ATTAINABLE HOMES
CALGARY CORPORATION

Financial Statements

For the year ended December 31, 2016

Collins Barrow

Chartered Accountants & Consultants

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Independent Auditors' Report

To the Shareholder
Attainable Homes Calgary Corporation

We have audited the accompanying financial statements of Attainable Homes Calgary Corporation, which comprise the statement of financial position as at December 31, 2016, and the statements of operations and accumulated operating surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Attainable Homes Calgary Corporation as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Collins Barrow Calgary LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
March 2, 2017

Attainable Homes Calgary Corporation
Statement of Financial Position

As at December 31,		2016		2015
FINANCIAL ASSETS				
Cash	$	**57,706**	$	958,343
Restricted cash (Notes 3 and 18)		**500,000**		-
Accounts receivable		**196,227**		103,518
Inventory (Note 4)		**10,309,034**		2,383,870
Deposits on units (Notes 5 and 17)		**938,231**		2,694,795
Other deposits (Note 6)		**97,500**		97,500
Equity receivables (Note 7)		**6,419,246**		6,591,986
Land and site development costs (Note 8)		**4,782,675**		7,214,104
Vendor take-back mortgages (Note 10)		**4,984,053**		3,450,000
		28,284,672		23,494,116
LIABILITIES				
Accounts payable and accrued liabilities		**152,532**		525,226
Credit facilities (Note 11)		**5,775,000**		-
Mortgages payable (Note 12)		**3,963,413**		3,993,913
Customer deposits		**60,497**		62,855
		9,951,442		4,581,994
NET FINANCIAL ASSETS		**18,333,230**		18,912,122
NON-FINANCIAL ASSETS				
Tangible capital assets (Note 14)		**27,268**		24,285
Prepaid expenses		**29,875**		3,445
Total non-financial assets		**57,143**		27,730
ACCUMULATED OPERATING SURPLUS (Note 16)	$	**18,390,373**	$	18,939,852

Obligations (Note 17)
Subsequent events (Notes 9, 17 and 20)
See accompanying notes to the financial statements.

On behalf of the Board

_______________ Director _______________ Director

Attainable Homes Calgary Corporation

Statements of Operations and Accumulated Operating Surplus

Year ended December 31	2016	2015
REVENUE		
Sales	$ 26,929,523	$ 55,646,676
Sales – land (Note 8)	2,646,148	3,360,000
Equity income (Note 9)	-	618,031
Other revenue	83,467	63,101
	29,659,138	59,687,808
EXPENSES		
Cost of goods sold	24,661,427	50,468,614
Cost of goods sold – land (Note 8)	2,432,800	4,265,893
Salaries and benefits (Note 13)	845,981	1,081,595
Professional fees	267,592	375,553
Marketing and sales	169,562	259,870
Occupancy expenses	54,179	121,067
General and administrative	122,485	104,545
Inventory carrying costs	228,981	158,341
Realized loss (gain) on equity receivables (Note 7)	87,964	(34,465)
Bad debt expense	55,042	2,000
Write off of deposits on units (Note 5)	121,050	-
Interest expense	78,871	74,933
	29,125,934	56,877,946
SURPLUS BEFORE THE FOLLOWING:	533,204	2,809,862
Amortization of tangible capital assets (Note 14)	13,682	32,533
Impairment of land (Note 8)	-	96,150
Impairment of inventory (Note 4)	358,593	-
Unrealized loss on equity receivables (Note 7)	710,408	299,368
	1,082,683	428,051
OPERATING SURPLUS (DEFICIENCY)	$ (549,479)	$ 2,381,811

Accumulated operating surplus, beginning of year	$ 18,939,852	$ 16,558,041
Operating surplus (deficiency)	(549,479)	2,381,811
Accumulated operating surplus, end of year	$ 18,390,373	$ 18,939,852

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation
Statement of Changes in Net Financial Assets

Year ended December 31	2016	2015
OPERATING SURPLUS (DEFICIENCY)	**$ (549,479)**	$ 2,381,811
TANGIBLE CAPITAL ASSETS		
Purchases of tangible capital assets	**(16,665)**	(5,224)
Amortization of tangible capital assets	**13,682**	32,533
	(552,462)	2,409,120
OTHERS		
Increase in prepaid expenses	**(26,430)**	(1,697)
INCREASE IN NET FINANCIAL ASSETS	**(578,892)**	2,407,423
NET FINANCIAL ASSETS, BEGINNING BALANCE	**18,912,122**	16,504,699
NET FINANCIAL ASSETS, ENDING BALANCE	**$ 18,333,230**	$ 18,912,122

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation
Statement of Cash Flows

