



**WALL FINANCIAL CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITIONS AND  
RESULTS OF OPERATIONS**

**YEAR ENDED JANUARY 31, 2017**

**April 21, 2017**



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The following discussion of Wall Financial Corporation's (the "Company") financial conditions and results of operations should be read in conjunction with the Company's audited consolidated financial statements and related notes for the years ended January 31, 2017 and 2016. Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

The financial statements underlying this Management's Discussion and Analysis ("MD&A"), including comparative information, have been prepared in Canadian dollars, and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), unless otherwise noted, using the same accounting policies as described in notes 2 and 3 of the Company's consolidated financial statements for the years ended January 31, 2017 and 2016.

The Company's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on April 21, 2017.

The role of the Company's Audit Committee and Board of Directors in respect of financial information included in this MD&A and the consolidated financial statements is set out in the Overview section of this MD&A. Additional information relating to the Company, its activities and operations, including the Annual Information Form, is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com).

## **FORWARD-LOOKING STATEMENTS**

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning the Company's future objectives, strategies to achieve those objectives, as well as statements with respect to management's plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "anticipate," "believe," "continue," "estimate," "expect," "intent," "objective," "outlook," or "plan," or similar expressions or statements that events, conditions or results "will," "may," "could," or "should" occur or be achieved. Such forward-looking statements reflect management's current beliefs, expectations, estimates, projections and assumptions that were made in light of management's experience and perception of historical trends, as well as information currently available to management.

This MD&A contains forward-looking statements concerning planned increases in rental units and rates, average daily rates and occupancy rates, timing for commencement and completion of construction and renovations, anticipated timing of the closings of sales, anticipated growth, anticipated cost and financing of planned projects, recovery of cash flow, capital expenditures and investments, property acquisitions, development plans, changes in total unit numbers, outlook with respect to financing availability and operating and financial conditions. These statements are subject to inherent uncertainties and risks, including, but not limited to: general business and economic conditions in the Company's operating regions, pricing pressures and other competitive factors, results of the Company's ongoing efforts to market its developments, and the availability and terms of financing. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements. The Company, except as required by applicable law, undertakes no obligation to publicly update or revise any forward looking statements.

## **OVERVIEW**

Wall Financial Corporation is a real estate investment and development company incorporated under the laws of the Province of British Columbia in January 1969.

All of the Company's current revenue is generated from assets that are situated in Metro Vancouver and the Lower Mainland of British Columbia. The Company's activities are concentrated as follows: development and management of residential and commercial rental units, development and construction of residential housing for sale, and development and management of hotel properties.

The Company is governed by a Board of Directors (the "Board") that follows the corporate governance guidelines established for public companies. In January 2005, the Company formalized its governance policy by adopting a Code of Business Conduct and Ethics, a Disclosure Policy, and an Insider Trading Policy. The Board has three committees: the Audit Committee, the Management and Investment Committee, and the Governance and Nomination Committee.

The Audit Committee consists of three directors, all of whom are independent directors. The Audit Committee operates pursuant to the Audit Committee Charter of the Company and meets quarterly to review internal controls and financial disclosure including the consolidated financial statements and management's discussion and analysis.

The Management and Investment Committee consists of three directors, all of whom are independent directors. The Management and Investment Committee meets quarterly or as needed to review new development projects, and to review and administer agreements related to the participation of related parties in development projects.

The Governance and Nomination Committee consists of three directors, all of whom are independent directors. The Governance and Nomination Committee meets at least annually and as needed to review the Board composition and the effectiveness of the Board, to review all significant proposed related party transactions for any potential conflict of interest, to monitor and review the Company's Code of Conduct, and to review and recommend executive compensation.

## **STRATEGIES AND RISK MANAGEMENT**

### **Strategies**

The hotel, residential, and commercial properties owned by the Company provide an income stream and capital appreciation that is utilized for acquisitions, investments in development properties, reduction of debt, and payment of dividends to shareholders. As at April 21, 2017, the Company owns and manages 934 hotel units (188 at the Westin Wall Centre Vancouver Airport Hotel, and 746 at the Sheraton Vancouver Wall Centre Hotel). It also owns and manages 1,081 residential and commercial rental units located in Metro Vancouver, which includes the recently constructed Shannon rental building in the Kerrisdale neighbourhood in Vancouver, B.C. ("Shannon rental") containing 213 rental units all of which are under lease. The Company's portfolio of rental properties will increase by a further 313 units upon completion of the 273-unit Richards and Drake tower ("Wall Centre Yaletown") located in downtown Vancouver, B.C. with completion expected in the fall of 2017, and a 40-unit residential rental property at the Company's downtown Vancouver, B.C. property at 1121 Seymour Street ("1121 Seymour"), with completion scheduled for August 2017.

The Company actively develops for sale residential housing units with a primary focus on high-rise multi-family projects. It is the Company's strategy to acquire land for development that is zoned for its intended use or where the required rezoning is contemplated and encouraged by the governing authorities. There are four properties under active development as at April 21, 2017: Eagle Mountain subdivision in Abbotsford, B.C. (262 single-family lots); Phase 2 of Wall Centre Central Park ("Central Park") in Vancouver, B.C. (332 condominium units); Strathcona Village in Vancouver, B.C. (280 market residential units and 70 affordable housing units); and Phase 2 of the Shannon Wall Centre Kerrisdale ("Shannon Wall") project in Vancouver, B.C. (322 condominium units).

**Risk management:**

All real estate investments are subject to a degree of risk and uncertainty. In the normal course of its business, the Company is exposed to various risks that could adversely impact the Company's financial condition, results of operations, and the value of the Company's common shares. Certain of these risks and the Company's actions are summarized below. The risks set out below are not the only risks faced by the Company. Other risks and uncertainties may also affect our business, financial condition and results of operations.

***General risks:***

We are exposed to the micro- and macro-economic conditions that affect the markets in which the Company operates and owns assets. In general, a decline in economic conditions will result in downward pressure on the Company's margins and asset values as a result of lower demand for the services and products offered by the Company. Specifically, general inflation and interest rate fluctuations; population growth and migration; job creation and employment patterns; consumer confidence; government policies, regulations and taxation; and availability of credit and financing could pose a threat to our ongoing business operations.

