



**WALL FINANCIAL CORPORATION**

**2019 ANNUAL REPORT**





*Wall Financial Corporation was incorporated under the laws of British Columbia in 1969. The Company is focused on the development, acquisition, and management of residential and commercial income producing properties, the development and sale of single and multi-family housing, and the development and management of hotel properties. All of the Company's current activities are concentrated in Metro Vancouver and the Lower Mainland. The total Company portfolio as at April 18, 2019 contains 1,400 residential and commercial rental units and 934 hotel rooms.*

## 5 Year Comparison

Years ended January 31

	2019	2018	2017	2016	2015	2014
<b>Income Statement</b>						
Revenue and other income	\$ 453,896,246	\$ 295,936,507	\$ 309,457,301	\$133,293,827	\$ 67,866,352	\$275,145,359
Cost of sales and expenses	331,168,760	245,877,672	248,505,446	99,123,910	46,209,374	206,340,103
Earnings before income taxes	83,605,048	20,482,851	37,296,407	15,866,478	6,969,279	53,618,082
Net earnings attributable to owners of the Company	54,982,639	12,426,057	19,493,635	23,223,077	7,753,153	25,313,094
Earnings per share	\$ 1.62	\$ 0.37	\$ 0.58	\$ 0.70	\$ 0.23	\$ 0.76
Earnings before depreciation, interest, income taxes, & non-controlling interest	118,560,609	46,563,929	57,220,888	30,032,928	18,383,446	62,646,142
Per share	\$ 3.49	\$ 1.37	\$ 1.71	\$ 0.91	\$ 0.56	\$ 1.89
<b>Balance Sheet</b>						
Total assets	\$1,244,788,463	\$1,316,007,993	\$1,022,783,372	\$900,330,627	\$683,383,807	\$496,458,442
Investment properties	468,753,484	434,467,031	187,397,718	122,827,065	90,925,872	54,429,603
Property, plant and equipment	134,015,051	137,157,027	141,907,767	128,276,781	115,622,374	115,901,057
Properties under development for sale	456,605,711	495,295,605	449,494,413	453,218,248	325,244,155	244,830,478
Fixed rate indebtedness	299,672,250	228,200,245	264,261,830	132,633,084	76,865,963	65,972,834
Floating rate indebtedness	575,016,158	709,026,999	412,599,698	448,023,365	381,675,383	243,718,249
<b>Shareholders' Equity</b>						
Book value	\$ 135,079,231	\$ 114,049,957	\$ 118,600,583	\$106,970,570	\$ 83,747,493	\$ 95,862,359
Book value market price (per share)	\$ 3.98	\$ 3.36	\$ 3.49	\$ 3.23	\$ 2.53	\$ 2.89
Common share market price						
High	\$29.85	\$25.47	\$ 20.00	\$14.78	\$12.29	\$12.49
Low	\$22.09	\$18.81	\$ 13.30	\$10.35	\$10.60	\$9.24
Dividends paid	\$ 33,953,365	\$ 16,976,683	\$ 20,372,021	\$ -	\$ 19,868,019	\$ 9,934,010
Dividends paid per share	\$1.00	\$0.50	\$ 0.60	\$ -	\$0.60	\$0.30
<b>Operations</b>						
Number of rental units	1,400	1,400	1,081	1,069	952	877
Number of hotel rooms	934	934	934	921	921	921

*President's  
Report*

The Company operations for the year ended January 31, 2019 resulted in net earnings attributable to shareholders of \$54,982,639 or \$1.62 per share as compared to \$12,426,057 or \$0.37 per share for the previous year ended January 31, 2018. Earnings before interest, income tax, depreciation, and amortization (EBITDA), and net earnings attributable to non-controlling interest were \$118,560,609 as compared to \$46,563,929 for the previous year. The increase in earnings is due primarily to improved operating results at the hotel and rental apartment operations and positive profit margins on the sale of condominiums.

