

Consolidated Financial Statements of

**WALL FINANCIAL CORPORATION**

Years ended January 31, 2017 and 2016



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Wall Financial Corporation

We have audited the accompanying consolidated financial statements of Wall Financial Corporation, which comprise the consolidated statements of financial position as at January 31, 2017 and 2016, the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Wall Financial Corporation as at January 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*KPMG LLP*

Chartered Professional Accountants

April 21, 2017  
Vancouver, Canada

# WALL FINANCIAL CORPORATION

Consolidated Statements of Financial Position

January 31, 2017 and 2016

	2017	2016
<b>Assets</b>		
Investment properties (note 5)	\$ 187,397,718	\$ 122,827,065
Property, plant and equipment (note 6)	141,907,767	128,276,781
Properties under development for sale (note 7)	111,631,597	328,894,567
Investments in joint ventures (note 15)	1,235,725	10,092,546
Deferred tax asset (note 14(b))	27,474,936	28,704,592
Non-current assets	469,647,743	618,795,551
Current portion of properties under development for sale (note 7)	337,862,816	124,323,681
Deposits held-in-trust	137,706,568	110,347,015
Other assets (note 9)	38,031,713	22,116,137
Amounts receivable (note 8)	11,469,886	8,775,703
Cash and cash equivalents	27,463,559	15,972,540
Current assets	552,534,542	281,535,076
	<b>\$ 1,022,182,285</b>	<b>\$ 900,330,627</b>
<b>Liabilities</b>		
Mortgages payable (note 10)	\$ 122,913,093	\$ 91,298,817
Loans from shareholder (note 17(d))	20,000,000	-
Deferred tax liability (note 14(b))	20,245,400	19,267,692
Non-current liabilities	163,158,493	110,566,509
Current portion of mortgages payable (note 10)	102,215,047	80,715,630
Income tax payable	647,592	845,217
Accounts payable and accrued liabilities	42,009,652	50,263,197
Deposits on real estate sales	136,632,780	109,468,772
Loans from shareholder (note 17(d))	79,911,458	49,848,958
Bank and other indebtedness (note 10)	348,099,698	358,642,002
Current liabilities	709,516,227	649,783,776
	<b>\$ 872,674,720</b>	<b>\$ 760,350,285</b>
<b>Equity</b>		
Share capital (note 13)	\$ 24,099,401	\$ 11,642,002
Contributed surplus (note 13)	370,000	319,000
Retained earnings	94,131,182	95,009,568
Equity attributable to shareholders of the Company	118,600,583	106,970,570
Non-controlling interests (note 12)	30,906,982	33,009,772
Total equity	\$149,507,565	139,980,342
	<b>\$ 1,022,182,285</b>	<b>\$ 900,330,627</b>

Commitments and contingencies (note 16)

Subsequent event (note 20)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board:

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"Bruno Wall" Director

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"Peter Ufford" Director

# WALL FINANCIAL CORPORATION

## Consolidated Statements of Earnings and Comprehensive Income

Years ended January 31, 2017 and 2016

	2017	2016
Revenue (note 19)	\$ 302,815,900	\$ 133,213,734
Cost of sales and operating expenses	248,505,446	99,123,910
	<u>54,310,454</u>	<u>34,089,824</u>
Expenses:		
General and administrative	3,730,967	4,069,014
Depreciation (notes 5, 6 and 9)	13,548,474	8,955,468
	<u>17,279,441</u>	<u>13,024,482</u>
Earnings (loss) from investments in joint ventures (note 15)	6,509,929	(67,975)
Net finance costs (income) (note 11):		
Investment and other income	(131,472)	(80,093)
Finance costs	6,376,008	5,210,982
	<u>6,244,536</u>	<u>5,130,889</u>
Earnings before income taxes	37,296,407	15,866,478
Income tax expense (recovery) (note 14):		
Current	3,313,611	5,113,567
Deferred	2,207,364	(12,953,258)
	<u>5,520,975</u>	<u>(7,839,691)</u>
Net earnings and comprehensive income	<u>\$ 31,775,432</u>	<u>\$ 23,706,169</u>
Net earnings and comprehensive income attributable to:		
Shareholders of the Company	\$ 19,493,635	\$ 23,223,077
Non-controlling interests (note 12)	12,281,797	483,092
	<u>\$ 31,775,432</u>	<u>\$ 23,706,169</u>
Basic and diluted earnings per share	\$ 0.58	\$ 0.70
Weighted average shares outstanding	<u>33,419,447</u>	<u>33,113,365</u>

See accompanying notes to these consolidated financial statements.

# WALL FINANCIAL CORPORATION

Consolidated Statements of Changes in Equity

Years ended January 31, 2017 and 2016

	Attributable to shareholders of the Company			Total	Non-controlling interests	Total equity
	Share capital	Contributed surplus	Retained earnings			
Balance, January 31, 2015	\$ 11,642,002	\$ 319,000	\$ 71,786,491	\$ 83,747,493	\$ 28,433,579	\$ 112,181,072
Net earnings	-	-	23,223,077	23,223,077	483,092	23,706,169
Contributions	-	-	-	-	4,168,190	4,168,190
Distributions	-	-	-	-	(75,089)	(75,089)
Balance, January 31, 2016	11,642,002	319,000	95,009,568	106,970,570	33,009,772	139,980,342
Net earnings	-	-	19,493,635	19,493,635	12,281,797	31,775,432
Securities based compensation	-	320,000	-	320,000	-	320,000
Share options exercised (note 13(b))	12,457,399	(269,000)	-	12,188,399	-	12,188,399
Contributions	-	-	-	-	1,325,000	1,325,000
Distributions	-	-	-	-	(15,709,587)	(15,709,587)
Dividends declared (note 13(c))	-	-	(20,372,021)	(20,372,021)	-	(20,372,021)
Balance, January 31, 2017	\$ 24,099,401	\$ 370,000	\$ 94,131,182	\$ 118,600,583	\$ 30,906,982	\$ 149,507,565

See accompanying notes to these consolidated financial statements.