International economic forces and conditions will impact the Company's hotel business as a significant portion of the Company's hotel business is from conventions and tourists from the US. The Company adapts its business plan to reflect current conditions and management believes that the Company has sufficient resources to carry its operations through uncertain times.

The Company participates in joint arrangements under the normal course of business that may have an effect on certain assets and businesses. These joint arrangements may involve risks that would not otherwise be present if the third parties were not involved, including the possibility that the partners have different economic or business interests or goals. Also, within these arrangements, the Company may not have sole control of major decisions relating to these assets and businesses, such as: decisions relating to the sale of the assets and businesses; timing and amount of distributions of cash from such entities to the Company and its joint arrangement partners; and capital expenditures.

***Industry risks:***

Real estate investments are generally subject to varying levels of risk. These risks include changes to general economic conditions, government and environmental regulations, local supply/demand, and competition from other real estate companies. Real estate assets are relatively illiquid in down markets, particularly raw land. As a result, the Company may not be able to quickly rebalance its portfolio in response to changing economic or investment conditions.

***Concentration of assets risk:***

The majority of the Company's assets are located in metro Vancouver. Adverse changes in economic conditions in metro Vancouver may have a material adverse effect on the Company's business, cash flows, financial condition and results of operations and ability to pay dividends. The metro Vancouver economy is influenced by the demand for new housing in the region, which is primarily impacted by interest rates, growth in employment, migration, and general economic conditions.

***Investment properties:***

In its operation of residential rental properties, the Company's primary risks are general economic conditions and local market conditions, reduced revenue growth in the event of increased vacancy rates, the inability to increase rental rates due to oversupply, restrictive government legislation or changes to government legislation, and the failure to maintain the properties at a competitive level.

The Company manages these risks by insisting on a high standard of maintenance and invests only in those locations highly desired by tenants. Vacancy rates are stable in Metro Vancouver and remain at a relatively low rate of 1% to 2% and rental rates are increasing. The Company is proceeding with capital improvements at those properties where the greatest benefit in terms of increased rents may be achieved.

***Hotels:***

In its hotel operations, the Company is exposed to a variety of risks such as changes in market and economic conditions, an increase in the supply of hotel rooms, currency rate fluctuations, and changes in the labour market. These risks are managed by securing long-term relationships with clients, developing and enhancing relationships with international hotel chains and their reservation systems, and ensuring a strong and open relationship with staff.

***Properties under development:***

There are a variety of risks associated with the Company's development activities such as municipal regulatory requirements and environmental considerations that affect the approval for planning, subdivision and use of land. During this period, the market conditions in general and/or the market for condominium units in the size and price range in the Company's developments may change dramatically. Other risks include increasing costs of construction, reduced demand for new residential units, and general market risk. The Company is also subject to risk that the actual performance of acquisitions made by the Company may be materially different from the assumptions made in purchasing the properties.

The Company manages the risks associated with its development activities as follows:

- Acquiring land for development that is zoned for its intended use or where the required re-zoning is contemplated and encouraged by the governing authorities.
- Managing construction costs through fixed-price contracts with general contractors or sub-contractors.
- Undertaking pre-sale programs where feasible and securing the sales with non-refundable deposits.
- Encouraging purchasers to secure and lock-in purchase financing.

### **Technology and information security:**

The Company is also subject to technology and information security risk, including the risk that confidential information held by the Company is stolen or accessed causing financing or personal harm to the affected individual(s) or the Company's business. The Company reduces this risk through enhancement of policies and procedures, and monitoring and auditing to ensure compliance related to information technology, safety of data, and secure storage of physical files. The Company is also subject to risks related to reliance on key personnel and catastrophic and general uninsured loss.

A summary of the financial risks that arise from the Company's financial assets and liabilities are summarized under the Financial Instruments and Risk Management section on page 17.

### **SELECTED ANNUAL FINANCIAL INFORMATION**

The following is a summary of the Company's financial information for the three and twelve months ended January 31, 2017, 2016, and 2015 all expressed in Canadian dollars:

Revenue and earnings	Three months ended January 31			Year ended January 31		
	2017	2016	2015	2017	2016	2015
Total revenue and other income	\$ 63,334,214	\$ 72,146,298	\$ 14,818,493	\$ 309,457,301	\$ 133,293,827	\$ 67,866,352
Net earnings attributable to shareholders of the Company	17,734	15,742,796	2,065,216	19,493,635	23,223,077	7,753,152
Earnings per share	\$ 0.01	\$ 0.47	\$ 0.06	\$ 0.58	\$ 0.70	\$ 0.23

Balance sheet	January 31		
	2017	2016	2015
Total assets	\$ 1,022,182,285	\$ 900,300,627	\$ 683,383,807
Total non-current liabilities	\$ 163,158,493	\$ 110,566,509	\$ 78,059,156
Dividends paid	\$ 20,372,021	\$ -	\$ 19,868,019
Dividends paid per share	\$ 0.60	\$ -	\$ 0.60

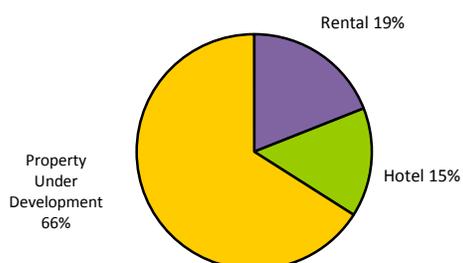
The variations in the financial data provided above are discussed in greater detail on page 7 under "Discussion of Operations". Significant variations with respect to revenues are typically the result of the timing and quantity of residential and commercial unit sales closing at the development properties. The fluctuations in the total assets owned by the Company are predominantly the result of development activities undertaken by the Company. Total assets and non-current liabilities are also impacted by the acquisitions and dispositions of investment properties, which the Company manages and reviews on an ongoing basis to maximize value for shareholders. Dividends fluctuate as the Company is on a flexible dividend policy; the amount and timing of dividends will be based on the Company's availability of and need for cash flow.