Highlights from our past year of operations:

- Initiated rezoning applications for two significant hotel and strata-rental projects in Vancouver.
- Completed the first of four buildings at Shannon Phase 2 and commenced with closings on the sales.
- Significant increase in revenue and operating results at our hotel operations.
- Enhanced operating results at the rental apartment operations.

Over the next fiscal year, we will complete the balance of sales at the Shannon and Eagle Mountain developments, focus on improving earnings at the hotels and rental apartments, and pursue additional strata rental and hotel opportunities.



Bruno Wall  
President  
April 18, 2019

# *Management's Discussion and Analysis of Financial Conditions and Results Of Operations*

YEAR ENDED JANUARY 31, 2019

April 18, 2019

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The following discussion of Wall Financial Corporation's (the "Company", "we", or "us") financial conditions and results of operations should be read in conjunction with the Company's audited consolidated financial statements and related notes for the years ended January 31, 2019 and 2018. Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

The financial statements underlying this Management's Discussion and Analysis ("MD&A"), including comparative information, have been prepared in Canadian dollars, and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), unless otherwise noted, using the same accounting policies as described in notes 2 and 3 of the Company's consolidated financial statements for the years ended January 31, 2019 and 2018.

The Board of Directors of the Company (the "Board"), on the recommendation of the Audit Committee, approved the content of this MD&A on April 18, 2019.

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

## FORWARD-LOOKING STATEMENTS

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

This MD&A contains forward-looking statements concerning planned increases in rental units and rates, average daily rates and occupancy rates, anticipated increases in revenue from operations, timing for commencement and completion of construction and renovations, the Company's policy to only acquire land for development which is zoned for its intended use, or where the required rezoning is contemplated and encouraged by the governing authorities, anticipated timing of the closings of sales, anticipated timing and approval of rezoning and subdivision applications, anticipated growth, anticipated cost and financing of planned projects, anticipated resources being sufficient to carry the Company's operations through uncertain times, impact of interest rates on net earnings; recovery of cash flow, capital expenditures and investments, property acquisitions, development plans, outlook with respect to financing availability and operating and financial conditions, plans to make the necessary capital and operating expenditures to facilitate compliance with environmental laws and other requirements and the impact of those expenditures, prevention and mitigation of the impact of catastrophic loss of life and property through the provision of safe work sites, safe living areas and maintenance of adequate and cost effective insurance, and continual evaluation and modification of internal controls over financial reporting. These forward-looking statements are not a guarantee of future performance and are based on the Company's estimates and assumptions, which include, but are not limited to assumptions based on management experience, historical results, current expectations and analyses, trends, government policies, and current business and economic conditions, including the Company's analysis of its business and services and its expectations regarding the effects of anticipated business and service changes and the potential benefits of such efforts and activities on the Company's results of operations in future periods. Forward-looking statements are subject to inherent uncertainties and risks, including, but not limited to: general business and economic conditions in the Company's operating regions, pricing pressures and other competitive factors, results of the Company's ongoing efforts to reduce costs, market its developments for sale, the ability to obtain rezoning and subdivision of certain properties, and the availability and terms of financing. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements. The Company, except as required by applicable law, undertakes no obligation to publicly update or revise any forward looking statements.

## OVERVIEW

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

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

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

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

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

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

## STRATEGIES AND RISK MANAGEMENT

### Strategies

The hotel, residential, and commercial properties owned by the Company provide an income stream and capital appreciation that is utilized for acquisitions, investments in development properties, reduction of debt, and payment of dividends to shareholders. As at January 31, 2019, the Company owns and manages 934 hotel units (188 at the Westin Wall Centre Vancouver Airport Hotel, and 746 at the Sheraton Vancouver Wall Centre Hotel). It also owns and manages 1,400 residential and commercial rental units located in Metro Vancouver.