# WALL FINANCIAL CORPORATION

Consolidated Statements of Cash Flows

Years ended January 31, 2017 and 2016

	2017	2016
Cash provided by (used in):		
Cash flows from operating activities:		
Net earnings and comprehensive income	\$ 31,775,432	\$ 23,706,169
Adjustments for items not involving cash:		
Depreciation	13,548,474	8,955,468
(Earnings) loss from investments in joint ventures	(6,509,929)	67,975
Amortization of deferred financing fees	240,557	178,216
Securities-based compensation (note 13(b))	320,000	-
Deferred income tax expense (recovery)	2,207,364	(12,953,258)
Current income tax expense	3,313,611	5,113,567
Finance costs (note 11)	6,376,008	5,210,982
Gain on sale of furniture, fixtures and equipment	-	(13,450)
	51,271,517	30,265,669
Recovery of costs through real estate sales	159,777,586	48,747,699
Additions to properties under development for sale	(154,362,114)	(164,514,946)
Interest paid	(25,611,907)	(16,992,128)
Income taxes paid	(3,511,237)	(6,010,622)
Changes in non-cash operating working capital:		
Amounts receivable	(2,694,182)	(658,905)
Accounts payable and accrued liabilities	(6,801,061)	18,694,826
Inventory	4,215	2,799
Deposits and prepaids	(17,034,912)	(5,988,744)
	1,037,905	(96,454,352)
Cash flows from investing activities:		
Additions to investment properties	(52,413,799)	(33,316,239)
Additions to property, plant, and equipment	(20,522,301)	(17,881,546)
Additions to sales centres	(755,717)	(1,452,119)
Contributions to investments in joint ventures	(4,320,000)	(787,500)
Distributions from investments in joint ventures	19,686,752	530,154
Deposits held-in-trust	(27,359,554)	(33,562,657)
Deposits on real estate sales	27,164,008	33,208,684
Proceeds from sale of furniture, fixtures and equipment	-	31,000
	(58,520,611)	(53,230,223)
Cash flows from financing activities:		
Proceeds from loans from shareholder	50,000,000	-
Repayment of mortgages payable	(5,717,656)	(4,299,232)
Payment of financing fees	(1,391,026)	(506,757)
Proceeds from mortgages payable	59,192,920	51,346,257
Bank and other indebtedness	(10,542,304)	75,245,577
Contributions by non-controlling interests	1,325,000	4,168,190
Distributions to non-controlling interests	(15,709,587)	(75,089)
Proceeds on exercise of stock options (note 13(b))	12,188,399	-
Dividends paid (note 13(c))	(20,372,021)	-
	68,973,725	125,878,946
Increase (decrease) in cash and cash equivalents	11,491,019	(23,805,629)
Cash and cash equivalents, beginning of year	15,972,540	39,778,169
Cash and cash equivalents, end of year	\$ 27,463,559	\$ 15,972,540

See accompanying notes to these consolidated financial statements.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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## 1. Reporting entity:

Wall Financial Corporation (“WFC”) is a publicly listed company incorporated under the British Columbia Business Corporations Act. Its shares are listed on the Toronto Stock Exchange under the symbol “WFC”.

These consolidated financial statements comprise WFC and its subsidiaries (together referred to as the “Company”), and the Company’s interests in joint ventures. The Company operates predominantly in the Greater Vancouver area of British Columbia in the development and management of residential rental units, development and construction of residential housing for re-sale, and the development and management of hotel properties.

The registered office of the Company is located at 10<sup>th</sup> Floor, 938 Howe Street, Vancouver, British Columbia, V6Z 1N9, Canada.

## 2. Basis of presentation:

### (a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 21, 2017.

### (b) Basis of measurement:

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency, and have been prepared on the historical cost basis with the exception of interest rate swap contracts which are recorded at fair value.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

## 2. Basis of presentation (continued):

(c) Basis of consolidation:

(i) Subsidiaries:

These consolidated financial statements comprise the assets and liabilities of all subsidiaries and the results of operations of all subsidiaries. Subsidiaries are entities controlled directly or indirectly by WFC. The material subsidiaries and percentage owned in these subsidiaries are as follows:

Name	% owned
1300 Richards Street Developments Limited Partnership	100%
1415 Commercial Developments Ltd.	100%
1415 Condominium Developments Ltd.	100%
588526 British Columbia Ltd.	100%
Cambie and 43 <sup>rd</sup> Developments Limited Partnership	100%
Eagle Mountain Properties Ltd.	100%
Shannon Condominium Developments Unit Trust	100%
Shannon Wall Centre Condominium Developments Limited Partnership	100%
Shannon Wall Centre Rental Apartments Limited Partnership	100%
Strathcona Village Limited Partnership	75%
SWC Hotels LLP	100%
Wall Centre Central Park Condominiums Limited Partnership	75%
Wall Centre Construction Ltd.	100%
Wall Centre (Central Park) Construction Co. Ltd.	100%
Wall Centre (Point Grey) Developments Limited Partnership	75%
WWC Hotels LLP	100%

(ii) Joint ventures:

WFC and certain of its subsidiaries have interests in and joint control of a number of properties through joint ventures, which are accounted for using the equity method.