## OVERALL PERFORMANCE AND ANNUAL INFORMATION

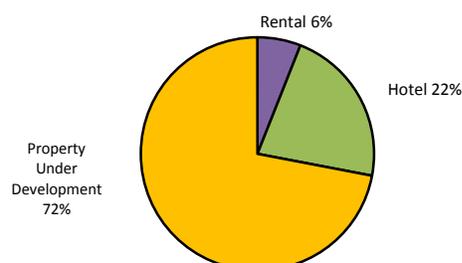
The Company operates in three different segments of the real estate industry: ownership and management of residential and commercial rental properties, the development and sale of residential housing (referred to as development properties), and the ownership and management of hotel properties.

The below charts show the Company's property holdings as at January 31, 2017 and revenue derived from such segments for the year ended January 31, 2017.

**Property Asset Mix Source**



**Revenue Source**



## Revenues

	Three months ended January 31		Year ended January 31	
	2017	2016	2017	2016
Rental properties	\$ 4,811,926	\$ 2,911,067	\$ 17,094,946	\$ 11,912,592
Hotel properties	13,747,127	10,190,828	66,221,266	58,235,766
	18,559,053	13,101,895	83,316,212	70,148,358
Development properties	38,221,755	59,023,218	219,499,688	63,065,376
	\$ 56,780,808	\$ 72,125,113	\$ 302,815,900	\$ 133,213,734

## Earnings (loss) before income taxes and non-controlling interest

	Three months ended January 31		Year ended January 31	
	2017	2016	2017	2016
Rental properties	\$ (9,773)	\$ (176,303)	\$ (14,605)	\$ 1,667,536
Hotel properties	649,199	(626,251)	14,778,671	13,377,289
	639,426	(802,554)	14,764,066	15,044,825
Development properties	1,100,600	9,470,446	27,693,477	6,898,959
Corporate and general expenses	(1,129,853)	(2,930,037)	(5,161,136)	(6,077,306)
	\$ 610,173	\$ 5,737,855	\$ 37,296,407	\$ 15,866,478

## **DISCUSSION OF OPERATIONS**

For the year ended January 31, 2017, the Company earned revenue of \$302,815,900 with a gross margin of \$54,310,454, compared with revenue of \$133,213,734 with a gross margin of \$34,089,824 for the prior year. The increase in the current year is mainly due to the closing of all 170 units at the Company's Binning project at the University of British Columbia, the closing of 103 of the 728 units in the fourth quarter at Phase 1 of the Company's Central Park project in Vancouver, B.C., and more single family lot closings at the Company's Eagle Mountain project. The increase in revenues and gross margin for the fiscal 2017 year also reflect better operating results for the Company's hotel and rental operations as a result of increased occupancy and market-to-market rents on turnover driven by recent upgrades and renovations for these properties.

General and administrative costs decreased from \$4,069,014 in the prior year to \$3,730,967 for the year ended January 31, 2017, mainly due to the timing of professional fees incurred, which will vary depending on the activities undertaken by the Company, and due to the accrual of severance fees in the prior year related to the reorganization of the Company's property management department.

Depreciation and amortization expense for the year ended January 31, 2017 was \$13,548,474 compared to \$8,955,468 for the prior year. This increase is primarily due to the amortization of the recently completed renovations at the Company's hotel and rental properties, the completion of the Shannon rental property, and the ongoing amortization of the Company's condominium sales centres.

Finance costs of \$6,376,008 for the year ended January 31, 2017 include interest paid of \$25,611,907, less interest capitalized to the development projects of \$18,634,812, and an interest rate swap gain of \$601,087. In the prior year, finance costs were \$5,210,982, which included interest paid of \$16,992,130 less interest capitalized to the development projects of \$12,206,846, and an interest rate swap loss of \$425,700. Interest paid was higher in the current fiscal year due to an increase in construction financing, which is reflective of the increased construction and development activities undertaken by the Company. Interest capitalized to projects decreased compared to the prior year mainly due to the completion of the Shannon Wall Phase 1 and Binning developments.

## **REVENUE-PRODUCING PROPERTIES**

### **Residential and Commercial Rentals**

At April 21, 2017, the Company owns and manages 1,075 residential units and six commercial units in twelve properties in Metro Vancouver. The Company will increase its portfolio of rental units by a further 313 units over the next two years through the development of new purpose-built strata rental properties. This includes construction of 273 strata rental units at Wall Centre Yaletown, with completion expected in the fall of 2017, and 40 residential rental units at 1121 Seymour, with completion expected in August, 2017.

Most recently, substantial upgrades were completed at the 185-unit Ambleside property in West Vancouver, B.C. ("Ambleside") and the 78-unit Seafair property in Richmond, B.C. ("Seafair"). Renovations have also commenced at some of the Company's other rental properties as units turn over. Both the Ambleside and Seafair properties have undergone substantial renovations to the units, as well as upgrades to the plumbing and elevator systems. The renovated units at the Ambleside property were re-rented once complete and are achieving on average 24% higher re-rental rates. At Seafair, all of the renovations have recently been completed and all units have been re-rented at an average increase in excess of \$500 per month.

Combined revenues from the residential and commercial rental units were \$17,094,946 the year ended January 31, 2017 compared with \$11,912,592 for the prior year while the net loss was \$14,605 for the year ended January 31, 2017 compared with earnings of \$1,667,536 for the prior year.

Revenues earned from rental operations for the fiscal 2017 year increased due to higher re-rental rates at the Ambleside and Seafair properties, and the lease-up of the new Shannon rental property. The depreciation recorded in respect of these renovated and recently constructed properties, along with the expense of various deferred maintenance costs on the other rental properties, and the increased interest expense from the refinancing of the new Shannon Wall rental apartments resulted in a loss from rental operations for the year ended January 31, 2017 of \$14,605 compared with earnings of \$1,667,536 for the prior year.