The Company develops for sale residential housing units with a primary focus on high-rise multi-family projects. It is the Company's strategy to acquire land for development that is zoned for its intended use or where the required rezoning is contemplated and encouraged by the governing authorities. There are four properties under active development as at January 31, 2019: Eagle Mountain subdivision in Abbotsford, B.C. (262 single-family lots); Phase 2 of the Shannon Wall Centre Kerrisdale ("Shannon Wall Phase 2") project in Vancouver, B.C. (322 condominium units); the first of six phases of the Trails ("Trails") project in North Vancouver, B.C. (66 townhome and low-rise residential units); and the Ivy on the Park ("Ivy on the Park") project next to the University of British Columbia in Vancouver, B.C. (226 condominium units).

### Risk management:

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

### General risks:

We are exposed to the micro- and macro-economic conditions that affect the markets in which the Company operates and owns assets. In general, a decline in economic conditions will result in downward pressure on the Company's margins and asset values as a result of lower demand for the services and products offered by the

Company. Specifically, general inflation and interest rate fluctuations; population growth and migration; job creation and employment patterns; consumer confidence; government policies, regulations and taxation; and availability of credit and financing could pose a threat to our ongoing business operations.

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

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

#### *Industry risks:*

Real estate investments are generally subject to varying levels of risk. These risks include changes to general economic conditions, government and environmental regulations, local supply/demand, and competition from other real estate companies. Real estate assets are relatively illiquid in down markets, particularly raw land. As a result, the Company may not be able to quickly rebalance its portfolio in response to changing economic or investment conditions. Management attempts to manage these risks by acquiring properties with strong economic and growth indicators, and ensuring the Company has adequate capital and liquidity to enable the Company to deal with fluctuating markets and ongoing changes in the economic environment.

#### *Concentration of assets risk:*

The majority of the Company's assets are located in Metro Vancouver. Adverse changes in economic conditions in Metro Vancouver may have a material adverse effect on the Company's business, cash flows, financial condition and results of operations and ability to pay dividends. The Metro Vancouver economy is influenced by the demand for new housing in the region, which is impacted by interest rates, growth in employment, migration, and general economic conditions. Various government bodies (including the Canadian federal government, the British Columbia provincial government and the Vancouver municipal government) are exploring or enacting legislation and regulations that are intended to have an impact on the real estate industry, which could result in negative impacts on the Company and its assets.

#### *Investment properties:*

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

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

#### *Hotels:*

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

#### *Properties under development:*

There are a variety of risks associated with the Company's development activities such as municipal regulatory requirements and environmental considerations that affect the approval for planning, subdivision and use of land. During this period, the market conditions in general and/or the market for condominium units in the size

and price range in the Company's developments may change dramatically. Other risks include increasing costs of construction, reduced demand for new residential units, changes in regulations and taxes, and general market risk. The Company is also subject to risk that the actual performance of properties acquired by the Company may be materially different from the assumptions made by management of the Company when purchasing the properties.

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

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

#### *Environmental Matters:*

As an owner of real property, the Company is subject to various federal, provincial and municipal laws and other requirements relating to environmental matters. Under such requirements, the Company could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous substances. The failure to remove or remediate such substances, if any, could adversely affect the Company's ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in the Company incurring expenses, including in connection with orders or claims against the Company. The Company is not aware of any material non-compliance with environmental requirements at any of the properties or otherwise affecting the Company or its business. The Company is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or otherwise affecting the Company or its business or any pending or threatened claims relating to environmental conditions at its properties or otherwise affecting the Company or its business. The Company has policies and procedures to review, monitor and manage environmental exposure.

The Company plans to make the necessary capital and operating expenditures to facilitate compliance with environmental laws and other requirements. Although there can be no assurances, the Company does not believe that costs relating to environmental matters will have a material adverse effect on the Company's business, financial condition or results of operations. Moreover, environmental laws and other requirements can change and the Company may become subject to more stringent environmental laws and other requirements in the future, including those related to greenhouse gas emission reduction. Compliance with more stringent environmental laws and other requirements could have an adverse effect on the Company's business, financial condition or results of operation.