(iii) Transactions eliminated on consolidation:

All intercompany transactions, balances, income, and expenses are eliminated in preparing the consolidated financial statements.

(d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of income, expenses, assets and liabilities. These judgments, estimates and assumptions are based on historical experience and management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from these estimates.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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## 2. Basis of presentation (continued):

### (d) Use of estimates and judgments (continued):

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In the process of applying the Company's accounting policies, management has made the following critical estimates and judgments.

Judgments:

#### (i) Consolidation of joint ventures:

Judgment is applied in assessing whether the Company exercises control or significant influence over joint ventures, in which the Company directly or indirectly is a participant or owns an interest. Control is defined as the power to govern the financial and operating decisions of an entity so as to obtain benefits from its activities, and significant influence is defined as the power to participate in the financial and operating decisions of the joint venture. Where the Company is determined to have control, these entities are consolidated.

#### (ii) Equity accounting of joint arrangements:

The classification of joint arrangements structured through separate vehicles as either joint ventures or joint operations requires significant judgment and depends on the legal form and contractual terms of the arrangement, as well as, other facts and circumstances. Where the Company's investment is determined to be a joint venture, the investment is accounted for using the equity method.

#### (iii) Investment properties and property, plant and equipment:

The Company's accounting policies relating to investment properties and property, plant and equipment are described in notes 3(b) and 3(c), respectively. In applying these policies, judgment is applied to determine the significant components of each asset, including the useful lives over which the componentized assets are to be amortized.

#### (iv) Capitalization of borrowing costs:

Under IFRS, borrowing costs must be capitalized to qualifying assets. This requires the determination of whether the borrowings are specific to a project or general in calculating the capitalized borrowing costs. Judgment is involved in this determination. Borrowing costs are capitalized to investment properties when under active development. Capitalization to properties under development ceases when the property is considered developed and ready for sale.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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## 2. Basis of presentation (continued):

### (d) Use of estimates and judgments (continued):

Estimates:

#### (i) Fair value of investment properties:

The fair value of investment properties disclosed in note 5 is determined by management, in conjunction with independent real estate valuation experts using recognized valuation techniques.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (i.e., tenant profiles, future revenue streams and overall repair and condition of the property), discount rates applicable to those assets' cash flows and capitalization rates. These estimates are based on market conditions existing at the reporting date.

#### (ii) Income taxes:

Significant estimates are required in determining the provision for income taxes due to the various transactions and calculations for which the ultimate tax determination is uncertain. Management annually evaluates tax positions taken which could be subject to differing interpretations of applicable tax legislation. The Company recognizes a tax provision when a payment to tax authorities is considered more likely than not. Management believes that adequate provisions have been made for all income tax obligations, although the results of audits and reassessments and changes in the interpretations of standards may result in a material increase or decrease in the Company's assets, liabilities and net earnings.

Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in the foreseeable future. To the extent that future taxable income and the application of existing tax laws differ significantly from the Company's estimate, the ability of the Company to realize the deferred tax assets could be impacted.

## 3. Significant accounting policies:

### (a) Property acquisition:

The Company acquires real estate properties in its normal course of business. At the time of acquisition, the Company considers whether or not the acquisition represents the acquisition of a business. The Company accounts for an acquisition as a business combination if the acquired property meets the definition of a business, being an integrated set of activities and assets that are capable of being managed for the purpose of providing a return to the shareholders. If it does not meet the definition of a business, it is treated as an asset acquisition.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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### 3. Significant accounting policies (continued):

(a) Property acquisition (continued):

Whether the acquisition is accounted for as an asset acquisition or a business combination, the Company fair values assets acquired and liabilities assumed including land, building and intangibles such as above- and below-market leases, in-place operating leases and customer relationships. The Company expenses transaction costs on business combinations.

(b) Investment properties:

Investment properties comprise residential and commercial property held either to earn rental income or for capital appreciation or both. Investment properties include land and buildings, and are measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of buildings is calculated using the straight-line method with reference to each property's cost; the estimated useful life of the building; its components, and residual value.

The basis of depreciation and estimated useful lives of buildings and major components are as follows:

Asset	Basis	Rate
Buildings	Straight-line	30 - 50 years
Major components	Straight-line	5 - 50 years

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Depreciation methods, useful lives and residual values are reviewed annually and adjusted as required.

Repair and maintenance improvements are expensed as incurred or, in the case of major items that constitute a capital asset, are capitalized and amortized on a straight-line basis over the expected useful life of the improvement.

Note 5 discloses the investment properties' fair values. The following approaches either individually or in combination, are used by management, together with appraisers, in their determination of the fair value of investment properties:

- The Income Approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or the discounted cash flow analysis.
- The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews all independent appraisals obtained for properties to ensure the assumptions used by the appraisers are reasonable and the fair value amount disclosed in note 5 reflects those assumptions used in the approaches above.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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### 3. Significant accounting policies (continued):

#### (b) Investment properties (continued):

Under certain circumstances, investment properties may be redeveloped as properties under development for resale. Once appropriate evidence of a change in use is established, typically at the commencement of redevelopment, the property is transferred to properties under development for sale at its carrying value.

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the statement of earnings in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset on the date the transaction occurred.

#### (c) Property, plant and equipment:

Property, plant and equipment is comprised of the Company's hotel properties and are measured at historical cost less accumulated depreciation and accumulated impairment losses.

Depreciation of buildings is calculated using the straight-line method with reference to each property's cost, the estimated useful life of the building and its components, and residual value.

