

Consolidated Financial Statements of

WALL FINANCIAL CORPORATION

Years ended January 31, 2018 and 2017



KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

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, 2018 and 2017, 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, 2018 and 2017, 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

Vancouver, Canada
April 20, 2018

WALL FINANCIAL CORPORATION

Consolidated Statements of Financial Position

January 31, 2018 and 2017

	2018	2017
Assets		
Investment properties (note 5)	\$ 434,467,031	\$ 187,397,718
Property, plant and equipment (note 6)	137,157,027	141,907,767
Properties under development for sale (note 7)	279,525,284	111,631,597
Investments in joint ventures (note 15)	485,725	1,235,725
Deferred tax asset (note 14(b))	29,835,577	27,474,936
Non-current assets	881,470,644	469,647,743
Current portion of properties under development for sale (note 7)	215,770,321	337,862,816
Deposits held-in-trust	125,408,816	137,706,568
Other assets (note 9)	50,256,341	38,031,713
Amounts receivable (note 8)	8,425,578	12,070,973
Cash and cash equivalents	34,676,293	27,463,559
Current assets	434,537,349	553,135,629
	<u>\$ 1,316,607,993</u>	<u>\$ 1,022,783,372</u>
Liabilities		
Mortgages payable (note 10)	\$ 125,513,148	\$ 122,913,093
Loans from shareholder (note 17(d))	90,000,000	20,000,000
Deferred tax liability (note 14(b))	16,035,485	20,245,400
Non-current liabilities	231,548,633	163,158,493
Current portion of mortgages payable (note 10)	93,118,127	102,215,047
Income tax payable	1,973,582	647,592
Accounts payable and accrued liabilities	42,786,965	42,610,739
Deposits on real estate sales	124,377,607	136,632,780
Loans from shareholder (note 17(d))	10,000,000	79,911,458
Bank and other indebtedness (note 10)	615,126,999	348,099,698
Current liabilities	887,383,280	710,117,314
	<u>\$ 1,118,931,913</u>	<u>\$ 873,275,807</u>
Equity		
Share capital (note 13)	\$ 24,099,401	\$ 24,099,401
Contributed surplus (note 13)	370,000	370,000
Retained earnings	89,580,556	94,131,182
Equity attributable to shareholders of the Company	114,049,957	118,600,583
Non-controlling interests (note 12)	83,026,123	30,906,982
Total equity	197,076,080	149,507,565
	<u>\$ 1,316,007,993</u>	<u>\$ 1,022,182,285</u>

Commitments and contingencies (note 16)

Subsequent event (notes 10 and 20)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board:

"Bruno Wall" Director

"Peter Ufford" Director

WALL FINANCIAL CORPORATION

Consolidated Statements of Earnings and Comprehensive Income

Years ended January 31, 2018 and 2017

	2018	2017
Revenue (note 19)	\$ 295,714,137	\$ 302,815,900
Cost of sales and operating expenses	245,877,672	248,505,446
	49,836,465	54,310,454
Expenses:		
General and administrative	3,494,906	3,730,967
Depreciation (notes 5, 6 and 9)	14,423,624	13,548,474
	17,918,530	17,279,441
Earnings from investments in joint ventures (note 15)	-	6,509,929
Net finance costs (income) (note 11):		
Investment and other income	(222,370)	(131,472)
Finance costs	11,657,454	6,376,008
	11,435,084	6,244,536
Earnings before income taxes	20,482,851	37,296,407
Income tax expense (recovery) (note 14):		
Current	8,433,213	3,313,611
Deferred	(6,570,556)	2,207,364
	1,862,657	5,520,975
Net earnings and comprehensive income	\$ 18,620,194	\$ 31,775,432
Net earnings and comprehensive income attributable to:		
Shareholders of the Company	\$ 12,426,057	\$ 19,493,635
Non-controlling interests (note 12)	6,194,137	12,281,797
	\$ 18,620,194	\$ 31,775,432
Basic and diluted earnings per share	\$ 0.37	\$ 0.58
Weighted average shares outstanding	33,953,365	33,419,447

See accompanying notes to these consolidated financial statements.