#### *Catastrophic and general uninsured losses:*

A catastrophic loss includes the loss of or extreme damage to a property or portfolio of properties, loss of life, or disability that could have a material adverse effect on the Company's business, financial condition, prospects, results of operations, or reputation. A significant injury, loss of life or damage to property could be a result of accidents incurred by employees, contractors, or residents due to an unsafe work environment, unsafe properties, lack of appropriate safety precautions, or natural disasters, beyond the control of the Company, such as fire, flood, or earthquakes. The Company will continue to prevent and mitigate the impact of catastrophic loss of life or property by continuing to provide safe work sites for employees and contractors and providing safe living areas for residents by adhering to the Company's occupational health and safety standards. The Company will mitigate the financial impact of potential losses by maintaining an adequate and cost effective insurance program for the operation of the Company's business.

The Company carries General Liability and All Risks Property coverage including Business Interruption and Rental Income, with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. The Company has insurance for earthquake and flood risks, subject to certain policy limits, deductibles and self-insurance arrangements, and will continue to carry such insurance if it is economical to do so. Should an uninsured or underinsured loss occur, the Company could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, but the Company would continue to be obliged to repay any recourse mortgage indebtedness on such properties.

*Technology and information security:*

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

A summary of the financial risks that arise from the Company's financial assets and liabilities are summarized under the Financial Instruments and Risk Management section in this MD&A.

## SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

The following is a summary of the Company's financial information for the three months and year ended January 31, 2019, with comparative information for the periods identified, all expressed in Canadian dollars:

Revenue and earnings	Three months ended January 31			Year ended January 31		
	2019	2018	2017	2019	2018	2017
Total revenue and other income	\$ 138,026,267	\$ 20,759,915	\$ 53,731,604	\$ 453,880,434	\$ 295,936,507	\$ 309,457,302
Net earnings attributable to shareholders of the Company	\$ 37,115,648	\$ (1,479,761)	\$ 17,734	\$ 54,982,639	\$ 12,426,057	\$ 19,493,635
Earnings per share (diluted and non-diluted)	\$ 1.09	\$ (0.04)	\$ 0.00	\$ 1.62	\$ 0.37	\$ 0.58

Balance sheet	January 31, 2019	January 31, 2018	January 31, 2017
Total assets	\$ 1,244,788,463	\$ 1,316,007,993	\$ 1,022,783,372
Total non-current liabilities	\$ 313,429,192	\$ 231,548,633	\$ 163,158,493
Dividends paid	\$ 33,953,365	\$ 16,976,683	\$ 20,372,021
Dividends paid per share	\$ 1.00	\$ 0.50	\$ 0.60

The variations in the financial data provided above are discussed in greater detail under "Discussion of Operations" in this MD&A.

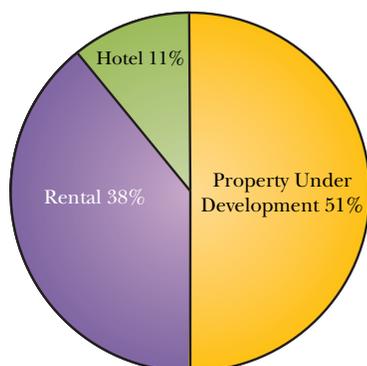
Significant variations with respect to revenues are typically the result of the timing and quantity of residential and commercial unit sales closing at the development properties. The fluctuations in the total assets owned by the Company are predominantly the result of development activities undertaken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

## OVERALL PERFORMANCE AND QUARTERLY INFORMATION

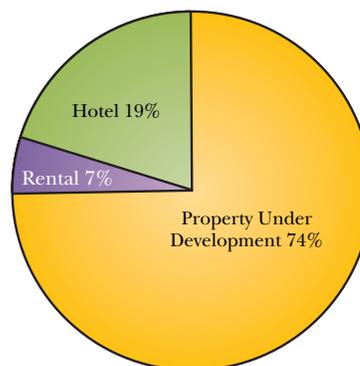
The Company operates in three different segments of the real estate industry: ownership and management of residential and commercial rental properties, the development and sale of residential housing (referred to as development properties), and the ownership and management of hotel properties.