Residential rental market conditions remain stable. All residential units are leased primarily for a one-year term and all leasing arrangements are governed by the *Residential Tenancy Act* (British Columbia). Rental rates may be increased on tenant turnover or on the anniversary date of each tenant's date of occupancy. The average turnover rate for all of the Company's units is approximately 30% annually.

### **Acquisitions**

On August 2, 2016, the Company acquired three legal lots totalling 35,529 sq. ft. to create a development site with the potential for up to 120,000 sq. ft. of residential area in the Cambie and 43<sup>rd</sup> neighbourhood of Vancouver, B.C. for a gross purchase price of approximately \$35,000,000. The site is part of the Cambie Community Plan and requires rezoning and development approval.

In June 2016, the Company acquired two rental units at 1050 Burrard Street, Vancouver, B.C., at a gross purchase price of \$954,800, and in February 2017, the Company completed construction of an additional three rental units at the Vista Del Mar property.

### **Dispositions**

There were no dispositions of investment rental properties for the past three completed fiscal years.

### **Hotels**

The Company owns and manages two hotel properties in Metro Vancouver: the Sheraton Vancouver Wall Centre Hotel and the Westin Wall Centre Vancouver Airport Hotel.

The Sheraton Vancouver Wall Centre Hotel is the largest single hotel property in British Columbia with 746 guestrooms and 45,000 sq. ft. of meeting space. To remain competitive and to increase revenues from the hotel, the Company recently completed a \$40 million renovation project at the hotel, which included interior alterations and improvements to update the guest rooms, corridors, and lobby in both the north and south towers. All renovation costs have been capitalized and depreciation taken.

Occupancy for the year ended January 31, 2017 was 70.77% with an average daily rate ("ADR") of \$192.53 compared to occupancy of 64.07% with an ADR of \$183.16 for the prior year. Revenue increased from \$47,990,736 in the prior year to \$54,937,580 for the year ended January 31, 2017. Occupancy, ADR and revenue for the current year were higher than the prior year due to strong tourism activity and group conventions in the city, combined with higher rates generated from the renovated rooms.

The Westin Wall Centre Vancouver Airport Hotel is located near the Vancouver International Airport and consists of 188 guestrooms and 9,900 sq. ft. of meeting space. Revenue for the year ended January 31, 2017 was \$11,283,686 with occupancy of 79.18% and an ADR of \$156.09. For the year ended January 31, 2016, revenue was \$10,245,030 with occupancy of 76.01% and an ADR of \$143.39. Revenue, occupancy and ADR increased relative to the prior year due to the same factors positively influencing the Sheraton Vancouver Wall Centre Hotel with demand spilling over to the Westin Wall Centre Vancouver Airport Hotel.

The combined revenues for the hotel properties for the year ended January 31, 2017 of \$66,221,266 were higher than revenues for the prior year of \$58,235,766 while combined earnings from hotel operations, before income taxes, increased from \$13,377,289 in the prior year to \$14,778,671 for the year ended January 31, 2017. The increase in revenues and earnings were generally due to an increase in the ADR as a result of the renovations and management's focus on maximizing the ADR, while earnings were impacted slightly by an increase in depreciation resulting from the recent renovations at the Sheraton Vancouver Wall Centre Hotel.

## DEVELOPMENT PROPERTIES

Properties under development for sale decreased from \$453,218,248 as at January 31, 2016 to \$449,494,413 as at January 31, 2017. This change is mainly due to the recovery of costs from the closing of all 170 units at the Company's Binning project, and the closing of 103 of the 728 Phase 1 units at the Central Park project, offset in part by the ongoing development costs at the Company's four active development projects.

Revenue from the sale of properties under development was \$219,499,688 for the year ended January 31, 2017 compared with \$63,065,376 in the prior year. This increase was predominantly due to the closing of units at the Binning and Central Park projects, and more lot sales at the Eagle Mountain development. As a result of these closings, the Company recorded earnings from development operations for the year ended January 31, 2017 of \$27,693,477 compared with earnings in the prior year of \$6,898,959.

### Properties Under Development Completed Over the Past Three Fiscal Years

Project	Description	Fiscal Year
Wall Centre False Creek	A four-tower project consisting of 558 residential and three commercial units in the southeast False Creek neighbourhood in Vancouver, B.C. As at December, 2013, all of the 561 units have closed.	2014
York Theatre	A renovation project of the York Theatre located at 639 Commercial Drive in Vancouver, B.C. The theatre has been transferred to the City of Vancouver and the Company now has access to 106,000 sq. ft. of transferable density.	2014
Shannon Wall Centre Kerrisdale	Phase 1 of a 10-acre development project consisting of 600 residential units located in the Kerrisdale neighbourhood at 57 <sup>th</sup> and Granville Street in Vancouver, B.C. Phase 1 was substantially completed in November, 2015, and consisted of 65 condominium units, of which 59 units have closed as at October 31, 2016. The remaining six units in the Mansion have been retained as rental units, of which three has been rented.	2016

Binning Tower	A 170-unit condominium tower located on leased land in the Wesbrook neighborhood at the University of British Columbia, the acquisition of which closed on March 28, 2013 for \$38,728,000. Construction substantially completed in May, 2016 and all sales have closed.	2017
Mandarin Residences	A two tower project consisting of 347 residential units located on a property on No. 3 Road in Richmond, B.C. The project was developed with Fairmont Pacific Properties Limited, an arm's length 50% joint venture managing partner. All 347 sales have closed.	2017
Wall Centre Park	A four tower project consisting of 1,060 residential units located in Vancouver, B.C. Development is being conducted in two phases. Of the 728 condominium units in Phase 1, 103 have closed as at January 31, 2017 with all remaining Phase 1 units expected to close by May 31, 2017.	2017

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### Projects Under Active Development

The Company has four projects under active development as at January 31, 2017:

