

ANNUAL REPORT AND RISK MANAGEMENT PROCESS
For City of Calgary Audit Committee
October 24, 2019

1.0 Overview of Attainable Homes Calgary Corporation

At Attainable Homes Calgary Corporation (AHCC), we believe homeownership is a great thing; it provides housing stability, security and flexibility. Through our program we work to remove barriers to homeownership for moderate-income Calgarians who are looking to move along the housing continuum. We assist people looking to move from the rental market into homeownership, as well as those who have experienced a dramatic life change and are in need of assistance in order to remain a homeowner, such as recently singled Calgarians with children.

Since 2009, through our down-payment assistance program, AHCC has helped nearly 950 families purchase their own homes. Of those, 240 families have moved through the program, either by selling their home, or by paying out AHCC to remove us from title. The funds received from participants exiting the program supports future development.

AHCC is a public not-for-profit corporation incorporated in 2009 under the Business Corporations Act. Upon inception, AHCC received seed funding of one million dollars from the City of Calgary which was matched by the Government of Alberta. In addition, the City of Calgary contributed eight parcels of land at the City's book value, which AHCC pays for at the time of development. Of these original eight sites, AHCC has two remaining. Since the original infusion of funding, AHCC has been financially self-sustaining with any profits generated used to reinvest in the program.

As AHCC moves forward in the new economic environment, we are revisiting our original mandate to ensure we are meeting the needs of our clients. When established, AHCC's mandate was to move 500 people into homes through the down payment assistance program and another 500 into homes through perpetual affordable housing. The down payment assistance program is a success and we will continue with this program, however going into 2020 we are looking to address the second portion of our mandate and develop housing opportunities under a perpetual affordable model as well.

2.0 Governance Structure

AHCC is guided by a strong volunteer board with a diversity in backgrounds and skills. We have twelve potential board positions, ten of which are filled. Two of the Board members are council members appointed by the City of Calgary; the Honourable Mayor Nenshi and Councillor George Chahal.

The Board also has three committees:

- Audit and Accountability Committee (3 members)
- Corporate Performance & Governance Committee (3 members)
- Development Committee (4 members)

Committees and Board generally meet five times per year.

2.1 Succession Planning & Recruitment Process

Each board member can serve a maximum of two, three-year terms. A Board/CEO succession and Board term review is performed by the Corporate Performance and Governance Committee (CP&G) in the first quarter of every year. At that time, the current Board is measured against a skills matrix and gaps are identified. The Committee then goes to the Board with the recommendation to begin the recruitment process.

Applicants are solicited through a variety of routes including the Institute of Corporate Directors. Candidates are screened with the aid of a skills matrix and short listed for interviews. Interviews are performed by the CP&G Committee and a short list of candidates are taken to the Board for discussion based on those interviews.

After that discussion, a second interview can be performed, or the CP&G Committee can recommend the nomination of a candidate to join the Board. The Board of Directors must approve the candidate(s) to be brought forward to the Shareholder for election.

2.2 Terms of Reference

The Board and Committees review their Charter and Terms of Reference at least annually. There have been no significant changes this year.

2.3 Current Board Members

At the Shareholder Meeting in June 2019, Robin Lokhorst was appointed Board Chair.

Also, at the Shareholder meeting it was resolved that a new position of “Past Chair” be established. This objective of this position is to assist during the transition of a new Board Chair. The position is optional, and the term will not exceed one year from the date of the appointment of the new Board Chair. Sano Stante is currently acting as the Past Chair with his Director term extended until December 31, 2019.

Other new members include Barb Richardson, Fraser de Walle, and John Kozole.

In addition, Gerry Wagner has been appointed Chair of the Audit and Accountability Committee, Melanie Ross has been appointed Chair of the Development Committee, and John Kozole has been appointed Chair of the CP&G committee.

ROBIN LOKHORST, Board Chair

Robin is Managing Partner of McLeod Law and is the Chair of the firm’s Executive Committee. With over 25 years of legal experience, Robin is focused exclusively in commercial and residential real estate.