The charts below show the Company's property holdings as at January 31, 2019 and revenue derived from such segments for the year ended January 31, 2019.

Property Asset Mix Source



Revenue Source



### Revenues

	Three months ended January 31		Year ended January 31	
	2019	2018	2019	2018
Investment properties (rental)	\$ 7,872,664	\$ 6,172,735	\$ 32,570,404	\$ 21,342,349
Property, plant, & equipment (hotel)	16,477,484	14,301,885	85,112,657	76,210,250
Properties under development for sale	24,350,148	20,474,620	117,683,061	97,552,599
	112,951,547	230,646	334,533,585	198,161,538
	\$ 137,301,695	\$ 20,705,266	\$ 452,216,646	\$ 295,714,137

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

	Three months ended January 31		Year ended January 31	
	2019	2018	2019	2018
Investment properties (rental)	\$ (4,365,009)	\$ (2,536,234)	\$ 1,008,304	\$ (1,455,007)
Property, plant, & equipment (hotel)	1,097,167	727,391	24,378,128	20,067,386
	(3,267,842)	(1,808,843)	25,386,432	18,612,379
Properties under development for sale	57,852,513	(353,451)	66,068,813	9,030,125
Corporate and general expenses	(1,787,312)	(2,268,732)	(7,850,197)	(7,159,653)
	\$ 52,797,359	\$ (4,431,026)	\$ 83,605,048	\$ 20,482,851

## DISCUSSION OF OPERATIONS

For the year ended January 31, 2019, the Company earned revenue of \$452,216,646 with a gross margin<sup>1</sup> of \$121,047,886 compared with revenue of \$295,714,137 with a gross margin of \$49,836,465 for the prior year. Revenue and earnings for the current year were higher than the prior year due to more closings of condominium units, the full lease up of the newly constructed 276-unit Wall Centre Yaletown and the 40-unit 1111 Seymour Street rental properties, both located in downtown Vancouver, British Columbia, as well as improved hotel operating results.

General and administrative costs were \$4,151,065 for the year ended January 31, 2019 compared with \$3,494,906 for the prior year. The increase in costs for the current year is due primarily to professional fees incurred to conduct market studies on future development sites.

Depreciation and amortization expense for the year ended January 31, 2019 was \$17,427,761 compared to \$14,423,624 for the prior year. This increase is primarily due to the amortization of the Wall Centre Yaletown and 1111 Seymour rental properties, as well as the amortization of a property acquired in October, 2017, which the Company has leased back to the vendor pending redevelopment of the site.

Finance costs of \$17,527,800 for the year ended January 31, 2019 include interest paid of \$38,302,788, less interest capitalized to the development projects of \$21,202,495, and an interest rate swap loss of \$427,507. For the prior year, finance costs were \$11,657,454 which included interest paid of \$28,489,237, less interest capitalized to the development projects of \$16,292,497, and an interest rate swap gain of \$539,286. Interest paid was higher in the current year due to an increase in interest rates, an increase in mortgages payable from the refinancing of the Wall Centre Yaletown property, and due to an increase in construction financing, which is reflective of the increased construction and development activities undertaken by the Company.

Increases in interest rates are closely monitored by the Company and are managed by securing term financing on the Company's rental and hotel properties, or by entering into swap financing transactions, where feasible and practical.

## REVENUE-PRODUCING PROPERTIES

### Residential and Commercial Rentals

At January 31, 2019, the Company owns and manages 1,390 residential units and 10 commercial units in 13 properties in Metro Vancouver.

Combined revenues from the residential and commercial rental units were \$32,570,404 for the year ended January 31, 2019 with earnings of \$1,008,304 compared with revenues of \$21,342,349 and a loss of \$1,455,007 for the prior year. Revenues and earnings increased due to higher re-rental rates, the lease-up of the 1111 Seymour and Wall Centre Yaletown rental properties, and lease revenue received from properties purchased during the year and held pending development activity.