WALL FINANCIAL CORPORATION

Consolidated Statements of Changes in Equity

Years ended January 31, 2018 and 2017

	Attributable to shareholders of the Company			Total	Non-controlling interests	Total equity
	Share capital	Contributed surplus	Retained earnings			
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
Net earnings	-	-	12,426,057	12,426,057	6,194,137	18,620,194
Contributions	-	-	-	-	58,215,004	58,215,004
Distributions	-	-	-	-	(12,290,000)	(12,290,000)
Dividends declared (note 13(c))	-	-	(16,976,683)	(16,976,683)	-	(16,976,683)
Balance, January 31, 2018	\$ 24,099,401	\$ 370,000	\$ 89,580,556	\$ 114,049,957	\$ 83,026,123	\$ 197,076,080

See accompanying notes to these consolidated financial statements.

WALL FINANCIAL CORPORATION

Consolidated Statements of Cash Flows

Years ended January 31, 2018 and 2017

	2018	2017
Cash provided by (used in):		
Cash flows from operating activities:		
Net earnings and comprehensive income	\$ 18,620,194	\$ 31,775,432
Adjustments for items not involving cash:		
Depreciation	14,423,624	13,548,474
Earnings from investments in joint ventures	-	(6,509,929)
Amortization of deferred financing fees	253,262	240,557
Securities-based compensation (note 13(b))	-	320,000
Deferred income tax expense (recovery)	(6,570,556)	2,207,364
Current income tax expense	8,433,213	3,313,611
Finance costs (note 11)	11,657,454	6,376,008
	46,817,191	51,271,517
Recovery of costs through real estate sales	171,398,034	159,777,586
Additions to properties under development for sale	(307,413,941)	(154,362,114)
Interest paid	(28,489,237)	(25,611,907)
Income taxes paid	(7,107,223)	(3,511,237)
Changes in non-cash operating working capital:		
Amounts receivable	4,184,681	(2,869,569)
Accounts payable and accrued liabilities	176,226	(6,625,674)
Inventory	43,553	4,215
Deposits and prepaids	(12,191,476)	(17,034,912)
	(132,582,192)	1,037,905
Cash flows from investing activities:		
Additions to investment properties	(146,973,882)	(52,413,799)
Additions to property, plant, and equipment	(2,553,611)	(20,522,301)
Additions to sales centres	(784,197)	(755,717)
Contributions to investments in joint ventures	-	(4,320,000)
Distributions from investments in joint ventures	750,000	19,686,752
Deposits held-in-trust	12,297,752	(27,359,554)
Deposits on real estate sales	(12,255,173)	27,164,008
	(149,519,111)	(58,520,611)
Cash flows from financing activities:		
Proceeds from loans from shareholder	20,000,000	50,000,000
Repayment of loans from shareholder	(20,000,000)	-
Repayment of mortgages payable	(6,661,585)	(5,717,656)
Payment of financing fees	-	(1,391,026)
Proceeds from mortgages payable	-	59,192,920
Bank and other indebtedness	267,027,301	(10,542,304)
Contributions by non-controlling interests	58,215,004	1,325,000
Distributions to non-controlling interests	(12,290,000)	(15,709,587)
Proceeds on exercise of stock options (note 13(b))	-	12,188,399
Dividends paid (note 13(c))	(16,976,683)	(20,372,021)
	289,314,037	68,973,725
Increase in cash and cash equivalents	7,212,734	11,491,019
Cash and cash equivalents, beginning of year	27,463,559	15,972,540
Cash and cash equivalents, end of year	\$ 34,676,293	\$ 27,463,559

See accompanying notes to these consolidated financial statements.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

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 10th 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 20, 2018.

(b) Basis of measurement:

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

(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 Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

2. Basis of presentation (continued):

(c) Basis of consolidation (continued):

(i) Subsidiaries (continued):

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%
41 st Ave. Development Limited Partnership	100%
588526 British Columbia Ltd.	100%
Cambie and 43 rd Developments Limited Partnership	100%
Eagle Mountain Properties Ltd.	100%
Hastings Street Developments Limited Partnership	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%
Wall North Vancouver Townhome Development Limited Partnership	29%
Wall University Developments Limited Partnership	100%
WWC Hotels LLP	100%

(ii) Interests in 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. A joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

(iii) Transactions eliminated on consolidation:

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

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

2. Basis of presentation (continued):

(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.

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 subsidiaries:

Judgment is applied in assessing whether the Company exercises control or significant influence over subsidiaries, 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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

2. Basis of presentation (continued):

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

(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.

(v) 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.

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.

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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

2. Basis of presentation (continued):

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

(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) 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

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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

3. Significant accounting policies (continued):

(a) Investment properties (continued):

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.