The basis of depreciation and estimated useful lives for the assets are as follows:

Asset	Basis	Rate
Building	Straight-line	40 - 55 years
Elevators	Straight-line	30 years
HVAC, sprinklers, plumbing	Straight-line	30 years
Other major components	Straight-line	13 - 50 years
Furniture, fixtures and equipment	Straight-line	2 - 7 years

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Depreciation methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

Repair and maintenance improvements are expensed as incurred or, in the case of major items that constitute a capital asset, are capitalized to the building and amortized on a straight-line basis over the expected useful life of the improvement.

Property, plant and equipment is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of property, plant and equipment are recognized in the statement of earnings in the year of retirement or disposal.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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### 3. Significant accounting policies (continued):

(c) Property, plant and equipment (continued):

Gains or losses on the disposal of property, plant and equipment are determined as the difference between net disposal proceeds and the carrying value of the asset on the date the transaction occurred.

(d) Properties under development for sale:

Properties under development for sale include properties being constructed or developed for future resale and also density rights to be applied to future development projects.

Properties under development are recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less cost to complete the development and selling costs. Costs include all direct development costs and capitalized carrying costs related to holding the property under development, including borrowing costs.

The amount of borrowing costs capitalized is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross cost incurred on those borrowings, and is capitalized from the commencement of the development until the date of completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted.

The Company considers the date of completion to have occurred when the property is capable of operating in the manner intended by management. Generally, this occurs upon completion of construction and receipt of all necessary occupancy and other material permits.

The cost of sale of a property or unit is allocated on the basis of the estimated total cost of the project prorated by the selling price of the property or unit over the anticipated sales proceeds from the entire project.

(e) Deposits held-in-trust and deposits on real estate sales:

Deposits held-in-trust represents the initial cash down-payment made by purchasers toward the acquisition of condominium units from the Company. Such cash is held by a designated trustee and cannot be used towards the construction of the properties under development.

Deposits on real estate sales will be recognized as revenue in accordance with the Company's revenue recognition policy.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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### 3. Significant accounting policies (continued):

(f) Other assets:

Other assets include prepaid expenses, deposits on property acquisitions, prepaid commissions on the sale of residential units that have not yet closed, sales centres used in the sales and marketing of residential units, inventory at hotel properties, and corporate furniture, fixtures and equipment. Inventory, which consists of food, beverage and supplies, is valued at the lower of cost and net realizable value. The cost of sales centres are amortized on a straight-line basis over the estimated use life of the assets.

(g) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, cash held at banks, cheques issued in excess of funds on deposits and term deposits maturing within ninety days from the date of acquisition.

(h) Impairment:

The carrying amounts of the Company's non-financial assets, consisting of investment property and property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(i) Revenue recognition:

Revenue is generated primarily from the sale of properties under development, rental of investment properties and the operation of the Company's hotels.

Revenue from the sale of properties under development is recognized at the time that the risks and rewards of ownership have been transferred, possession or title passes to the purchaser, and all material conditions of the sales contract have been met, and at which time all proceeds are received or collectability is reasonably assured.

Rental revenue from investment properties and revenue from the hotel operations is recognized when services are rendered and the amount is earned.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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### 3. Significant accounting policies (continued):

(j) Finance income and finance costs:

Finance income consists of interest and other income, which is recognized in the period in which it is earned.

Finance costs comprise interest expense on borrowings and any change in the fair value of interest rate swap contracts. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the period in which they are incurred.

Fees and costs related to obtaining debt financing are capitalized against the related debt and amortized over the term using the effective interest rate method, and are included in finance costs. The unamortized balance of the fees and costs are included and shown as a reduction to the related debt.

(k) Compensation expense:

(i) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Securities-based compensation:

The Company accounts for all securities-based payments to directors, officers and employees using the fair value based method. The grant date fair value of share-based payment awards granted to directors, officers and employees is recognized as an expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards.

(l) Earnings per share:

Basic earnings per share is calculated by dividing the earnings attributable to the shareholders of the Company by the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated similar to basic earnings per share except that the weighted average ordinary shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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### 3. Significant accounting policies (continued):

#### (m) Income taxes:

Current income tax is the expected amount of tax payable to the taxation authorities, using the applicable tax rates enacted, or substantively enacted, for the Company's fiscal year, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the liability method based on the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are measured at the tax rates that are expected to apply to the year when the assets are realized, based on the tax rates and laws that have been enacted or substantively enacted at the date of the statement of financial position.

#### (n) Financial instruments:

##### (i) Recognition and classification:

Financial instruments are classified as one of the following: fair value through profit and loss ("FVTPL"), loans and receivables, held-to-maturity, available-for-sale, or other liabilities. Financial instruments are recognized initially at fair value, plus in the case of financial instruments not at FVTPL, any incremental direct transaction costs. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss.

Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income.

The Company's financial instruments are classified and subsequently measured as follows:

Asset/liability	Classification	Subsequent measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Mortgages payable	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Loans from shareholders	Other financial liabilities	Amortized cost
Bank and other indebtedness	Other financial liabilities	Amortized cost
Interest rate swap contracts	FVTPL	Fair value

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# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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### 3. Significant accounting policies (continued):

(n) Financial instruments (continued):

(ii) Impairment of financial assets:

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If a financial asset carried at amortized cost is impaired, the amount of the loss is measured as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The loss is recognized in impairment expense.

(o) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost. Provisions include estimated future warranty costs on completed and sold development properties.

(p) Segment reporting:

The Company's operating segments are strategic business units that offer unique products and services, and are reported with a manner consistent with the internal reporting provided to the chief operating decision maker. They are managed separately as each business unit requires different management skills and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant account policies.