Residential rental market conditions remain stable. All residential units are leased primarily for a one-year term and all leasing arrangements are governed by the Residential Tenancy Act (British Columbia), which require that fixed term residential tenancies automatically become month-to-month at the end of their term. Rental rates may be increased on tenant turnover or on the anniversary date of each tenant's date of occupancy, the increases for which will be restricted to the maximum percentage equal to British Columbia's Consumer Price Index (currently 2.50%). The average turnover rate for all of the Company's units is approximately 20% annually.

### Acquisitions and Dispositions

On January 30, 2019, the Company acquired a 50% interest in a property located in Vancouver, British Columbia from a wholly owned company of a significant shareholder of the Company, and assumed its 50% share of the debts and liabilities associated with this property for consideration of \$7,600,000 which was determined based on the fair value of the investment property of \$39,200,000 less debt of 24,000,000. The transaction was accounted for as an asset acquisition. The Company intends to redevelop the property with a wholly owned company of the President of the Company, which owns the remaining 50% interest in the property. On January 31, 2019, the Company and the wholly owned company of the President of the Company transferred their respective interest into a partnership, of which they each own a 50% interest. The Company has determined that it controls the partnership and has consolidated the partnership's results in its financial statements with the other partner's 50% interest being recorded as non-controlling interest. As at January 31, 2019, non-controlling interest totals \$7,845,000.

There were no other acquisitions or dispositions of investment rental properties for the year ended January 31, 2019.

<sup>1</sup> Refer to the discussion of Non-Standard Measures for definition

## Hotels

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

The Sheraton Vancouver Wall Centre Hotel is the largest single hotel property in British Columbia with 746 guestrooms and 45,000 sq. ft. of meeting space. Occupancy for the year ended January 31, 2019 was 77% with an average daily rate (“ADR”)<sup>2</sup> of \$236 compared to occupancy of 77% with an ADR of \$214 for the prior year. Revenue increased from \$63,223,282 in the prior year to \$70,037,616 for the year ended January 31, 2019. Revenue and ADR for the current year were higher than the prior year due to management’s focus on maximizing ADR through servicing higher rated business.

The Westin Wall Centre Vancouver Airport Hotel is located near the Vancouver International Airport and consists of 188 guestrooms and 9,900 sq. ft. of meeting space. Revenue for the year ended January 31, 2019 was \$15,075,041 with occupancy of 79% and an ADR of \$208. For the year ended January 31, 2018, revenue was \$12,986,968 with occupancy of 71% and an ADR of \$198.

The combined revenues for the hotel properties for the year ended January 31, 2019 of \$85,112,657 were higher than revenues for the prior year of \$76,210,250, and combined earnings from hotel operations, before income taxes, increased from \$20,067,386 in the prior year to \$24,378,128 for the year ended January 31, 2019. The increase in revenues and earnings were generally due to higher room rates achieved at both hotels, bolstered by the increased tourism activity in the greater Vancouver area.

## DEVELOPMENT PROPERTIES

The asset values of properties under development for sale decreased slightly from \$495,295,605 as at January 31, 2018 to \$456,605,711 as at January 31, 2019. This decrease is mainly due to closings of all 332 condominium units in the Central Park Phase 2 project, all 280 condominium units and 15 of the 18 commercial units at the Strathcona project, as well as closings of 70 of the 320 condominium units at the Shannon Wall Phase 2 project. The decrease was partially offset by the ongoing construction work at the Company’s development projects, and by the acquisition of a development site for the Ivy on the Park project (as discussed further below).

Revenue from the sale of properties under development was \$334,533,585 for the year ended January 31, 2019 compared with \$198,161,538 for the prior year while net earnings from development operations were \$66,068,813 for the current year compared with net earnings of \$9,030,125 for the prior year. The increase in revenues was due to higher priced condominium units closing in the current year compared with the prior year, which also resulted in an increase in earnings in the current year compared with the prior year.