Working with home builders, property developers and lenders, through to buyers and sellers, Robin has a highly transactional practice involving land development and construction projects, real estate transactions, corporate finance and lease agreements. He is also involved in condominium development work in Alberta and out of province.

Robin has been a Calgarian since 1977, joining McLeod Law over 25 years ago. Robin is on the Executive of the CBA Managing Partner Subsection and serves as legal counsel to the Canadian Luge Association since 2007.

SANO STANTE, Past Board Chair, Member - Corporate Performance & Governance Committee

Sano contributes over 31 years of direct experience in real estate sales/development and nine years prior experience in development and construction. He has expertise consulting to governments, businesses and institutions regarding residential and commercial real estate markets, as well as assisting builders in developing and marketing real estate in Calgary. A passion for sustainable housing and communities remains a common theme in Sano's endeavours throughout his career.

MAYOR NAHEED NENSHI, Director

Naheed Nenshi is Calgary's 36th Mayor. He is a passionate Calgarian, an accomplished business professional and a community leader. During his term in office, Mayor Nenshi's leadership has resulted in many positive changes in Calgary to build better communities and transform government to reinforce a culture of constant citizen-focused improvement at The City of Calgary. Prior to becoming Mayor, he ran a large non-profit, was a trusted advisor to corporate leaders in Canada and the US, and authored the book "Building Up: Making Canada's Cities Magnets for Talent and Engines of Development".

COUNCILLOR GEORGE CHAHAL, Director, Member - Development Committee

Councillor Chahal is currently serving as a Councillor at The City of Calgary. In his previous career, he was a small business owner and successful entrepreneur. His post-secondary education was from the University of Calgary where he graduated with a Bachelor of Arts in Economics and a Master of Environmental Design (Planning). Councillor Chahal will be able to lend his experience in planning and development and education in urban planning to the AHCC Board during his term.

BARB RICHARDSON, Director, Member - Development Committee

Barb is a seasoned business leader in Calgary and is currently the Senior Vice President of Real Estate for Sotheby's International Realty Canada. Barb hopes to leverage her expertise with Calgary's residential real estate market to assist AHCC in selecting and maximizing the value of their real estate investments.

KEN TOEWS, Director, Member – Development Committee

Ken has over 25 years of experience in land, multifamily, shopping centre, office and hotel development. He played a key role in the development of the Garrison Woods and Currie

Barrack's communities and helped shape the redevelopment of the Edmonton Griesbach Armed Forces Base.

Currently, Ken is Vice President of Development for Strategic Group with a focus on repurposing office buildings into apartments, new townhouse developments and low and high-rise residential mixed-use projects. He is an active member of both the University of Calgary's Dean's Circle in the Environmental Design School and the City of Calgary's Development Advisory Committee. Ken also teaches Mixed-Use Development at the U of C and has a passion for affordable, attainable housing.

MELANIE ROSS, Director, Chair – Development Committee

Leading the sustainable building team at Integral Group, Melanie supports a wide range of projects ranging from LEED, WELL, FitWel and other third-party certifications to energy management and existing building performance, while managing a growing portfolio in sustainability planning and policy development.

Melanie was appointed to the WELL Building Standard teaching faculty and has delivered several workshops and presentations on the topic of health and wellness in buildings. She was also appointed to the CaGBC WELL Taskforce, working to identify the challenges for Canadian market adoption of the standard. Lastly, she serves as Chair of the CaGBC Alberta Chapter Leadership Board.

GERRY WAGNER, Director, Chair – Audit & Accountability Committee, Member - Corporate Performance & Governance Committee

Gerry Wagner is a corporate director and advisor. He has over 35 years' experience as a Chartered Accountant and holds the Institute of Corporate Directors designation ICD.D. He serves on the board of directors of both public and private companies. He is also a consultant to companies in the financial services industry. Gerry has held founding director and executive positions at several financial institutions focused on residential mortgage lending including CFF Bank, MonCana Bank of Canada, ResMor Trust Company and Bridgewater Bank.