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.

(b) 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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

3. Significant accounting policies (continued):

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

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

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 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.

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.

(c) 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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

3. Significant accounting policies (continued):

(c) Properties under development for sale (continued):

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.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

3. Significant accounting policies (continued):

(h) 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.

(i) 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.

(j) 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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

3. Significant accounting policies (continued):

(k) 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.

(l) 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.

(m) 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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

3. Significant accounting policies (continued):

(m) Financial instruments (continued):

(i) Recognition and classification (continued):

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

(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.

(n) 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.

(o) 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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

3. Significant accounting policies (continued):

(o) Segment reporting (continued):

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.

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. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

(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. The Company does not expect there to be a material impact on the timing and measurement of revenue recognized as compared to the previous standard. Additional disclosures will be required to comply with IFRS 15.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

4. Accounting standard changes (continued):

(c) Amendments to IFRS 2 – *Share-based payment*:

The amendments to IFRS 2 clarifies the classification and measurement of cash-settled share-based payment transactions that include a performance condition, share-based payment transactions with a net settlement feature for withholding tax obligations, and modifications of a share-based payment transaction from cash-settled to equity-settled. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

(d) 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 this standard on its consolidated financial statements.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

5. Investment properties:

	Land and buildings	Major components	Total
Cost:			
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
Additions	146,947,729	26,153	146,973,882
Reclass from properties under development	90,618,692	15,888,520	106,507,212
Balance at January 31, 2018	410,201,935	51,680,824	461,882,759
Accumulated depreciation:			
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
Depreciation	2,850,614	3,561,167	6,411,781
Balance at January 31, 2018	17,185,161	10,230,567	27,415,728
Net carrying value at January 31, 2018	\$ 393,016,724	\$ 41,450,257	\$ 434,467,031
Net carrying value at January 31, 2017	\$ 158,300,967	\$ 29,096,751	\$ 187,397,718

During the year ended December 31, 2017, two rental properties with carrying amounts of \$106,507,212 that were previously classified as properties under development were reclassified as investment properties upon the commencement of rental operations at these properties.

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

	Fair value	Carrying value
January 31, 2018	\$ 896,359,000	\$ 434,467,031
January 31, 2017	497,149,000	187,397,718

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

6. Property, plant and equipment:

	Land and building	Major components	Furniture, fixtures and equipment	Total
Cost:				
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
Additions	4,933	152,417	2,396,261	2,533,611
Balance at January 31, 2018	134,077,569	37,030,581	61,708,645	232,816,795
Accumulated depreciation:				
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
Depreciation	2,044,363	1,234,410	4,025,578	7,304,351
Balance at January 31, 2018	34,517,847	17,940,515	43,201,406	95,659,768
Net carrying value at January 31, 2018	\$ 99,559,722	\$ 19,090,066	\$ 18,507,239	\$ 137,157,027
Net carrying value at January 31, 2017	\$ 101,599,152	\$ 20,172,059	\$ 20,136,556	\$ 141,907,767

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

	2018	2017
Properties under development for sale	\$ 279,525,284	\$ 111,631,597
Properties held-for-sale	215,770,321	337,862,816
	\$ 495,295,605	\$ 449,494,413

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 \$171,398,034 (2017 - \$159,777,586). For the year ended January 31, 2017, this includes contingent rent of \$21,309,120 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, 2018 and 2017

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, 2018 and 2017.

	2018	2017
Property taxes	\$ 1,207,244	\$ 1,129,415
Interest on borrowings	16,292,497	18,634,812

8. Amounts receivable:

Included in amounts receivable are the following:

(a) Loans to third parties of \$1,044,684 (2017 - \$2,011,350). Of this amount, \$994,684 (2017 - \$934,684) is due on demand and secured by real estate property, bearing interest ranging from 2% to prime + 0.5% per annum (2017 - 2% to prime + 0.50%). The remaining balance of \$50,000 (2017 - \$50,000) is unsecured, bears interest at 4% per annum, (2017 - 4%) and due on demand. For the year ended January 31, 2017, a loan in the amount of \$1,026,666 was secured by a corporate guarantee and assignment of receivables, bearing interest at 3.50% per annum. This loan was repaid in the year ended January 31, 2018.

(b) Loans to employees in the aggregate amount of \$1,660,000 (2017 - \$1,660,000), secured by real estate property, bearing interest ranging from 1% to 2% (2017 - 1% to 2%), and due on demand.