Year ended December 31		2016		2015
CASH PROVIDED BY (USED IN):				
OPERATING				
Operating surplus (deficiency)	$	(549,479)	$	2,381,811
Non-cash and non-operating items:				
Amortization of tangible capital assets		13,682		32,533
Equity income		-		(618,031)
Vendor take-back mortgages		(2,664,053)		(3,360,000)
Realized loss (gain) on equity receivables		87,964		(34,465)
Unrealized loss on equity receivables		710,408		299,368
Impairment of land		-		96,150
Impairment of inventory		358,593		-
		(2,042,885)		(1,202,634)
Non-cash working capital				
Accounts receivable		(92,709)		(80,673)
Prepaid expenses and deposits		1,730,134		(643,723)
Inventory		(8,283,757)		(1,409,219)
Equity receivables		(625,632)		(2,097,102)
Land and site development costs		2,431,429		4,548,668
Vendor take-back mortgages		1,130,000		1,040,000
Accounts payable and accrued liabilities		(372,694)		22,011
Customer deposits		(2,358)		(101,145)
		(4,085,587)		1,278,817
Cash (used in) / provided by operating activities		(6,128,472)		76,183
CAPITAL TRANSACTIONS				
Purchases of tangible capital assets		(16,665)		(5,224)
Cash used in capital activities		(16,665)		(5,224)
FINANCING TRANSACTIONS				
Proceeds from credit facilities		14,400,000		19,112,779
Repayment of credit facilities		(8,625,000)		(22,562,779)
Receipt of Co-Ownership distribution		-		2,139,643
Mortgage repayment		(30,500)		(221,873)
Cash provided by / (used in) financing activities		5,744,500		(1,532,230)
Decrease in cash and restricted cash, during the year		(400,637)		(1,461,271)
Cash and restricted cash, beginning of year		958,343		2,419,614
Cash and restricted cash, end of year	$	557,706	$	958,343

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation
Notes to the Financial Statements
Year ended December 31, 2016

1. Nature of the business

Attainable Homes Calgary Corporation (the "Corporation"), a public 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.

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 ("PSAB for Government NPOs").

b. Basis of accounting

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and is measurable. Expenses are recognized as they are incurred and are measurable based upon receipt of goods and services and/or the legal obligation to pay.

c. 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.

Other revenues include application fees, customer deposits retained from rescinded purchase transactions and rental income earned from the rental of completed inventory units.

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

d. Inventory

The cost of inventory consists of purchase costs 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 necessary to sell the units.

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. Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year. The change in non-financial assets during the year, together with the excess of revenues over expenditures, provides the information presented in the Statement of Changes in Net Financial Assets for the year.

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.

h. Accumulated operating surplus

Accumulated operating surplus represents the Corporation's net economic resources. It is an amount by which all assets (financial and non-financial) exceed liabilities. An accumulated surplus indicates that the Corporation has net resources (financial and physical) that can be used to provide future services. An accumulated deficit means that liabilities are greater than assets.

2. Significant accounting policies (continued)

The Corporation has created a restricted operating reserve of $1,000,000 to be used to fund any shortfalls in future operating revenue, upon approval by the Audit and Accountability Committee.

i. 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 tangible capital asset, inventory, site development costs or land are less than its net book value, the cost of the tangible capital asset, site development costs or land is reduced to reflect the decline in the asset's net realizable value. Any write-down is included in the statement of operations.

j. Financial instruments and fair values

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

k. 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 and site development costs, valuation of allowance for doubtful equity receivables and the period used to discount equity receivables. Actual results could differ from those estimates.

3. Restricted cash

The Corporation is required to maintain a $1,000,000 operating reserve (Notes 2(h) and 16) which has been funded, in part, by a one-time contribution of $500,000.

4. Inventory

Inventory consists entirely of housing units held for re-sale. During the year ended December 31, 2016 $358,593 (2015 -$nil) of inventory was written down to its net realizable value, which has been included in impairment of inventory on the statement of operations.

5. Deposits on units

As at December 31, 2016, the Corporation has paid $938,231 (2015 - $2,694,795) in non-refundable deposits for 71 (2015 – 165) housing units.

During the year ended December 31, 2016 $121,050 (2015 - $nil) of non-refundable deposits were written off relating to the expiration of the deposit on nine units where the option to purchase was not exercised. This amount has been included on the statement of operations.

6. Other deposits

During the year ended December 31, 2015, the Corporation signed a memorandum of understanding with the City of Calgary to negotiate on the purchase of a parcel of land. The $97,500 deposit which continues to be outstanding at December 31, 2016, is refundable and does not represent a commitment to purchase the property.

7. Equity receivables

Equity receivables are comprised of amounts that customers owe the Corporation for the purchase of housing units through participation in the Corporation's housing programs. The amount booked is approximately 5% of the value of each unit and is stipulated in each Equity Loan contract signed by the Corporation and the customer.