FRASER de WALLE, Director, Member – Audit & Accountability Committee

Fraser de Walle is the National Residential Construction Product Leader within Marsh Canada's Construction & Surety Practice. He is responsible for product development, market agreements, and the overall residential strategy. Fraser specializes in insurance and surety related products and services required by a residential developer, including but not limited to builders' risk, property, casualty, equipment, auto fleet, development bonds and risk management services.

JOHN KOZOLE, Director, Chair - Corporate Performance & Governance Committee

John has spent the last 12 years in the Home Warranty Industry. Since 2018 he has acted as the CEO of the Saskatchewan New Home Warranty Program and previously held the role of President & CEO of the Alberta New Home Warranty Program Group of Companies. He has been instrumental in restructuring and evolving both organizations respectively. This includes creating The New Home Warranty Insurance (Canada) Corporation “NHWIC”, a Property and Casualty Insurance company licenced in 4 provinces. NHWIC is part of the Alberta New Home Warranty Program Group of Companies.

Prior to and concurrently with his involvement in the Home Warranty Industry, John also acts as the President & CEO of Spring Edge Developments Inc. & Spring Willow Development Corporation. He was instrumental in developing the residential communities of Elkton Ridge Estates, The Shire of Spring Valley, and Spring Willow Estates located on the West side of Calgary. John currently sits on the Board of The Canadian Home Warranty Council.

2.4 Current Organizational Leadership

AHCC would like to thank interim President and CEO Elizabeth Huculak for the excellent work that she did in leading AHCC in 2018. Elizabeth resigned from her interim position in December 2018 upon the appointment of Jaydan Tait as the new President & CEO.

Jaydan Tait, President & CEO

Jaydan joined AHCC in December 2018. Jaydan is a Registered Professional Planner and has a Masters Degree in Urban Planning from the University of Calgary. Jaydan worked for the City of Calgary early in his career before embarking on a career path in the Development Industry. Since 2003, he has worked for several development companies active in Calgary and across North America, working on land development and building construction projects and communities.

He has specialized in infill multi family and mixed-use product design, delivery and project organization, from land acquisition to project completion. Jaydan has volunteered for BILD Calgary as a member of the Board of Directors and has been active in his community as a volunteer member of his Community Association Board of Directors. Jaydan currently sits on the Calgary Subdivision and Development Appeal Board. Jaydan has deep experience in both development and planning and brings a holistic approach to project development through an understanding of the forces at play in the enterprise of city and community building.

Melody Nikleva, Director of Finance

Melody joined AHCC in April 2019. As a Chartered Professional Accountant, Melody brings over 13 years of finance experience to the organization. Melody obtained her designation with Deloitte & Touche and then spent several years in the accounting group of an international

technology company, was followed by six years with a leading residential land developer and homebuilder. Melody has a strong background in treasury, forecasting and business planning.

Cathy Wolski, Director of Sales

Cathy joined AHCC in September 2019. Cathy brings over 25 years of administrative and management experience to the organization. Cathy began her career as an administrator within the oil and gas industry progressing to a management position. This was followed by nine years at a leading residential land developer and homebuilder as Executive Assistant and Area Sales Manager. Cathy has a strong background in land administration and sales management.

Jennifer McCarron, Director of Marketing & Communications

Jennifer joined AHCC in October 2016. She brings over 20 years' experience in communication, marketing and stakeholder relations. Jennifer began her career as a communications consultant to all orders of government. She spent five years writing news and producing television before entering the field of non-profit communications and marketing where she has remained for nearly 13 years. Jennifer completed her MA in Communication in 2010. She provides expertise in strategic communications and messaging to connect with program clients and partners.

3.0 Recent Financial Highlights

The 2018 fiscal year was challenging as multi-family real estate prices continued to be subjected to downward pressure. AHCC closed 46 units with a gross margin of 3.2%, compared to 108 closings in 2017 with a gross margin of 7.9%. In addition, slower sales resulted in higher inventory carrying costs, interest, marketing, and selling costs. Additional costs were also incurred for the preparation and planning of AHCC's townhouse development, Reach Martindale. Costs that could be cut without impacting clients were made, resulting in administration, communications, and legal fees coming in under budget.