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

Project	Description	Fiscal Year
Shannon Wall Centre Kerrisdale Phase 1	Phase 1 of a 10-acre development project consisting of 600 residential units located in the Kerrisdale neighbourhood at 57th and Granville Street in Vancouver, B.C. Phase 1 was substantially completed in November, 2015, and consisted of 65 condominium units, of which 59 units have closed. The remaining six units have been retained as rental units.	2016
Binning Tower	A 170-unit condominium tower located on leased land in the Wesbrook neighborhood at the University of British Columbia. Construction substantially completed in May, 2016 and all sales have closed.	2017

<sup>2</sup> See discussion under Non-Standard Measures for definition

Project	Description	Fiscal Year
Mandarin Residences	A two tower project consisting of 347 residential units located on a property on No. 3 Road in Richmond, B.C. The project was developed with Fairmont Pacific Properties Limited, an arm's length 50% joint venture managing partner. All 347 sales have closed.	2017
Strathcona Village	A three-tower mid-rise mixed-use project with 280 market residential units, and 60,000 sq. ft. of light industrial space. All 280 condominium units have closed and 15 of the 18 commercial units have closed. The Company is underway with the sale of the remaining three commercial units.	2019
Wall Centre Central Park	A four tower project consisting of 1,060 residential units located in Vancouver, B.C. Development is being conducted in two phases. All 728 condominium units in Phase 1 and all 332 condominium units in Phase 2 have closed.	2017/2019

### Projects Under Active Development

The Company has four projects under active development as at January 31, 2019:

Project	Description	Estimated Cost to Complete
Eagle Mountain	An 80 acre, single-family subdivision property in Abbotsford B.C. with approvals in place for 262 building lots. The property is being developed with a 15% non-controlling interest partner. Development is being phased. There are 74 lots in Phases 7 and 8 of which 65 can be sold. Of the 65 lots, 53 have been sold, with 17 sales closed, and with the balance of 38 lots scheduled to close by December, 2019.	\$2,300,000
Shannon Wall Centre Kerrisdale Phase 2	A five-acre development project consisting of 322 residential units located in the Kerrisdale neighbourhood at 57th and Granville Street in Vancouver, B.C. As at January 31, 2019, 310 of the 322 residential units are under contract for sale, of which 70 units have closed. As at April 18, 2019, 230 of the 311 units under contract have closed, construction is substantially complete, and bank financing has been repaid in full.	\$8,900,000
Trails North Vancouver	On April 13, 2017, the Company, along with other investors, acquired property located in North Vancouver, B.C. for a gross purchase price of \$138,500,000 to develop approximately 300 residential units. The Company has a 28.6% interest in the property and will guarantee all loans incurred in respect of the property. Development and construction will be conducted in six phases, with the first phase consisting of 66 townhome and low-rise residential units, and of which 27 units are pre-sold. Construction has commenced, and the first phase is expected to complete by January, 2020.	\$29,800,000 (Phase 1)

Project	Description	Estimated Cost to Complete
Ivy on the Park	On April 12, 2018, the Company, along with a wholly owned company of the President of the Company, acquired leased land located at the University of British Columbia in Vancouver, B.C. for a gross purchase price of \$82,884,000 to develop 226 residential units. The Company has a 75% interest in the development while the wholly owned company of the President of the Company has a 25% interest. As at April 18, 2019, 160 of the 226 units are pre-sold. Construction is underway with completion expected in February, 2021.	\$110,500,000

### Acquisitions and Dispositions

There were no acquisitions or dispositions of development properties for the year ended January 31, 2019, other than as disclosed above.