All operating segments' operating results for which discrete financial information is available are reviewed regularly by the Company's Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Chief Executive Officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income taxes.

(p) Comparative information:

Certain comparative information has been reclassified to conform with the current year's presentation.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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## 4. Accounting standard changes:

New standards and interpretations issued but not yet adopted:

### (a) 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.

### (b) IFRS 15 - *Revenue from Contract 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.

### (c) 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.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

## 5. Investment properties:

	Land and buildings	Major components	Total
<b>Cost:</b>			
Balance at January 31, 2015	\$ 101,438,068	\$ 8,814,020	\$ 110,252,088
Additions	15,831,018	17,485,221	33,316,239
Balance at January 31, 2016	117,269,086	26,299,241	143,568,327
Additions	48,371,073	4,042,726	52,413,799
Reclass from properties under development	13,491,747	5,424,184	18,915,931
Reclass to properties under development	(6,496,392)	-	(6,496,392)
Balance at January 31, 2017	172,635,514	35,766,151	208,401,665
<b>Accumulated depreciation:</b>			
Balance at January 31, 2015	16,402,800	2,923,416	19,326,216
Depreciation	674,478	740,568	1,415,046
Balance at January 31, 2016	17,077,278	3,663,984	20,741,262
Depreciation	1,780,905	3,005,416	4,786,321
Reclass to properties under development	(4,523,636)	-	(4,523,636)
Balance at January 31, 2017	14,334,547	6,669,400	21,003,947
Net carrying value at January 31, 2017	\$ 158,300,949	\$ 29,096,751	\$ 187,397,718
Net carrying value at January 31, 2016	\$ 100,191,808	\$ 22,635,257	\$ 122,827,065

The estimated fair values of the Company's investment properties are as follows:

	Fair value	Carrying value
January 31, 2017	\$ 497,149,000	\$ 187,397,718
January 31, 2016	405,131,000	122,827,065

# WALL FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

### 6. Property, plant and equipment:

	Land and building	Major components	Furniture, fixtures and equipment	Total
<b>Cost:</b>				
Balance at January 31, 2015	\$ 125,454,095	\$ 29,472,540	\$ 36,932,702	\$ 191,859,337
Additions	9,928,206	-	7,953,340	17,881,546
Balance at January 31, 2016	135,382,301	29,472,540	44,886,042	209,740,883
Additions	9,580,272	7,405,624	3,536,405	20,522,301
Reclass of components	(10,889,937)	-	10,889,937	-
Balance at January 31, 2017	134,072,636	36,878,164	59,312,384	230,263,184
<b>Accumulated depreciation:</b>				
Balance at January 31, 2015	28,714,227	14,597,985	32,924,751	76,236,963
Depreciation	1,794,223	986,218	2,446,698	5,227,139
Balance at January 31, 2016	30,508,450	15,584,203	35,371,449	81,464,102
Depreciation	1,965,034	1,121,902	3,804,379	6,891,315
Balance at January 31, 2017	32,473,484	16,706,105	39,175,828	88,355,417
Net carrying value at January 31, 2017	\$ 101,599,152	\$ 20,172,059	\$ 20,136,556	\$ 141,907,767
Net carrying value at January 31, 2016	\$ 104,873,851	\$ 13,888,337	\$ 9,514,593	\$ 128,276,781

### 7. Properties under development for sale and held-for-sale:

	2017	2016
Properties under development	\$ 111,631,597	\$ 328,894,567
Properties held-for-sale	337,862,816	124,323,681
	\$ 449,494,413	\$ 453,218,248

Properties held-for-sale represent properties that are expected to be sold or disposed of within a year, and as such are presented as current assets in the consolidated statement of financial position.

Properties under development for sale expensed to cost of sales during the year was \$159,777,586 (2016 - \$48,747,699). This includes contingent rent of \$21,309,120 (2016 - nil) paid in respect of a leasehold interest in a property for the construction and development of residential units for sale which completed during the year.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

## 7. Properties under development for sale and held-for-sale (continued):

The following carrying amounts were capitalized to properties under development for sale for the years ended January 31, 2017 and 2016.

	2017	2016
Property taxes	\$ 1,129,415	\$ 2,209,927
Interest on borrowings	18,634,812	12,206,846

## 8. Amounts receivable:

Included in amounts receivable are the following:

(a) Loans to third parties of \$2,011,350 (2016 - \$774,684). Of this amount, \$934,684 (2016 - \$724,684) is secured by real estate property, bearing interest ranging from 2% to prime + 0.50% per annum (2016 - 2%) and due on demand and \$1,026,666 (2016 - nil) is secured by a corporate guarantee and assignment of receivables, bearing interest at 3.50% per annum (2016 - nil), due on December 1, 2017. The remaining balance of \$50,000 (2016 - \$50,000) is unsecured, bears interest at 4% per annum, (2016 - 4%) and due on demand.

(b) Loans to employees in the aggregate amount of \$1,660,000 (2016 - \$1,810,000), secured by real estate property, bearing interest ranging from 1% to 2% (2016 - 1% to 2%), and due on demand.

Total interest accrued as at January 31, 2017 on the above loans receivable, and included in amounts receivable on the statement of financial position is \$4,060 (2016 - \$708);

(c) Trade and other receivables of \$7,798,536 (2016 - \$6,191,019).