Credit facility balances were higher than in previous years due to funding construction of the townhouse development and inventory purchased in 2018. As a result of slow sales and higher interest costs, AHCC was offside on one of its covenants at December 31, 2018.

3.1 2018 Audit Results

AHCC reports its financial results in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

The 2018 Audit was completed by RSM Canada. As a result of the acquisition of Collins Barrow LLP by RSM Canada, there is a reference in the audit report to the fact that 2017 information was audited by a different firm. AHCC had the same Audit Partner (Terry Booth) under both firms, which provided continuity on the audit team.

While an unqualified audit opinion was granted, the audit report referenced a "Material Uncertainty Related to Going Concern". The basis of this going concern note was that AHCC was

offside with one of its covenants at December 31, 2018, had poor financial results in 2018 with net operating deficiencies and negative cash flows from operations, and had entered into significant future purchase commitments.

AHCC would like to address each of these issues specifically. However, first we would like to highlight a key change to our business model in 2018.

In 2018, AHCC, for the first time in the organization's history, acted as a developer of a townhome project ("the project"). This project commenced construction in the fall of 2018. Significant costs were incurred in 2018 without any corresponding revenue as the homes were not completed in the same fiscal period. While this is normal course of business for a developer, this was new for AHCC. AHCC utilized the revolving line of credit to fund construction.

As AHCC continued construction on the project, in early 2019 the organization faced a serious cash flow challenge. As a result of this, AHCC obtained a short-term \$2M debt facility secured by firm sales in the project. Funds were advanced on this facility in June 2019 and the amount was fully repaid upon the first closings in the project in August 2019.

i) Covenants

AHCC has covenants imposed by its third-party lender, as well as by its shareholder who provides a guarantee on AHCC's \$10M revolving line of credit. The challenges referred to above resulted in AHCC being offside with one of its covenants.

In 2019 AHCC's new leadership team has spent considerable time working with its third-party lender and shareholder to address the covenant breach. It has been determined that the interest coverage ratio is no longer a practical covenant for AHCC given the change in the business operations. AHCC is working with its lender to have the interest coverage ratio removed as a covenant.

AHCC has obtained approval from its third-party lender to use the revolving line of credit to fund construction on the remainder of Phase 1 of the project. Management is currently working to prepare a financing proposal for Phase 2 of the project with the goal to obtain a construction financing facility in 2020.

ii) 2018 Financial Results

2018 was characterized by slower than planned sales activity which negatively impacted income and cash flow. Further to this, AHCC held significant inventory throughout the year, which resulted in high carrying costs and high debt levels.

In 2019, AHCC leadership has made significant progress in reducing inventory levels, although in order to do so the inventory has had to be sold at below targeted margins. AHCC believes that reducing the number of inventory units carried by the organization is key to maintaining financial strength and flexibility. AHCC has used

the proceeds from the sale of this aged inventory to reduce debt levels and fund the townhouse project.

AHCC has also imposed an internal pre-sales test relating to construction of buildings in its townhouse project. AHCC will only commence construction once a reasonable number of units have firm sales; this is a key risk management approach which will ensure AHCC does not invest significant funds into construction before having firm revenue in place.

iii) Purchase Commitments

At December 31, 2018 AHCC had entered into purchase agreements with third party builders to purchase over \$16M/68 units in housing inventory. AHCC has since reduced their obligations and managed the associated risk of these commitments in two ways:

- Reducing purchase obligations through negotiation
 - In several projects, the builder partners have been willing to reduce the number of units AHCC was committed to acquire.
- Exercising right to defer purchase clauses
 - In two of the significant purchase agreements, AHCC has the option to defer purchasing units if we do not have a firm sale to an end customer in place. AHCC had exercised this option in two of our projects.
 - This is a strong cost management approach for AHCC as we only pay carrying costs until we have an end purchaser and do not have to finance the units on our credit facilities.