Total interest accrued as at January 31, 2018 on the above loans receivable, and included in amounts receivable on the statement of financial position is \$8,097 (2017 - \$4,060);

(c) Trade and other receivables of \$5,719,871 (2017 - \$7,798,536).

9. Other assets:

	2018	2017
Prepaid commissions on properties under development for sale	\$ 17,665,576	\$ 19,025,730
Deposits and prepaids	31,737,271	18,185,640
Sales centres, less accumulated amortization of \$8,923,163 (2017 - \$8,215,671)	546,142	469,438
Inventory	307,352	350,905
	\$ 50,256,341	\$ 38,031,713

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

10. Debt on properties:

		Weighted average interest rate	2018	2017
Bank and other indebtedness:				
Properties under development	(a)	4.08% (2017 - 3.33%)	\$ 366,877,190	\$ 298,156,917
General corporate debt	(b)	4.05% (2017 - 3.22%)	248,249,809	49,942,781
			615,126,999	348,099,698
Mortgages payable:				
Investment properties	(c)	2.94% (2017 - 2.97%)	132,926,918	136,750,993
Property, plant and equipment	(c)	3.25% (2017 - 3.13%)	89,173,327	92,010,836
			222,100,245	228,761,829
Less: deferred financing fees			(3,468,970)	(3,633,689)
			218,631,275	225,128,140
Less: current portion of mortgages payable			(93,118,127)	(102,215,047)
			\$ 125,513,148	\$ 122,913,093

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

At January 31, 2018, the Company borrowed \$366,877,190 (2017 - \$298,156,917) 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 \$501,896,738 (2017 - \$633,761,584). 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, 2018, the Company's borrowings of \$248,249,809 (2017 - \$49,942,781) are made available by way of lines of credit with a maximum available aggregate amount of \$291,643,750 (2017 - \$106,000,000). 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.

Subsequent to January 31, 2018, \$66,987,867 in general corporate debt was replaced with a ten-year term mortgage in the amount of \$112,350,376, net of deferred financing fees of \$3,046,712, bearing interest at a rate of 3.23%.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

10. Debt on properties (continued):

(c) Mortgages payable:

Of the \$89,173,327 (2017 - \$92,010,836) in mortgages on property, plant and equipment, \$13,900,000 (2017 - \$14,500,000) 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 \$75,273,327, with \$37,679,645 (2017 - \$38,776,395) fixed at 3.27% for a term of 4 years maturing November 2, 2019, and with the balance of \$37,593,681 (2017 - \$38,734,441) fixed at 2.99% for a term of 2 years maturing March 2, 2018. For the year ended January 31, 2018, a mark-to-market gain in the fair value of the interest rate swap of \$539,286 (2017 - \$601,087) was recorded in finance costs on the statement of earnings. As at January 31, 2018, the fair value of the interest rate swap asset is \$714,673 (2017 - \$175,387) and is included in accounts receivable on the statement of financial position.

Mortgages payable on investment properties of \$129,457,948, net of financing fees of \$3,468,970 (2017 - \$133,117,304, net of financing fees of \$3,633,689) bears interest at fixed rates ranging from 1.97% to 6.50% (2017 - 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	\$ 93,118,127
2019	39,953,873
2020	14,209,142
2021	2,442,918
2022	7,971,988
Thereafter	64,404,197
	<hr/>
	\$ 222,100,245

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

11. Net finance costs (income):

	2018	2017
Finance income:		
Investment income	\$ 561	\$ 753
Interest income	221,809	130,719
	<u>222,370</u>	<u>131,472</u>
Finance costs:		
Interest on:		
Bank and other indebtedness	24,403,605	21,076,251
Mortgages payable	4,085,632	4,535,656
	<u>28,489,237</u>	<u>25,611,907</u>
Interest capitalized to properties under development for sale	(16,292,497)	(18,634,812)
	<u>12,196,740</u>	<u>6,977,095</u>
Change in fair value of interest rate swap contracts	(539,286)	(601,087)
	<u>11,657,454</u>	<u>6,376,008</u>
Net finance cost	\$ 11,435,084	\$ 6,244,536

12. Non-controlling interests:

Non-controlling interests includes the following significant amounts:

- (a) The Company has entered into 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, 2018 includes \$22,016,230 (2017 - \$27,380,827) relating to these agreements with the Wall Equity Companies.