## 9. Other assets:

	2017	2016
Prepaid commissions on properties under development for sale	\$ 19,025,730	\$ 17,289,002
Deposits and prepaids	18,185,640	2,887,456
Sales centres, less accumulated amortization of \$8,215,671 (2016 - \$6,354,483)	469,438	1,574,908
Inventory	350,905	355,120
Corporate furniture, fixtures and equipment, less accumulated amortization of \$186,811 (2016 - \$310,014)	-	9,651
	\$ 38,031,713	\$ 22,116,137

# WALL FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

### 10. Debt on properties:

		Weighted average interest rate	2017	2016
<b>Bank and other indebtedness:</b>				
Properties under development	(a)	3.33% (2016 - 3.94%)	\$ 318,156,917	\$ 263,147,543
General corporate debt	(b)	3.22% (2016 - 3.29%)	29,942,781	95,494,459
			348,099,698	358,642,002
<b>Mortgages payable:</b>				
Investment properties	(c)	2.97% (2016 - 3.00%)	136,750,993	95,219,106
Property, plant and equipment	(c)	3.13% (2016 - 3.18%)	92,010,836	79,216,061
			228,761,829	174,435,167
Less: deferred financing fees			(3,633,689)	(2,420,720)
			225,128,140	172,014,447
Less: current portion of mortgages payable			(102,215,047)	(80,715,630)
			\$ 122,913,093	\$ 91,298,817

(a) Bank and other indebtedness on properties under development for sale:

At January 31, 2017, the Company 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 and insurance proceeds on the related properties. The borrowings are due on demand.

(b) General corporate debt:

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.

(c) Mortgages payable:

Of the \$92,010,836 (2016 - \$79,216,061) in mortgages on property, plant and equipment, \$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 - \$39,834,063) 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) was 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 - fair value liability of \$425,700) and is included in accounts payable on the statement of financial position.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

## 10. Debt on properties (continued):

(c) Mortgages payable (continued):

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%).

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.

Principal instalments payable within the next five fiscal years, excluding financing fees, and thereafter on mortgages payable are as follows:

2018	\$ 102,376,196
2019	3,733,750
2020	39,738,643
2021	13,989,651
2022	2,219,083
Thereafter	66,704,506
	<u>\$ 228,761,829</u>

## 11. Net finance costs (income):

	2017	2016
Finance income:		
Investment income	\$ 753	\$ 1,914
Interest income	130,719	78,179
	<u>131,472</u>	<u>80,093</u>
Finance costs:		
Interest on:		
Bank and other indebtedness	21,076,251	13,843,404
Mortgages payable	4,535,656	3,148,726
	<u>25,611,907</u>	<u>16,992,130</u>
Interest capitalized to properties under development for sale	(18,634,812)	(12,206,848)
	6,977,095	4,785,282
Change in fair value of interest rate swap contracts	(601,087)	425,700
	<u>6,376,008</u>	<u>5,210,982</u>
Net finance cost	<u>\$ 6,244,536</u>	<u>\$ 5,130,889</u>

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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## 12. Non-controlling interests:

Non-controlling interests includes the following significant amounts:

- (a) The Company has entered into co-owners' and project participation agreements with a company owned by an officer of the Company and a company owned by a significant shareholder (collectively referred to as the "Wall Equity Companies"), with respect to certain properties under development for sale.

The Wall Equity Companies have collectively provided up to 25% of the equity to finance such properties and will receive consideration, pursuant to the project participation agreement, up to a maximum of 40%. Non-controlling interests at January 31, 2017 includes \$27,380,827 (2016 - \$29,996,220) relating to these agreements with the Wall Equity Companies.

- (b) The Company controls a partnership entered into for the purpose of developing property in Vancouver, British Columbia. At January 31, 2017, non-controlling interests totals \$86,098 (2016 - \$46,404).
- (c) The Company controls a partnership entered into for the purpose of developing property in Abbotsford, British Columbia. At January 31, 2017, non-controlling interests totals \$3,440,056 (2016 - \$2,997,148).

## 13. Share capital:

- (a) Issued and outstanding:

- (i) Common shares:

	Shares		Amount	
	2017	2016	2017	2016
Authorized:				
54,000,000 common shares without par value				
Issued and outstanding at				
January 31, 2017 and 2016	33,953,365	33,113,365	\$ 24,099,401	\$ 11,642,002

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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## 13. Share capital (continued):

### (b) Stock options:

At the Company's annual general meeting on May 29, 2008, the shareholders approved Stock Option Plan (2008). Under this stock option plan, options may be granted to any director, officer or employee of the Company. The number of common shares reserved for all purposes under the Stock Option Plan is 3,200,000, which represents approximately 10% of the Company's total issued and outstanding common shares at the date of approval.

The exercise price of an option will not be less than the price at which the last recorded sale of a board lot of common shares took place on the TSX during the trading day immediately preceding the date of grant; if there was no such sale, the weighted average trade price on the TSX for the common shares for the five trading days immediately preceding the date of the grant.

On June 20, 2016, the Board of Directors granted options for 1,000,000 shares under the Stock Option Plan (2008). 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.

On September 20, 2016, 840,000 common shares were issued through the exercise of options at an exercise price of \$14.51 per common share for gross proceeds of \$12,188,399. The remaining 160,000 options expired on September 26, 2016, and as at January 31, 2017 there were no options outstanding (January 31, 2016 – nil).

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

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

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For the year ended January 31, 2017, the Company recognized stock-based compensation expense of \$320,000 (2016 - nil). This expense is included in general and administration expenses in the statement of earnings. As at January 31, 2017, 1,310,000 common shares are available for future issuance under the Stock Option Plan (2008).