Eagle Mountain	An 80 acre, single-family subdivision property in Abbotsford B.C. with approvals in place for 262 building lots. The property is being developed with a 15% non-controlling interest partner. Development is being phased. The current phases, Phase V and Phase VI, consist of 31 lots and 70 lots respectively, all of which are fully serviced. For Phase V, 30 lots have sold and closed and there are 67 sales in place for Phase VI (of which 61 have closed). Servicing work is now underway on the next phase of 74 lots.
Wall Centre Central Park	All 332 residential units in Phase 2 are under contract for sale. Construction of Phase 2 is expected to complete by early 2018.
Shannon Wall Centre Kerrisdale Phase 2	A five-acre development project consisting of 322 residential units located in the Kerrisdale neighbourhood at 57th and Granville Street in Vancouver, B.C. Pre-sales of units in Phase 2 commenced in March, 2015 and as at January 31, 2017, 289 of these 322 residential units are under contract for sale. Construction is now underway with completion of the first of four buildings expected in late 2018.
Strathcona Village	A three-tower mid-rise mixed-use project with 280 market residential units, and 60,000 sq. ft. of light industrial space. The project also includes the construction of 70 affordable housing units, which comprises the community amenity contribution for the project, and upon completion, will be transferred to the City of Vancouver. All 280 units are under contract for sale and the Company is underway with the sale of the light industrial space. Construction has commenced with completion expected in October 2017.

### Acquisitions

On April 13, 2017, the Company, along with other investors, acquired property located in North Vancouver, B.C., for a gross purchase price of \$138,500,000 for a future development. The property is comprised of 52

single-family lots and is zoned to permit the development of three-storey and stacked two-storey townhomes. The Company has a 28.6% interest in the property and will guarantee all loans incurred in respect of the property and development, the development for which is expected to commence in early 2018.

## SUMMARY OF QUARTERLY RESULTS

The following sets forth certain financial information expressed in Canadian dollars for the Company with respect to the eight most recently completed quarterly periods. This information should be read in conjunction with the applicable interim financial statements, notes to the financial statements, and MD&A.

	Revenue and Other Income	Net Earnings (Loss)**	Per Share
January 31, 2017	\$ 63,334,214	\$ 17,734	\$ 0.01
October 31, 2016	36,237,029	7,148,239	0.21
July 31, 2016	188,078,555	12,638,609	0.37
April 30, 2016	21,807,503	(310,947)	0.00
January 31, 2016	72,146,298	15,742,796	0.47
October 31, 2015	21,878,445	3,563,722	0.11
July 31, 2015	23,182,402	4,073,491	0.12
April 30, 2015	16,086,682	(156,932)	(0.00)

*All the financial data above is prepared in accordance with IFRS, using the same accounting policies and methods of application as described in notes 2 and 3 of the Company's consolidated financial statements for the year ended January 31, 2017.*

*\*\* Net earnings pertain to net earnings (loss) and comprehensive income (loss) attributable to shareholders of the Company.*

Variations over the quarters are generally the result of the timing of residential and commercial unit closings at the development properties and the seasonal fluctuations characteristic of the tourism and hospitality industry in which the Company's hotels operate.

Revenue and other income, as well as net earnings, for the quarter ended July 31, 2016, and for the quarter ended January 31, 2017 were greater than the other quarters due mainly to the closing of 167 units at the Binning project, and the closing of 103 units at Phase 1 of the Central Park project, respectively. Similarly, revenue and other income and net earnings for the quarter ended January 31, 2016 were higher than the other quarters due to the closing of 58 units at Phase 1 of the Shannon Wall project.

Earnings for the quarter ended January 31, 2016 were greater than the other quarters due to an intercompany transaction entered into between two entities within the consolidated group whereby land was sold at fair market value based on the appraised value of \$98 million, the gain for which was eliminated on consolidation. This transaction resulted in a temporary difference between the tax and accounting cost basis of the land, which resulted in a future income tax asset and a corresponding tax recovery of approximately \$12.7 million that was included in the statement of earnings.

Fluctuations in earnings (loss) for the quarters will also be impacted by the timing of sales and marketing expenses incurred at the Company's development projects, which are expensed as they are incurred.

## **INVESTMENTS**

There are no significant changes in investment activities or investment strategies for fiscal 2017.

## **BANK INDEBTEDNESS AND CREDIT FACILITIES**

The Company has bank lines of credit or demand loans secured by property, plant and equipment and certain investment properties. Most of the Company's bank lines of credit have been in place for many years. Interest rates are based on prime and banker's acceptance rates. At January 31, 2017, the Company has borrowed \$318,156,917 (2016 - \$263,147,543) on available construction financing facilities in the form of Canadian dollar prime rate loans, letters of credit, and bankers' acceptances. The maximum available funding under such facilities is \$653,761,584 (2016 - \$460,634,117). The credit facilities are secured by first mortgages and assignment of rents on the related properties, and assignment of insurance. The borrowings are due on demand.

At January 31, 2017, the Company's borrowings of \$29,942,781 (2016 - \$95,494,459) are made available by way of lines of credit with a maximum available aggregate amount of \$86,000,000 (2016 - \$128,015,000). The debt is secured by fixed and floating demand debentures, second mortgages, and an assignment of rents on certain investment properties, and property, plant, and equipment. The borrowings are due on demand and interest rates are based on a spread over prime or banker acceptance rates.

All floating rate debt obligations are in good standing, and the Company maintains excellent relations with its lenders.

## **MORTGAGES PAYABLE**

Mortgages payable increased from \$172,014,447 as at January 31, 2016 to \$225,128,140 as at January 31, 2017 due to mortgage financing of \$45 million placed on the new Shannon rental property, and a refinancing of the Westin Wall Centre hotel in Richmond, B.C. which increased the mortgage by approximately \$15 million.

At January 31, 2017, the Company held \$92,010,836 (2016 - \$79,216,061) in mortgages on property, plant and equipment. Of this amount, \$14,500,000 (2016 - \$39,381,363) bear interest at bankers' acceptance rates plus applicable stamping fees. Two interest rate swaps are in place to fix the interest rates on the remaining balance of the mortgages payable of \$77,510,836 with \$38,776,395 (2016 - \$39,834,698) fixed at 3.27% for a term of 4 years maturing November 2, 2019, and with the balance of \$38,734,441 (2016 - nil) fixed at 2.99% for a term of 2 years maturing March 2, 2018.

