142 (2019 - $5,933,746) under the revolving operating facility and $NIL (2019 - $NIL) under the evergreen facility.

a) Revolving operating facility

On October 31, 2019, the Corporation entered into a new agreement, that replaced a previous facility with the same lender, where the Corporation has available a $10 million revolving operating credit facility with a financial institution which was due on February 28, 2021. The facility has an option to extend at the discretion of the lender, but shall not be extended beyond June 30, 2021.The credit facility is available by way of prime-based loans, guaranteed notes and up to $975,000 in letters of credit.

Interest is payable monthly at an annual rate of the bank's prime rate less 0.75%. As at December 31, 2020 the Corporation had $4,001,996 (2019 - $6,251,750) outstanding on the credit facility, comprised of $3,641,142 (2019 - $5,933,746) outstanding on the revolving credit facility, and four (2019 – three) letters of credit of $355,850 (2019 - $313,426) in favour of The City of Calgary that expire between June 29, 2021 and December 22, 2021 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.

Subsequent to December 31, 2020 the Corporation entered into a commitment letter with its lender to amend and restate this facility (Note 16).

b) Evergreen facility

On June 4, 2019, the Corporation entered into a new agreement that replaced a previous facility with the same lender, for a $10 million evergreen loan facility with a financial institution. Funds are not available under this facility during the year ended December 31, 2020 and will not be available until after May 31, 2021, subject to the annual review. The facility is non-revolving and amounts repaid may not be re-borrowed.

The evergreen facility is payable in full on demand by the lender and is to be used for purchase of completed units from various housing projects and developments in the City of Calgary. Advances under this facility will be determined by the lender. The lender will finance the amount up to 75% of the purchase price of the eligible units (as defined by the agreement) with a minimum advance of $500,000 and maximum advance of $2,500,000.

Interest is payable monthly at an annual rate of the bank's prime rate 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 balance of all amounts owing under each advance are payable by the end of twelve months from the date of such advance.

8. Credit facilities (continued)

Borrowings under this facility are secured by a $10 million first fixed charge over all eligible units (as defined by the agreement) financed under this facility. The City of Calgary subordinates and postpones security interest (see Note 9) as it relates to any eligible units financed under this facility. The book value of the assets secured under this facility is $nil (2019 - $nil).

The Corporation is required to maintain a total debt-to-equity ratio of less than 2.50:1 relating to this facility. At December 31, 2020, the Corporation is in compliance with this covenant.

This credit facility is scheduled for its next annual review on May 31, 2021, but may be set at an earlier or later date at the sole discretion of the lender.

Subsequent to December 31, 2020 the Corporation entered into a commitment letter with its lender to amend and restate this facility (Note 16).

9. Mortgage 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 $2,948,234 as at December 31, 2020 (2019 - $3,278,804). The book value of the properties secured by the mortgage is $4,631,228 (2019 - $4,625,904). 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 default, the mortgage becomes immediately due and payable and interest will begin to be charged at a rate that 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 is required to maintain a total debt ratio of no greater than 3:1, calculated annually. The Corporation was in compliance with this covenant at December 31, 2020.

10. 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, 2020, the expense funded and recognized by the Corporation was $85,588 (2019 - $79,845), which has been included in salaries and benefits on the statement of operations.

11. Gross margin

Gross margin consists of the following:

	2020				2019
	Developed Inventory $	Purchased Inventory $	Agency Sales $	**Total** **$**	Total $
Sales	2,720,580	11,674,717	71,060	**14,466,357**	20,928,556
Cost of sales	2,552,343	10,880,866	-	**13,433,209**	20,419,063
Gross Margin	168,237	793,851	71,060	**1,033,148**	509,493
Gross Margin %	6.18%	6.80%	100%	**7.14%**	2.43%

12. 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, 2020 and December 31, 2019 one share was issued and outstanding.

13. Accumulated operating surplus

Accumulated operating surplus consists of:

	2020	2019
Operating reserve	**$ 1,000,000**	$ 1,000,000
Unrestricted surplus	**9,427,638**	10,588,070
	$ 10,427,638	$ 11,588,070

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 in 2016, which is kept in a separate bank account. The remaining reserve will be funded through future operating surpluses.

During the year ended December 31, 2019, the Corporation accessed the operating reserve, with Board approval, and the reserve was replenished during 2019 upon the closing of sales from its multi-family project.