### (c) Dividends:

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.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

## 14. Income taxes:

- (a) Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 26.0% (2016 - 26.0%) to earnings before income taxes and non-controlling interest as a result of the following:

	2017	2016
Tax expense at statutory rate	\$ 9,697,066	\$ 4,125,284
Increase (decrease) resulting from:		
Attributable to non-controlling interest	(3,193,268)	(125,604)
Non-deductible expenses and non-taxable income	98,095	(11,839,371)
Change in filing estimates for prior periods and other	(1,080,918)	-
	\$ 5,520,975	\$ (7,839,691)

- (b) The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	2017	2016
Deferred tax assets:		
Non-capital loss-carry forwards	\$ 1,497,806	\$ 728,691
Properties	25,977,130	27,975,901
	27,474,936	28,704,592
Deferred tax liabilities:		
Properties	(20,245,400)	(19,267,692)
Net deferred tax assets	\$ 7,229,536	\$ 9,436,900

The Company estimates that it has \$5,760,789 (2016 - \$2,802,656) of non-capital losses for income tax purposes available at January 31, 2017 to reduce taxable income of future years. The full benefit of these losses has been recorded. The expiry date for these losses ranges from 2034 to 2037.

During the year ended January 31, 2016, the Company sold land to a subsidiary at fair market value based on the appraised value of approximately \$98,000,000, 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 deferred income tax asset and a corresponding deferred tax recovery of approximately \$12,700,000 million that was included in the statement of earnings.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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## 15. Investments in joint ventures:

The following represents the Company's interest in its equity accounted investments:

Name	Location	Ownership interest	
		2017	2016
Mandarin Residences	Richmond, B.C.	50%	50%
Wall Noort	Abbotsford, B.C.	0%	50%

The Company has determined that its jointly controlled entities are joint ventures and accounts for its interests using the equity method.

In accordance with the terms of the agreement for the Mandarin Residences, the Company is required to contribute 75% of the required capital contributions while its partner will contribute 25% of the required capital contributions and will manage the construction and development of the project. Prior to the distribution of profits from the project, the Company will be returned the excess contributions it has made along with a preferred return and then profits will be allocated 50% to each of the partners based on their ownership interest.

At January 31, 2016, the Wall Noort partnership had completed its development project whereby the Company contributed development lots to the partnership while its partner contributed all additional cash requirements for the development. Profits from this investment were allocated 50% to each of the partners, and the project is no longer active.

# WALL FINANCIAL CORPORATION

## Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

### 15. Investments in joint ventures (continued):

Statement of financial position:

	As at January 31, 2017		As at January 31, 2016		
	Mandarin Residences	Mandarin Residences	Wall Noort	Others	Total
Company's ownership percentage	50%	50%	50%	50%-54%	
<b>Assets:</b>					
Deposits held-in-trust	\$ -	\$ 12,984,872	\$ -	\$ -	\$ 12,984,872
Cash and cash equivalents	-	5,714,310	39,408	-	5,753,718
Accounts receivable	4,050,007	431,311	91,967	11,493	534,771
Prepays	81,849	5,204,490	-	-	5,204,490
Properties under development for sale	-	104,490,712	-	-	104,490,712
Current assets	4,131,856	128,825,695	131,375	11,493	128,968,563
	\$ 4,131,856	\$ 128,825,695	\$ 131,375	\$ 11,493	\$ 128,968,563
<b>Liabilities:</b>					
Deposits on real estate sales	\$ -	\$ 24,929,795	\$ -	\$ -	\$ 24,929,795
Bank and other indebtedness	-	79,990,406	-	-	79,990,406
Other liabilities	1,671,014	10,323,728	3,061	-	10,326,789
Total liabilities	1,671,014	115,243,929	3,061	-	115,246,990
<b>Net assets at 100%</b>	<b>\$ 2,460,842</b>	<b>\$ 13,581,766</b>	<b>\$ 128,314</b>	<b>\$ 11,493</b>	<b>\$ 13,721,573</b>
<b>Company's investment</b>	<b>\$ 1,235,725</b>	<b>\$ 10,081,053</b>	<b>\$ -</b>	<b>\$ 11,493</b>	<b>\$ 10,092,546</b>

Statement of earnings (loss):

	As at January 31, 2017		As at January 31, 2016		
	Mandarin Residences	Mandarin Residences	Wall Noort	Others	Total
Company's ownership percentage	50%	50%	50%	50%-54%	
Revenue	\$ 140,011,316	\$ -	\$ 1,637,429	\$ -	\$ 1,637,429
Operating expenses	130,836,307	6,084	1,761,210	-	1,767,294
<b>Net earnings (loss) at 100%</b>	<b>\$ 9,175,009</b>	<b>\$ (6,084)</b>	<b>\$ (123,781)</b>	<b>\$ -</b>	<b>\$ (129,865)</b>
<b>Company's share of earnings (loss)</b>	<b>\$ 6,509,929</b>	<b>\$ (6,084)</b>	<b>\$ (61,891)</b>	<b>\$ -</b>	<b>\$ (67,975)</b>

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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## 16. Commitments and contingencies:

- (a) The Company has entered into hotel franchise agreements in respect of its two hotel properties. Fees paid are calculated based on a percentage of monthly gross hotel revenues and are paid monthly.
- (b) At January 31, 2017, the estimated committed costs to complete properties under development at year-end are approximately \$278,180,000 (2016 - \$466,390,000).
- (c) 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 properties under development.

## 17. Related party transactions:

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

*Compensation of key management personnel:*

- (a) Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including the Company's directors and members of the Board committees. Compensation awarded to key management is as follows:

	2017	2016
Salaries and wages	\$ 1,926,421	\$ 1,743,059
Employee benefits	161,560	99,687
Option-based benefits	320,000	-
	<u>\$ 2,407,981</u>	<u>\$ 1,842,746</u>

- (b) 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.