All other agreements entered into with any officer, or significant shareholder of the Company, and with any of their respective companies or related parties, will be based on a profit share in proportion to their capital investment in the respective projects.

- (b) The Company controls a partnership entered into for the purpose of developing property in North Vancouver, British Columbia and will guarantee all loans incurred in respect of the property and development. At January 31, 2018, non-controlling interests totals \$50,052,221 (2017 - nil), and includes the interest held by a wholly owned company of the president of the Company in the amount of \$10,010,444 (2018 - nil), and by a wholly owned company of a director of the Company in the amount of \$3,003,133 (2017 - nil).

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

12. Non-controlling interests (continued):

- (c) The Company controls a partnership entered into for the purpose of developing property at the University of British Columbia in Vancouver, British Columbia. As at January 31, 2018, non-controlling interests, comprised of the interest held by a wholly owned company of the President of the Company, totals \$7,342,704 (2017 - nil).
- (d) The Company controls a partnership entered into for the purpose of developing property in Vancouver, British Columbia. As at January 31, 2018, non-controlling interests totals \$88,287 (2017 - \$86,098).
- (e) The Company controls a partnership entered into for the purpose of developing property in Abbotsford, British Columbia. At January 31, 2018, non-controlling interests totals \$3,526,681 (2017 - \$3,440,056).

13. Share capital:

- (a) Issued and outstanding:

- (i) Common shares:

	Shares		Amount	
	2018	2017	2018	2017
Authorized:				
54,000,000 common shares without par value				
Issued and outstanding at				
January 31, 2018 and 2017	33,953,365	33,953,365	\$ 24,099,401	\$ 24,099,401

- (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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

13. Share capital (continued):

(b) Stock options (continued):

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. As at January 31, 2018 and 2017, there were no options outstanding.

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:

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, 2018, the Company recognized stock-based compensation expense of nil (2017 - \$320,000). This expense is included in general and administration expenses in the statement of earnings. As at January 31, 2018, 1,310,000 (2017 - 1,310,000) common shares are available for future issuance under the Stock Option Plan (2008).

(c) Dividends:

On June 15, 2017, the Board of Directors approved a dividend of \$0.50 per common share for each share held on June 29, 2017. This dividend of \$16,976,683 was paid on July 13, 2017.

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.

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 26.1% (2017 - 26.0%) to earnings before income taxes and non-controlling interest as a result of the following:

	2018	2017
Tax expense at statutory rate	\$ 5,341,928	\$ 9,697,066
Increase (decrease) resulting from:		
Attributable to non-controlling interest	(1,615,431)	(3,193,268)
Non-deductible expenses and non-taxable income	14,494	98,095
Change in filing estimates for prior periods and other	(1,878,334)	(1,080,918)
	\$ 1,862,657	\$ 5,520,975

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

14. Income taxes:

- (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:

	2018	2017
Deferred tax assets:		
Non-capital loss-carry forwards	\$ 1,704,981	\$ 1,497,806
Properties	28,130,595	25,977,130
	29,835,576	27,474,936
Deferred tax liabilities:		
Properties	(16,035,484)	(20,245,400)
Net deferred tax assets	\$ 13,800,092	\$ 7,229,536

The Company estimates that it has \$6,314,744 (2017 - \$5,760,789) of non-capital losses for income tax purposes available at January 31, 2018 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 2038.

15. Investments in joint ventures:

The Company owns a 50% interest in the Mandarin Residences Limited Partnership, which completed a real estate development project in Richmond, B.C. in 2016. The Company has determined that its interest in the partnership is a joint venture and accounts for its interest using the equity method. As at January 31, 2018, the Company's remaining interest in the partnership is \$474,235 (2017 - \$1,235,725) and recorded earnings of nil for the year ended January 31, 2018 (2017 - \$6,509,929).

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, 2018, the estimated committed costs to complete properties under development at year-end are approximately \$176,930,000 (2017 - \$278,180,000).
- (c) The Company has outstanding letters of credit at January 31, 2018 of \$35,103,262 (2017 - \$48,932,147) related primarily to public works and services to be performed by the Company as required in respect of its properties under development.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

17. Related party transactions:

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

(a) Compensation of key management personnel:

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:

	2018	2017
Salaries and wages	\$ 1,917,877	\$ 1,926,421
Employee benefits	145,015	161,560
Option-based benefits	-	320,000
	<u>\$ 2,062,892</u>	<u>\$ 2,407,981</u>

(b) Transactions with shareholders, directors, and officers:

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, 2018, 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 \$1,506,110 (2017 - \$2,045,910).