At such time that the customer sells or refinances their unit they are obligated to pay the greater of a 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.

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

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%

The equity receivables were discounted to incorporate the time value of money. This was calculated based on the estimated interest rate applicable to similar financing arrangements of

1.95% (2015 – 1.95%). The discount recorded at December 31, 2016 was $997,254 (2015 - $747,112).

Due to the decline in market conditions, an allowance for doubtful equity receivables of $862,210 was recorded at December 31, 2016 (2015 - $495,510).

Equity receivables consist of the following:

	December 31, 2016	December 31, 2015
Equity receivables – gross	**$ 8,278,710**	$ 7,834,608
Allowance	**(862,210)**	(495,510)
Discount	**(997,254)**	(747,112)
Equity receivables – net	**$ 6,419,246**	$ 6,591,986

During the year ended December 31, 2016, $756,785 (2015 - $576,098) of equity receivables were settled for $575,255 (2015 - $484,694), offset by the reversal of allowances previously recorded of $93,566 (2015 - $125,869) resulting in a realized loss of $87,964 (2014 – gain of $34,465).

8. Land and site development costs

During the year ended December 31, 2016, the Corporation sold one (2015 – two) parcel of land to a homebuilder for proceeds of $2,646,148 (2015 - $3,360,000), secured by a vendor take-back mortgage (Note 10), resulting in a net gain of $213,348 (2015 – net loss of $905,893).

During the year ended December 31, 2015, the Corporation recorded an impairment of $96,150, on two parcels of land, based on an appraisal that was completed during the year. There were no write downs of land during the year ended December 31, 2016.

9. Equity Investment in Co-Ownership

During the year ended December 31, 2013, the Corporation entered into a Co-Ownership agreement (the "Agreement") with a homebuilder (the "Co-Owner Partner") for the purpose of developing, constructing and selling units (the "Project") to qualified middle income Calgarians. In order to complete this Project, the Co-Owners created a separate legal entity whereby the Co-Owners had equal shares in that entity, with the rights and obligations of each Co-Owner being several and proportionate to their respective Co-Owner interest. The Project was completed in the year ended December 31, 2015 and was dissolved on January 9, 2017.

The Corporation recognized $618,031 of equity income from the Co-Ownership during the year ended December 31, 2015.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

Year ended December 31, 2016

10. Vendor take-back mortgages

	December 31, 2016	December 31, 2015
A vendor-take-back mortgage, bearing no interest, payable the earlier of three months after the closing of the 39th unit sale by the Corporation, or July 31, 2017	**$2,664,053**	$ -
A vendor-take-back mortgage, bearing no interest, payable the earlier of six months after substantial completion of the project, or December 30, 2016	**1,320,000**	1,320,000
A mortgage, bearing no interest, payable the earlier of six months after substantial completion of the project, or December 31, 2016	**1,000,000**	1,000,000
A vendor-take-back mortgage, bearing no interest, payable the earlier of six months after Substantial Completion of the Project, or November 1, 2016	-	1,130,000
TOTAL	**$4,984,053**	$3,450,000

As at December 31, 2016 the vendor-take-back mortgages due December 30, 2016 and December 31, 2016 were unpaid and therefore in default. Management believes these amounts will be collected and are fully recoverable.

11. Credit facilities

On February 24, 2015, the Corporation entered into an agreement for a $10 million dollar revolving operating credit facility with a financial institution, that is due February 28, 2017 with an option to extend for an additional 364 days, at the discretion of the lender. 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) in Canadian dollars.

Interest is payable monthly on an annual rate of prime less 0.75%. As at December 31, 2016 the Corporation had $6,082,845 (2015 - $nil) outstanding on the credit facility, comprised of $5,775,000 outstanding on the revolving credit facility and a $307,845 letter of credit in favour of the City of Calgary that expires on May 20, 2017.

Borrowings under this credit facility are secured by a general security agreement covering all the Corporation's real and personal property. The credit facility includes financial covenants based on the interest coverage ratio and the total debt ratio. The Corporation met both of the financial covenants as at December 31, 2016 and 2015. During the year-ended December 31, 2016 the

Corporation drew $14,400,000 (2015 - $2,300,000) and repaid $8,625,000 (2015 - $250,000) on this credit facility.

12. Mortgages payable

The Corporation and the City entered into a Mortgage and a purchase and sale agreement on August 30, 2012, whereby the Corporation received the deemed principal sum of $950,658 by advancement of the transfer of four parcels of land (the "Lands") by the City to the Corporation. A site development loan of $323,150 advanced by the City to the Corporation on December 29, 2011 has been included in this Mortgage agreement. The maturity date of the Mortgage is the earlier of (i) September 27, 2022 (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 $684,609 at December 31, 2016 (2015 - $684,609). 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 principle sum from the date of event of default to the maturity date. The Corporation was not in default at December 31, 2016 or 2015.