As of Q2 2019 AHCC's commitment has been reduced to \$14M/59 units. Of the unpurchased units, 10 have firm sales in place and will close in the second half of 2019/early 2020.

4.0 Internal Controls

During the 2018 Audit, RSM identified areas of significant deficiency in internal controls, primarily due to turnover in leadership during the year. AHCC is confident that with a new, stabilized leadership group in 2019, these issues are being addressed. Below are management's responses to the items noted in the Audit Findings report which is included in this submission.

Segregation of Duties

AHCC continues to identify opportunities to better segregate duties where possible while considering the size of the organization. The review of financial results by senior leadership, Audit and Accountability Committee and Board is key to reducing errors and preventing/detecting misappropriations.

Review of Sales Contracts

AHCC has implemented appropriate review and approval of purchase and sale agreements in 2019.

Reviews and Approvals

AHCC management has implemented appropriate review and approval of closing documents in 2019. In addition, AHCC has improved its process surrounding journal entries and requires appropriate approval to be documented for any non-standard transactions.

4.1 Internal Controls & Improvements in Efficiency

AHCC staff sign off annually that they are familiar with the internal control documents. The documents are frequently used as a basis for process development and have been an essential part of staff training given the number of new staff at the organization during the past year. In addition, as part of AHCC's Committee workplan and Terms of Reference, the Audit and Accountability Committee reviews internal controls annually.

The current leadership group is committed to a strong internal control environment and encourages staff to review and suggest improvements in internal control documentation.

Last year, AHCC had engaged our auditor to complete a Cyber security audit. This was not completed in 2018 due to the changes in leadership. AHCC will look to complete this audit as soon as possible as data security is a key risk for all organizations.

The new management team at AHCC is working to develop a revised dashboard of key indicators which will be provided to the Audit and Accountability committee as well as the Board. AHCC's management is placing renewed focus on its forecasting approach, putting greater emphasis on leading indicators and proactive risk management. In addition, AHCC is looking at opportunities to diversify its program through new programs such as loan only transactions where AHCC does not have to purchase inventory and perpetual affordable housing, ensuring the organization remains relevant into the future.

5.0 Key 2019 Initiatives & Strategy

- i) Sell 120 Homes
 - At end of Q2 2019 we have achieved 60 sales. We are forecasting 110 sales for the year
- ii) Deliver on townhome project
 - Continuing sales and construction in Phase 1
 - Develop sales and construction strategy for Phase 2
- iii) Inventory management
 - AHCC has taken an aggressive sales strategy to reduce standing inventory which was causing a significant drain on resources
- iv) Increase brand awareness and market penetration
 - Ongoing with more focus on social media and use of our historical database
- v) Operational efficiency and effectiveness
 - Restructured sales strategy allows for direct sales to customers in a more traditional home sales approach

vi) Capital plan

- AHCC is targeting construction financing for Phase 2 of its townhome project
- Revolving line of credit will be used for operations
- Other sources of funding (FCM, grants (where appropriate)) will be explored but continue to be self-sufficient

vii) New program to address barriers

- Assess rent-to-own pilot program
- Continuing to grow loan-only program
- Continuing to explore perpetual affordable housing models

viii) Improved partnerships

- Working with stakeholders (3rd party lender, City of Calgary finance/treasury) to provide open communication on financial results
- Working with Calgary Housing Company, government, the non-profit housing community and others to expand program, raise awareness and identify business opportunities

6.0 Key Operating and Strategic Risks

AHCC utilizes the City of Calgary's risk register format to identify, monitor and evaluate key operating and strategic risks. The Risk Register is updated by Management on a regular basis, at least annually, and reviewed with the Audit and Accountability Committee and Board.

The top three risks for AHCC are as follows:

1) Market

AHCC is exposed to market risk due to fluctuations in the Calgary area housing market which impacts current and future land and home prices. Reduced real estate values erode margins, slows sales pace, impacts the valuation of our equity loan receivables, and increases the risk of write down of inventory and land.