For the year ended January 31, 2017, a mark-to-market gain in the fair value of the interest rate swap of \$601,087 (2016 - loss of \$425,700) is recorded in finance costs on the statement of earnings. As at January 31, 2017, the fair value of the interest rate swap asset is \$175,387 (2016 - liability of \$425,700) and is included in accounts payable and accrued liabilities on the statement of financial position.

Mortgages payable on investment properties of \$133,117,304, net of financing fees of \$3,633,689 (2016 - \$92,798,386, net of financing fees of \$2,420,720) bears interest at fixed rates ranging from 2.46% to 6.58% (2016 - 2.46% to 6.50%).

The fair value of the mortgages payable at January 31, 2017 is \$228,120,000 (2016 - \$138,636,000), which is estimated by discounting the future contractual cash flows at the market interest rate that is available to the Company for similar financial instruments.

All mortgages are secured by first and second fixed charges over the Company's properties under development for sale, investment properties, and property, plant, and equipment.

Fixed rate mortgage maturity dates range from 2017 to 2026.

## CONTRACTUAL OBLIGATIONS

Payments due by period as at January 31, 2017:

	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Mortgages payable	\$ 228,761,829	\$ 102,376,196	\$ 43,472,393	\$ 16,208,734	\$ 66,704,506

## COMMITMENTS AND CONTINGENCIES

The Company has entered into hotel franchise agreements in respect of its two hotel properties. Fees charged are calculated based on monthly gross hotel revenues and are paid monthly.

At January 31, 2017, the estimated costs to complete properties under construction are approximately \$278,180,000 (2016 - \$446,390,000). These costs predominantly reflect construction activities at Central Park, Shannon Wall, Strathcona Village, and Wall Centre Yaletown projects.

## LIQUIDITY AND FINANCIAL CONDITION

As at January 31, 2017, cash and cash equivalents totalled \$27,463,559. Net cash provided by operations was \$1,037,905, primarily as a result of the recovery of costs through real estate sales of \$159,777,586, and cash flow from operations of \$51,271,517, offset in part by funds used in development activities of \$154,362,114, interest paid of \$25,611,907, and income taxes paid of \$3,511,236.

Investment activities decreased cash by \$58,250,611 due mainly to \$52,413,799 in renovation costs at Company's Ambleside and Seafair rental buildings and costs to construct the 1105 Seymour rental property, and due to \$35 million used to purchase the Cambie and 43<sup>rd</sup> property in August 2016. The Company also incurred capital expenditures and renovation costs at the Sheraton Vancouver Wall Centre Hotel, which decreased cash from investment activities by \$20,522,301. The funds used in investment activities were offset in part by \$19,686,752 in distributions received from the Company's investment in the Mandarin joint venture project.

Financing activities increased cash by \$68,973,725, primarily due to proceeds received from mortgage financing placed on the Shannon rental property of \$45 million, proceeds received on the refinancing of the Westin Wall Centre Hotel of \$15 million and additional financing of \$50,000,000 received from a wholly owned company of a major shareholder of the Company. Cash from financing activities also increased as 840,000 share options in the Company were exercised by directors and officers of the Company for net proceeds of \$12,188,399. These increases were partially offset by a net decrease of \$10,542,304 in bank and

other indebtedness, primarily due to the repayment of construction loans in respect of the Shannon Wall Phase 1, Central Park Phase 1, and the Binning projects, net of bank financing received on construction draws. Cash from financing activities also decreased as a result of distributions to non-controlling interest of \$15,709,587 and dividends paid by the Company on November 21, 2016 of \$20,372,021.

## DISCLOSURE OF OUTSTANDING SHARE DATA

The authorized capital of the Company consists of 54,000,000 common shares without par value. The number of common shares issued and fully paid as at January 31, 2017 was 33,953,365 (2016 – 33,113,365).

On June 20, 2016, the Board of Directors approved the issuance of 1,000,000 options to purchase common shares under the Stock Option Plan (2008) (“the Plan”) to certain officers/directors of the Company. The options granted had an exercise price of \$14.51 per common share to be exercised from September 20, 2016 to September 26, 2016 inclusive. Pursuant to this Stock Option plan, the Company distributed 840,000 common shares on September 20, 2016 through the exercise of options at an exercise price of \$14.51 per common share for gross proceeds of \$12,188,399.

The fair value of the options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Annualized volatility	12%
Risk-free interest rate	0.50%
Expected life of option in years	0.25
Dividend yield	2.00%

For the year ended January 31, 2017, the Company recognized stock-based compensation expense of \$320,000 (2016 – nil) which is recorded in general and administrative expense in the statement of earnings for the year ended January 31, 2017.

As at January 31, 2017, 1,310,000 common shares are available for future issuance under the Stock Option Plan (2008).

## DIVIDENDS

The Company has a flexible dividend policy, and the amount and timing of dividends is based on the cash flow of the Company and the cash flow required by the Company to meet planned growth and to fund future developments and investments.

On October 24, 2016, the Board of Directors approved a dividend of \$0.60 per common share for each share held on November 7, 2016. This dividend of \$20,372,021 was paid on November 21, 2016.

Dividends declared in the past three years include a dividend approved by the Board of Directors on June 2, 2014 in the amount of \$0.60 per common share for each share held on June 16, 2014. This dividend of \$19,868,019 was paid on June 30, 2014.

On February 20, 2013, the Board of Directors approved a dividend of \$0.30 per common share for each share held on March 6, 2013. This dividend of \$9,934,010 was paid on March 20, 2013.

The Company, for the purposes of the *Income Tax Act* (Canada) and any similar provincial legislation, notifies that all dividends paid commencing in fiscal 2008 and all future dividends are “eligible dividends,” unless indicated otherwise.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company’s significant accounting estimates and judgements are described in note 2 to the January 31, 2017 audited consolidated financial statements, and the Company’s significant accounting policies are described in note 3 to these financial statements.

## **CHANGES IN ACCOUNTING POLICIES**

The Company’s significant accounting policies and standards are described in note 3 of the Company’s consolidated financial statements for the year ended January 31, 2017.