The Corporation and the City had also 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, 2016 (2015 - $3,309,304). 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 principle sum from the date of event of default to the maturity date. The Corporation was not in default at December 31, 2016 or 2015.

During the year ended December 31, 2016, the Corporation used the proceeds from the repayment of one vendor-take-back mortgage to pay a mortgage with the City of $30,500. The Corporation repaid the mortgage payable of $221,873 with proceeds from the sale of a piece of land during the year ended December 31, 2015.

13. 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 an unfunded liability. 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, 2016, the expense funded and recognized by the Corporation was $67,574 (2015 - $36,554), which has been included in salaries and benefits on the statement of operations.

14. Tangible capital assets

			December 31, 2016
	Cost $	Accumulated Amortization $	**Net Book Value** **$**
Computers	51,421	36,055	**15,366**
Office equipment and furniture	53,054	45,962	**7,092**
Leasehold improvements	89,284	84,474	**4,810**
Total tangible capital assets	193,759	166,491	**27,268**

			December 31, 2015
	Cost $	Accumulated Amortization $	Net Book Value $
Computers	43,349	31,287	12,062
Office equipment and furniture	48,950	43,273	5,677
Leasehold improvements	84,795	78,249	6,546
Total tangible capital assets	177,094	152,809	24,285

15. 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, 2016 and December 31, 2015 one share was issued and outstanding.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

Year ended December 31, 2016

16. Accumulated Surplus

Accumulated surplus consists of restricted and unrestricted amounts as follows:

	2016	2015
Restricted operating reserve	$ 1,000,000	$ -
Unrestricted surplus	17,390,373	18,939,852
	$ 18,390,373	$ 18,939,852

During the year ended December 31, 2016, the Board of Directors of the Corporation approved a transfer of $1,000,000 to the restricted operating reserve (Note 3). The Corporation has funded 50% of the reserve (Note 3). The remaining reserve will be funded through future operating surpluses.

17. Obligations

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, 2016, the contractual obligations related to these contracts are as follows:

a. Up to $2,802,684 for up to 12 inventory units that have not been sold within sixty days after substantial completion of the project. Subsequent to December 31, 2016, the Corporation elected to terminate this agreement in accordance with the terms of the contract and as such the company has foregone its deposit of $229,305.

b. Up to $1,876,688 for up to 10 inventory units that have not been sold as of March 31, 2017 or a minimum of six months after notice is received from builder.

c. Up to $10,610,864 for up to 39 inventory units that have not been sold by 30 days after occupancy permit is issued by the City of Calgary. The Corporation has the option to reimburse the builder for the carrying costs of the units rather than closing.

d. Up to $9,707,100 for up to 38 inventory units that have not been sold within thirty days after the occupancy permit is issued by the City of Calgary and the condominium plan has been registered at the Alberta Land Titles Office.

e. The Corporation has obligations of $1,977 per month relating to an office equipment lease and consulting services.

18. Financial instruments

Financial instruments consist of cash, restricted cash, accounts receivable, equity receivables, other deposits, vendor take-back mortgages, accounts payable and accrued liabilities, credit facilities, mortgages payable and customer deposits. The carrying value of the cash, 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 equity receivables approximates their estimated fair value given they have been discounted at the market rate of interest. The estimated fair value of the mortgages payable is $3,536,448 (2015 – $3,556,808). Calculation of the estimated fair value of the mortgages payable is based on lending rates obtainable at December 31, 2016 for loans with comparable maturities from the City's primary lender, the 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, accounts receivable, equity receivables, other deposits, and vendor take-back mortgages.

The Corporation mitigates its exposure to credit loss by placing its cash and restricted cash with major financial institutions. Accounts receivable is amounts that are held in trust with lawyers and due from reputable home builders. Other deposits are refundable deposits with the City of Calgary. Credit risk associated with equity receivables and vendor take-back mortgages is 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, 2016, the Corporation has available $3,917,155 relating to its revolving credit facility and anticipates that it will be able to repay all financial liabilities as they come due.

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

18. 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 is exposed to market risk due to fluctuations in the Calgary area housing market affecting future land and housing inventory sale prices.

19. Comparative amounts

Certain comparative amounts have been reclassified to conform to the current year's presentation.

20. Subsequent events

Subsequent to December 31, 2016, the Corporation signed a letter of commitment to obtain an evergreen loan facility to the maximum of $10,000,000 that bears an interest rate of bank prime plus 0.35% per annum. The facility is to be used for the purchase of completed units from various housing projects and developments in the City of Calgary.

The Corporation must make monthly interest payments 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, except the advance relating to Orchard Sky units, which shall be due by the end of twenty-four months from the date of such advance.