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, 2018, the Company sold two condominium units to an officer of the Company for gross proceeds of \$539,800 (2017 - \$2,689,981).

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

17. Related party transactions (continued):

(d) Shareholder loans:

As at January 31, 2018, the Company has the following loans payable due to a company owned by a significant shareholder of the Company:

- (i) \$80,000,000 term loan bearing interest at the greater of 4.75% and prime plus 1.00% and secured by a second mortgage on the Sheraton Wall Centre and Westin Wall Centre hotel properties. The term loan is due on October 31, 2020, with \$10,000,000 payable per annum upon written notice provided to the Company.

As at January 31, 2017, loans from shareholder was \$100,000,000, with \$50,000,000 due on demand, bearing interest at 3.25%, and with the balance of \$50,000,000 bearing interest at prime plus 2.00% per annum, of which \$30,000,000 was due on demand and. During the year ended January 31, 2018, \$20,000,000 of the loans were repaid and the remaining amounts were consolidated into the \$80,000,000 term loan as described above.

- (ii) \$20,000,000 loan secured by a charge over property under development, bearing interest at 6.00% and due on April 11, 2020.

(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. The Tenant is responsible for its operating costs, while the Company is responsible for property taxes and utilities in respect of the Premise.

18. Financial instruments:

(a) Fair values:

The carrying values of the Company's cash and cash equivalents, amounts receivable, 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).

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

18. Financial instruments (continued):

(a) Fair values (continued):

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, 2018 is \$218,327,359 (2017 - \$228,120,000).

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.

(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, 2018, management has determined that every 1% increase or decrease in the applicable interest rates results in a corresponding \$1,741,000 decrease or increase in the Company's net earnings.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

18. Financial instruments (continued):

(b) Financial risk management (continued):

(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, 2018, substantially all of the Company's trade receivables of \$5,005,198 (2017 - \$7,798,536) 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, 2018, the Company has available unused approved credit facilities of \$46,883,059. The Company also has trade receivables of \$5,005,198 which it expects to collect in full, and cash and cash equivalents totaling \$34,676,293.

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, 2018, the Company is in compliance with all bank covenants, and 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.

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Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

18. Financial instruments (continued):

(b) Financial risk management (continued):

(iii) Liquidity risk (continued):

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

	Value	Maturity
Accounts payable and accrued liabilities	\$ 42,786,965	Less than 1 year
Bank and other indebtedness	615,126,999	Less than 1 year
Current portion of mortgages payable	93,118,127	Less than 1 year
Loans from shareholder	10,000,000	On demand
Non-current portion of mortgages payable	125,513,148	2018 - 2026
Non-current portion of loans from shareholder	90,000,000	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.

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

	2018	2017
Liabilities:		
Loans from shareholder	\$ 100,000,000	\$ 99,911,458
Bank and other indebtedness	615,126,999	348,099,698
Mortgages payable	218,631,275	225,128,140
Shareholders' equity:		
Share capital	24,099,401	24,099,401
Non-controlling interest	83,026,123	30,906,982
Total capital	\$ 1,040,833,798	\$ 728,145,679

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

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

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

19. Segment disclosures (continued):

	Rental		Hotel		Development		Corporate		Consolidation	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Total assets	\$ 440,312,873	\$ 190,677,110	\$ 144,100,049	\$ 149,443,024	\$ 727,740,699	\$ 677,460,519	\$ 3,854,372	\$ 4,601,631	\$ 1,316,007,993	\$ 1,022,182,285
Revenue	\$ 21,342,349	\$ 17,094,946	\$ 76,210,250	\$ 66,221,266	\$ 198,161,538	\$ 219,499,688	\$ -	\$ -	\$ 295,714,137	\$ 302,815,900
Depreciation expense	6,411,781	4,786,839	7,304,351	6,888,661	707,492	1,863,322	-	9,652	14,423,624	13,548,474
Earnings (loss) from operations before income taxes	(1,455,007)	(14,605)	20,067,386	14,778,671	9,030,125	27,693,477	(7,159,653)	(5,161,136)	20,482,851	37,296,407

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2018 and 2017

20. Subsequent event:

On April 12, 2018, the Company acquired leased land located at the University of British Columbia for a gross purchase price of \$82,884,000 for a future development. The Company has a 75% interest in the property while a wholly owned company of the President of the Company has a 25% interest.