### **New IFRS standard adopted:**

There were no new IFRS standards adopted in preparing the Company’s consolidated financial statements for the year ended January 31, 2017.

### **New accounting standards not yet adopted:**

The following outlines the accounting standards and interpretations that are issued, but not yet effective, up to the date of issuance of the company’s consolidated financial statements, and that may have an impact on the disclosures and financial position of the company. The Company intends to adopt these standards and interpretations, if applicable, when they become effective and is currently assessing the impact of adopting these standards on the consolidated financial statements.

#### *IFRS 9 – Financial instruments*

In July 2014, the IASB issued IFRS 9 *Financial Instruments* (“IFRS 9”), which replaces IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

#### *IFRS 15 – Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 *Revenue from Contract with Customers* (“IFRS 15”), which establishes a new five-step model that applies to revenue arising from contracts with customers. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue allowing greater comparability of revenues across industries. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted.

## *IFRS 16 - Leases*

IFRS 16 was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17 *Leases*. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted, provided the Company has adopted IFRS 15.

The Company is currently assessing the impact of these standards on its consolidated financial statements.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Disclosure controls and procedures within the Company have been designed to provide reasonable assurance that all relevant information is identified to senior management to ensure appropriate and timely decisions are made regarding public disclosure. The Company's management, including the President & Chief Executive Officer (CEO) & Chief Financial Officer (CFO), has designed internal controls over financial reporting (as defined in the Canadian Securities Administrator's National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS.

Under the supervision of the President & CEO & CFO, the operating effectiveness of the disclosure controls and procedures and internal control over financial reporting were assessed using the criteria set forth by the Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO 2013 Framework) in Internal Control Over Financial Reporting. Based on these evaluations, the CEO & CFO concluded that as at January 31, 2017:

- (i) Disclosure controls and procedures were effective to provide reasonable assurance that material information was made known to management and information required to be disclosed by the Company in its annual filings, interim filings and other reports filed by the Company under securities legislations was recorded, processed, summarized and reported within the periods specified in securities legislation.
- (ii) Internal controls over financial reporting were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

For the year ended January 31, 2017, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's management will continue to periodically evaluate the Company's disclosure controls and procedures and internal control over financial reporting and will make any modifications from time to time as deemed necessary.

Based on their inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements, and even those controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

As at January 31, 2017, the Company's financial assets and liabilities consisted primarily of cash and cash equivalents, amounts receivable, deposits held in trust, bank indebtedness, accounts payable and accrued liabilities, income taxes payable, loans from shareholders, and mortgages payable. These financial instruments relate to the Company's normal course of business, with respect to the financing of its day-to-day operations, capital expenditures and acquisitions.

The carrying values of the Company's amounts receivable, deposits held in trust, accounts payable and accrued liabilities generally approximate their fair values due to their short term nature with the exception of interest rate swap contracts which are recorded at fair value. The face value of bank and other indebtedness approximates its fair value, as it is due on demand. The fair value of mortgages payable is estimated by discounting the future contractual cash flows at the market interest rate that is available to the Company for similar financial instruments.

The Company is exposed to interest rate and credit risks associated with its financial assets and liabilities. Management continually performs risk assessments to ensure that all significant risks related to the Company's operations have been reviewed and assessed to reflect changes in market conditions and the Company's operating activities. The Company does not enter into financial instrument arrangements for speculative purposes.

### ***Interest rate risk:***

Certain debt on the Company's properties bears interest at floating rates. Fluctuations in interest rates will impact the cost of financing incurred in the future. The Company monitors its interest rate exposure on an ongoing basis.

Based on the debt outstanding for the year ended January 31, 2017, management has determined that every 1% increase or decrease in the applicable interest rates results in a corresponding \$937,000 decrease or increase in the Company's net earnings.

### ***Credit risk:***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum exposure to credit risk is the full carrying value of the financial instrument.

The Company is exposed to credit risk with respect to amounts receivable. This risk is mitigated by the Company's general policy to secure loans receivables with real estate property. For its hotel operations, the Company's credit policy is designed to ensure there is a standard credit practice throughout the Company to measure and monitor credit risk. The policy outlines delegation of authority, the due diligence process required to approve a new customer or counterparty and the maximum amount of credit exposure per single entity. The Company also regularly monitors credit risk and exposure to any single customer or counterparty.

### ***Liquidity risk:***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the maintenance of sufficient available credit facilities to Company ongoing operational and capital requirements.

The Company regularly monitors its operations and cash flows to ensure that current and future obligations will be met. The Company believes that its current sources of liquidity are sufficient to cover its currently known short and long term cash obligations.

The maturities of the Company's financial liabilities are as follows:

	Value	Maturity
Accounts payable and accrued liabilities	\$ 42,009,652	Less than 1 year
Bank and other indebtedness	348,099,698	Less than 1 year
Current portion of mortgages payable	102,215,047	Less than 1 year
Loans from shareholder	79,911,458	On demand
Non-current portion of mortgages payable	122,913,093	2018 – 2026
Non-current portion of loans from shareholder	20,000,000	Less than 2 years

The Company enjoys excellent relations with several major Canadian chartered banks and numerous fixed-term lenders. With a solid base of revenue-producing properties, the Company's credit facilities have been maintained and, in some cases, enhanced.

Over the current fiscal year, the Company's credit requirements consist of the following:

- Capital improvements to certain investment properties and the hotels. Improvements will be funded primarily from operating cash flow.
- Re-financing term debt on investment properties as it matures. Given the current interest rates and the stable cash flow from rental apartments, management does not anticipate any difficulty in re-financing term debt.
- Construction financing for properties under development. It is management's policy to not proceed with significant new construction or land purchases if financing commitments are not in place.

#### **OFF-BALANCE SHEET FINANCING**

In the normal course of development operations, the Company is required to issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. Under IFRS, these letters of credit are disclosed as commitments of the Company and only recorded on the Consolidated Statement of Financial Position if they are drawn upon.

The Company has outstanding letters of credit at January 31, 2017 of \$48,932,147 (2016 - \$49,667,146 ) related primarily to public works and services to be performed by the Company as required in respect of its development projects.