- (c) 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.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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## 17. Related party transactions (continued):

### (d) Shareholder loans:

As at January 31, 2017, the Company has loans payable of \$100,000,000 (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).

### (e) Transactions with shareholder:

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. The Tenant has an option to renew the lease for an additional 10 years. Under this agreement, the Tenant shall pay a base rent of \$14,286 per month plus a percentage of operating profits, and has amounts payable to the Company of \$45,000 as at January 31, 2017. The Tenant is responsible for its operating costs, while the Company is responsible for property taxes and utilities in respect of the Premise.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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## 18. Financial instruments:

### (a) Fair values:

The carrying values of the Company's cash and cash equivalents, accounts payable and accrued liabilities, and loans from shareholders approximate their fair values due to the short-term nature of these financial assets and liabilities. The face value of bank and other indebtedness approximates its fair value, as it is due on demand. Management estimates that these differences are not material to the consolidated financial statements.

The Company uses interest rate swap contracts to effectively fix the interest rate on certain mortgages payable. As hedge accounting is not applied, the contracts are carried at fair value and reported as assets (positive) or liabilities (negative) depending on the fair value on the reporting date. The change in fair value is recognized in net earnings for the year. The fair value of the interest rate swap contracts are calculated through discounting future expected cash flows using the bankers' acceptance based swap curve adjusted for credit risk. The fair value of the interest rate swap contract is disclosed in note 10(c).

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 fair value of the mortgages payable at January 31, 2017 is \$228,120,000 (2016 - \$138,636,000).

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The fair value of interest rate swaps and mortgages payable are considered Level 2 and investment properties are considered Level 3.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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## 18. Financial instruments (continued):

### (b) Financial risk management:

The Company does not enter into financial instrument arrangements for speculative purposes. The Company may be exposed to financial risks resulting from its normal operating activities, as follows:

#### (i) 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 the market interest rates.

As described in note 10, certain of the Company's debt on 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.

#### (ii) 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 counter party.

At January 31, 2017, substantially all of the Company's trade receivables of \$7,798,536 (2016 - \$6,191,019) were current. The historical bad debt write-off has been less than 1% of accounts receivable.

#### (iii) 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 fund ongoing operational and capital requirements. As at January 31, 2017, the Company has available unused approved credit facilities of \$397,783,204. The Company also has trade receivables of \$7,798,536 which it expects to collect in full, and cash and cash equivalents totaling \$27,463,559.

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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## 18. Financial instruments (continued):

### (b) Financial risk management (continued):

#### (iii) Liquidity risk (continued):

A centralized treasury function ensures that the Company maintains funding flexibility by assessing future cash flow expectations and by maintaining sufficient headroom on its committed borrowing facilities.

The Company's bank and other indebtedness are repayable on demand, which creates a liquidity risk. The Company uses these loans to finance its development operations, and believes it could convert these loans into long term if desired. As at January 31, 2017, the Company is in compliance with all bank covenants, has made all required principal repayments, and has consistently generated positive cash flow from rental and hotel operations, which are used to fund interest cost associated with the operating loans.

Based on the performance of the Company to date and the support from its lenders, the Company believes that the liquidity risk described above is not significant and has implemented strategies, including regular monitoring of debt covenants and cash flows in order to support this conclusion.

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

### (c) 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.

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Notes to Consolidated Financial Statements

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## 18. Financial instruments (continued):

(c) Capital management (continued):

The following schedule details the components of the Company's capital:

	2017	2016
Liabilities:		
Loans from shareholder	\$ 99,911,458	\$ 49,848,958
Bank and other indebtedness	348,099,698	358,642,002
Mortgages payable	225,128,140	172,440,147
Shareholders' equity:		
Share capital	24,099,401	11,642,002
Non-controlling interest	30,906,982	33,009,772
Total capital	\$ 728,145,679	\$ 625,582,881

## 19. Segment disclosures:

The Company operates in three different segments of the real estate industry: ownership and management of revenue-producing residential and commercial properties ("Rental"), ownership and management of hotel properties ("Hotel"), and the development and sale of residential housing ("Development").

Operating performance of the Company is evaluated primarily based on the net operating income of these three segments. Centrally managed expenses such as interest, amortization, and general administrative costs are not included or allocated to operating segment results.

# WALL FINANCIAL CORPORATION

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## 19. Segment disclosures (continued):

	Rental		Hotel		Development		Corporate		Consolidation	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Total assets	\$ 190,677,110	\$ 124,062,655	\$ 149,443,024	\$ 134,803,709	\$ 677,460,519	\$ 636,977,257	\$ 4,601,631	\$ 4,487,006	\$ 1,022,182,285	\$ 900,330,627
Revenue	\$ 17,094,946	\$ 11,912,592	\$ 66,221,266	\$ 58,235,766	\$ 219,499,688	\$ 63,065,376	\$ -	\$ -	\$ 302,815,900	\$ 133,213,734
Depreciation expense	4,786,839	1,114,262	6,888,661	5,227,139	1,863,322	2,587,939	9,652	26,128	13,548,474	8,955,468
Earnings (loss) from operations before income taxes	(14,605)	1,667,536	14,778,671	13,377,289	27,693,477	6,898,958	(5,161,136)	(6,077,305)	37,296,407	15,866,478

# WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2017 and 2016

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## **20. Subsequent event:**

On April 13, 2017, the Company, along with other investors, acquired property located in North Vancouver, British Columbia for a gross purchase price of \$138,500,000 for a future development. The Company will guarantee all loans incurred in respect of the property and development and has a 28.6% interest in the property while other related parties have an 18.60% interest.