To manage this risk, AHCC is minimizing the amount of inventory it carries, ensuring current product is priced appropriately for the current market, and looking at ways to manage pricing risk on future purchase commitments.

2) Inventory

AHCC had a fragmented supply of housing inventory which was incurring significant carrying costs and tying up capital. In addition, the inventory experienced declines in value due to aging and overall market declines. At the end of 2018, AHCC had 50 units of inventory in 10 projects.

AHCC is working to reduce their supply of inventory and manage future purchase commitments. As of June 30, 2019, AHCC has reduced their inventory to 27 units. The future inventory strategy will be to negotiate terms that enable AHCC to manage its capital effectively with the objective of carrying nominal inventory going forward.

3) Cash Flow – Short term & Long term

Operating cash flow is significantly affected by the timing of project and unit completions as well as sales pace. This has been seen with the current AHCC townhouse project where significant capital was invested in 2018 with subsequent home closings later in 2019 and into 2020. In a challenged housing market with declining prices, margin erosion can also negatively impact cash flow. Any of these challenges can result in AHCC experiencing insufficient cash to fund its operations.

AHCC is addressing the risk of operating cash flow through enhanced forecasting, inventory management, stakeholder engagement and re-alignment of debt structure to better meet the needs of the current business.

6.1 Regulatory & Market Changes

The top three regulatory and market changes and external influences that impact the AHCC's business are:

1) The state of the Calgary real estate market in 2019

The Calgary real estate market has yet to recover from the cratering of the price of oil experienced in fall 2014, and the market continues to be a challenge for all parties involved in Calgary real estate. It requires a strong sales team, appropriate pricing and a properly designed well built product. A key for AHCC's future success is partnering with strong builder groups who have financial stability and build a well constructed product at a good price point.

2) First Time Home Buyer Incentive (FTHBI)

On March 20, 2019, the federal government announced a new housing finance program as part of Budget 2019. The FTHBI is also referred to as a "shared equity mortgage." CMHC is looking to operate in the same field as AHCC, therefore, there is a risk that our program becomes confused with the FTHBI and other programs initiated by CMHC.

It is important to understand that for this federal program buyers must have at least five percent down payment from traditional sources; this is not a zero-down program. Also, the interest free equity loan does have to be repaid, in full, at some point. If property values increase the homeowner will pay 5 - 10% of the appraised value or sale price. If the value decreases, the homeowner repays the full amount of the loan, similar to the AHCC program.

While CMHC is proposing a homeownership program for moderate-income Canadians who have at least five percent saved for a down payment we are confident the program is distinctly different from what AHCC provides to Calgarians as our program participants do not have the full five percent down payment.

AHCC continues to have conversations with CMHC to understand how their program will operate and how to best communicate the differences between the CMHC program and the AHCC program to potential AHCC program participants as well as AHCC stakeholders.

3) The mortgage stress test

The mortgage stress test imposed by the Office of the Superintendent of Financial Institutions in Canada continues to hamper the ability of Canadians to purchase a home. The mortgage rules do not take into consideration the kind of program like ours that already provides safe, secure and structured entry into homeownership. Of concern are modest-income families and single-parent families for whom appropriate rental options are less plentiful and security-of-place is paramount.

AHCC continues to be impacted by the stress test imposed by the Federal Government as good candidates for our program are experiencing difficulties getting approved for a mortgage.

7.0 Effective Risk Management Assessments

There are multiple results of internal/external business assessments that provide assurance on the effective management of risks as addressed in this presentation, including:

- AHCC's management regularly assesses risk using the risk register which effectively categorizes and ranks both internal and external risks.
- AHCC's risk assessment is regularly reviewed by AHCC's Audit and Accountability Committee and Board of Directors.
- Annually, AHCC presents their Business Plan to the Shareholder (City of Calgary) for Approval and presents the risk register to Shareholder via the City Audit Committee.