#### **TRANSACTIONS BETWEEN RELATED PARTIES**

As at January 31, 2016, the Company has loans payable of \$100,000,000 (January 31, 2016 - \$50,000,000) due to a company owned by a significant shareholder of the Company, all secured by a second mortgage on the Sheraton Wall Centre and Westin Wall Centre hotel properties. Of this \$100,000,000 loan, \$50,000,000 bears interest at prime plus 2.00% per annum (January 31, 2016 – prime plus 2.00%), with \$30,000,000 due

on demand. The remaining loan balance of \$50,000,000 is due on demand and bears interest at 3.25% per annum (January 31, 2016 – nil). The aggregate amount of the demand loans payable of \$80,000,000 (January 31, 2016 - \$50,000,000), offset by unamortized financing costs of \$88,542 (January 31, 2016 - \$151,042) are recorded as a current liability on the statement of financial position.

For the year ended January 31, 2017, the Company recorded interest on loans payable to the significant shareholder totaling \$3,328,000 (2016 - \$2,192,333).

In February 2016, the Company leased premises at the Sheraton Wall Centre Hotel (the “Premise”) to a wholly owned company of a significant shareholder of the Company (the “Tenant”) for a term of 10 years commencing on April 1, 2016. Under this agreement, the Tenant shall pay a base rent of \$14,286 per month, and has amounts payable to the Company of \$45,000. The Tenant is responsible for its operating costs, while the Company is responsible for property taxes and utilities in respect of the Premise

In the normal course of its business activities, the Company sells individual condominium units in properties held-for-sale to significant shareholders, directors, and officers on similar terms as sales to unrelated parties. As at January 31, 2017, the total value of the condominium units, in properties under development for sale under contract to shareholders, directors, and officers to be received upon closing is \$2,045,910 (2016 - \$439,900). These transactions are in the normal course of business and are measured at the exchange amount of consideration established and agreed to by the related parties. In management’s opinion, the exchange amount approximates fair market value.

In the year ended January 31, 2017, the company sold three condominium units to significant shareholders, directors and officers and to companies controlled by significant shareholders for gross proceeds of \$2,689,981 (2016-nil) on similar terms as sales to unrelated parties.

As noted under “Properties Under Development” on page 10, the Company holds a 28.6% interest in a redevelopment property located in North Vancouver, B.C. The other investors in this property include a wholly owned company of the President of the Company, and a wholly owned company of a director of the Company, which in aggregate comprise an 18.60% interest in this property. All the other remaining investors are arm’s length with the Company.

## **CAPITAL MANAGEMENT**

The Company’s primary objective when managing capital is to provide financial capacity and flexibility to meet its strategic objectives.

The Company’s liquidity needs are for development costs, potential property acquisitions, scheduled debt maturities and non-recurring capital expenditures. The Company’s strategy is to meet these needs with one or more of the following: cash flow from operations; credit facilities; and refinancing opportunities.

The following schedule details the components of the Company's capital for the years ended January 31, 2017 and 2016:

	2017	2016
<b>Liabilities:</b>		
Bank and other indebtedness	\$ 348,099,698	\$ 358,642,002
Loans from shareholder	99,911,458	49,848,958
Mortgages payable	225,128,140	172,014,447
<b>Shareholders' equity:</b>		
Share capital	24,099,401	11,642,002
Non-controlling interest	30,906,982	33,009,772
<b>Total capital</b>	<b>\$ 728,145,679</b>	<b>\$ 625,157,181</b>

The Company is subject to covenants on some of its credit facilities, which are monitored on an ongoing basis. The Company is in compliance with all of its covenants.

## **OUTLOOK FOR OPERATING CONDITIONS**

### **Rental Apartments**

The rental operations continue to perform well, with significant rent increases achieved upon tenant turnover, especially for the newly renovated units. The Company has completely renovated three properties (335 units) and will continue to renovate the remaining Vancouver and North Vancouver units as they turnover. In Surrey, the Company intends to continue with cosmetic renovations.

Construction is proceeding on the 273-unit, 45 storey tower at Richards & Drake with completion scheduled for autumn 2017; the 40-unit midrise at 1121 Seymour will complete in August 2017.

The Company continues to review opportunities to grow its portfolio of rental properties. The Company's application to add 66 units as an infill at its West Vancouver property has been deferred until the District of West Vancouver updates its "Community Plan" for the area. The Company acquired one development site this year located on Cambie Street between 43<sup>rd</sup> and 44<sup>th</sup> Avenues, for which the Company will file a rezoning application for 120,000 to 150,000 sq. ft. of developable area in 2017.

### **Hotel Operations**

As outlined earlier in the report, the Company experienced solid growth in both revenue and income this past year and expects this trend to continue as the focus remains on increasing the ADR at both hotel properties in 2017. To date, the Company has not experienced any noticeable impact as a result of Marriott International Inc.'s acquisition of Starwood Hotels & Resorts Worldwide, Inc.

### **Development Properties**

Over the past year, the Company completed on the sale of the Mandarin Residences project (347 units), the Binning Tower (170 units), and 103 units at Phase 1 of Central Park. In this upcoming fiscal year, the Company will complete on the sale of the balance of the Phase 1 Central Park units (623) and the Strathcona Village project of 280 units and associated commercial spaces.

The Shannon Wall Phase 2 project (322 units) is now 90% pre-sold and construction is well underway. The Company anticipates completing construction for two of the four buildings by July 2018.

With the significant rise in land prices over the past year, the Company has been cautious in its pursuit of new development properties. The Company acquired one development site this year located on Cambie Street between 43<sup>rd</sup> and 44<sup>th</sup> Avenues, Vancouver, B.C., for which the Company will file a rezoning application for 120,000 to 150,000 sq. ft. of developable area in 2017.

Subsequent to year-end, the Company entered into an agreement to participate on a limited basis in a large townhome development in the City of North Vancouver.

### **Financing**

All of the Company's credit facilities remain in good standing and the Company does not foresee any difficulty in obtaining as necessary financing, as required.