14. Contractual obligations

At December 31, 2020 the Corporation has the following contractual obligations:

a) During the year ended December 31, 2020, the Corporation entered into a purchase agreement to purchase 6 inventory units for $1,446,000 less deposits previously paid of $75,915 (Note 4) by March 15, 2021. Included in the agreement was an option to extend the closing date to May 17, 2021, which the Corporation has exercised. A condition of exercising the extension is that the Corporation must pay a carrying cost of $900 per month, starting March 16, 2021, for any units not sold by the Corporation, until such time as the unit closes with a third party or May 17, 2021. On May 17, 2021, the Corporation is committed to purchase any units not sold to a third party.

b) During the year ended December 31, 2019, the Corporation entered into an agreement with Enmax, a wholly owned subsidiary of the City, for a commercial solar deferred payment purchase agreement, relating to the purchase and installation of solar panels for the multi-family dwelling currently under development (Note 6). In November 2020 the agreement was amended for renegotiations of the purchase price and terms of payment. The total purchase price associated with this agreement is $891,200 plus GST. Of this, $299,734 plus GST is due on or before the Commercial Operation Date, which will be as each building's solar panels are installed, inspected and ready to be activated. The remaining amount is payable as a monthly amount ranging from $169

14. Contractual obligations (continued)

to $697/building, determined by the capacity usage of each building, for the next 15 years and will commence on the first of the month following the Commercial Operation Date. Upon the formation of a condominium corporation this contract will be assigned to the condominium corporation and the Corporation will be relieved of its commitment at that time. During the year ended December 31, 2020, the Corporation incurred $nil (2019 - $77,299) of the $299,734 initial fee which has been included in projects under development and construction (Note 6), a portion of which has been transferred to inventory (Note 3) upon completion of the applicable buildings.

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

2021	22,280
2022	26,736
2023	31,192
	$ 80,208

15. Financial instruments

Financial instruments consist of cash, accounts receivable, other deposits, equity receivables, accounts payable and accrued liabilities, credit facilities, mortgage payable and customer deposits.

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 mortgage 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, accounts receivable, equity receivable and other deposits.

The Corporation mitigates its exposure to credit loss by placing its cash with major financial institutions and in lawyers' trust accounts. Accounts receivable primarily relates to GST and an amount relating to an Agency sale that was received subsequent to year end and other deposits is a refundable deposit due from the Corporation's landlord. Credit risk associated with equity receivables are mitigated by encumbrances and security over the property to which they relate.

15. Financial instruments (continued)

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, credit facilities, mortgages payable and customer deposits. As at December 31, 2020, the Corporation has available $5,998,004 relating to its revolving operating facility, and $nil relating to its evergreen facility (Note 8). The Corporation anticipates that it will be able to repay all financial liabilities as they come due so long as it continues to receive support from its lenders (Note 1).

16. Subsequent events

a) On February 26, 2021 the Corporation signed a Commitment Letter to amend and restate the previous revolving operating loan facility (Note 8(a)) with the same lender. The facility will consist of a $10 million revolving operating credit facility which is to be used for (i) general operating purposes and (ii) to fund up to $750,000 of the construction of Phase 2 of its existing project that is currently under development (Note 6), as long as the Corporation has already used all of its land equity and profits from Phase 1 to fund Phase 2.

The credit facility will be available by way of prime-based loans, guaranteed notes and up to $975,000 of letters of credit. Interest is payable monthly at an annual rate of prime less 0.75% per annum and is initially due on April 30, 2021 which may be extended by one year, at the discretion of the lender. Upon receipt of a renewed guarantee from the City the facility will be further extended to February 28, 2023.

Borrowings under this credit facility will be secured by a general security agreement and the City providing a continuing $10 million guarantee that will not expire before June 30, 2021.

b) On February 26, 2021 the Corporation signed a Commitment Letter to amend and re-state the previous evergreen loan facility (Note 8(b)) with the same lender. The facility will be available by way of Prime-based loans in Canadian dollars and will be used for (i) the purchase of completed units from various housing projects and developments in the City of Calgary and (ii) costs associated with Phase 2 of the Corporation's project under development and construction ("Phase 2") (Note 6).

The maximum amount available under the facility will not exceed the lesser of:

(i) $10,000,000

(ii) 75% of the eligible project costs (as defined in the agreement) associated with Phase 2

(iii) 68% of the final appraised value of Phase 2, supported by an appraisal satisfactory to the lender

16. Subsequent events (continued)

Advances with respect to each Building under Phase 2 will be available by way of multiple draws (no more frequently than 1 draw per calendar month), subject to notice periods outlined in the agreement. Such monthly draws are to be funded on a cost-to-complete basis supported by satisfactory reporting by the project monitor to the lender. Advances with respect to inventory purchases will be available only at the lender's sole discretion. The lender will finance the amount up to 75% of the purchase price of the eligible units (as defined by the agreement) with a minimum advance of $500,000 and maximum advance of $2,500,000.

Interest will be payable monthly at an annual rate of the bank's prime rate plus 0.35% and a mandatory repayment of 95% of net sales proceeds (as defined in the agreement) of each unit is to be applied as a principal repayments under the facility. With respect to borrowings for Phase 2 construction, the balance of all amounts owing under each advance are payable by the end of twenty-four months from the date of such advance. With respect to borrowings for inventory purchases, the balance of all amounts owing under each advance are payable by the end of twelve months from the date of such advance.

Borrowings under this facility will be secured by a $10 million first fixed charge over all eligible units (as defined by the agreement) financed under this facility. The City of Calgary will be required to subordinate and postpone its security interest (Note 9) relating to eligible units financed under this facility.

The Corporation will be required to maintain a total debt-to-equity ratio of less than 2.50:1 relating to this facility.

This credit facility will be scheduled for its next annual review on April 30, 2021, but may be set at an earlier or later date at the sole discretion of the lender.