### SUMMARY OF QUARTERLY RESULTS

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

	Revenue and Other Income	Net Earnings (Loss)*	Per Share**
January 31, 2019	\$ 138,026,267	\$ 37,115,648	\$ 1.09
October 31, 2018	37,807,334	5,970,960	0.18
July 31, 2018	254,428,064	12,398,212	0.37
April 30, 2018	23,618,769	(502,181)	(0.01)
January 31, 2018	20,759,915	(1,479,761)	(0.04)
October 31, 2017	28,499,206	4,619,734	0.14
July 31, 2017	132,875,815	6,853,737	0.20
April 30, 2017	113,801,571	2,432,347	0.07
January 31, 2017	63,334,214	17,734	0.01

All the financial data above is prepared in accordance with IFRS, using the same accounting policies and methods of application as described in notes 2 and 3 of the Company's consolidated financial statements for the year ended January 31, 2019.

\*Net earnings (loss) pertains to net earnings (loss) (diluted and non-diluted) and comprehensive income (loss) attributable to shareholders of the Company.

\*\* Per Share pertains to net earnings (loss) per share (diluted and non-diluted) attributable to shareholders of the Company.

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

Revenue and other income<sup>3</sup>, as well as net earnings for the quarters ended January 31, 2017, April 30, 2017, July 31, 2017, July 31, 2018, and January 31, 2019 were greater than the other quarters due mainly to the closing of residential condominium units at the Company's development projects: January 31, 2017 – 103 units at Phase 1 of the Central Park project; April 30, 2017 – 280 units at Phase 1 of the Central Park project; July 31, 2017 – 345 units at Phase 1 of the Central Park project; July 31, 2018 – 331 units at Phase 2 of the Central Park project, and 280 residential and 14 commercial units at the Strathcona project; and January 31, 2019 – 70 units at the Shannon Wall Phase 2 project. The net loss for the quarters ended January 31, 2018 and April 30, 2018 was mainly due to depreciation and interest expense on the 1111 Seymour and Wall Centre Yaletown rental properties which were not offset by rental revenues as the properties were being leased up.

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

<sup>3</sup> See Non-Standard Measures for definition

## INVESTMENTS

There are no significant changes in investment activities or investment strategies for fiscal 2019.

## BANK INDEBTEDNESS AND CREDIT FACILITIES

The Company has bank lines of credit or demand loans secured by property, plant and equipment and certain investment properties. Most of the Company's bank lines of credit have been in place for many years. Interest rates are based on prime and banker's acceptance rates. At January 31, 2019, the Company has borrowed \$282,447,853 (2018 - \$366,877,190) 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 \$355,682,000 (2018 - \$501,897,000). The credit facilities are secured by first mortgages and assignment of rents on the related properties, and assignment of insurance. The borrowings are due on demand.

At January 31, 2019, the Company's borrowings of \$163,287,167 (2018 - \$248,249,809) are made available by way of lines of credit with a maximum available aggregate amount of \$259,100,000 (2018 - \$291,644,000). The debt is secured by fixed and floating demand debentures, second mortgages, and an assignment of rents on certain investment properties, and property, plant, and equipment. The borrowings are due on demand and interest rates are based on a spread over prime or banker acceptance rates.

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

## MORTGAGES PAYABLE

Mortgages payable increased from \$218,631,275 as at January 31, 2018 to \$322,661,464 as at January 31, 2019 due primarily to a new mortgage placed on March 1, 2018 on the Wall Centre Yaletown rental property in the amount of \$115,397,088 bearing interest at a rate of 3.23% over a 10 year term.

At January 31, 2019, the Company held \$85,831,174 (2018 - \$89,173,327) in mortgages on property, plant and equipment. Of this amount, \$49,281,138 (2018 - \$13,900,000) bears interest at bankers' acceptance rates plus applicable stamping fees. An interest rate swap is in place to fix the interest rate on the remaining balance of the mortgages payable of \$36,550,036 at 3.27% for a term of four years maturing November 2, 2019. For the year ended January 31, 2018, an interest rate swap was also in place to fix the interest rate on mortgages payable of \$37,593,681 at 2.99% for a term of two years that matured March 2, 2018.

For the year ended January 31, 2019, the change in the fair value of the interest rate swap contracts was a loss of \$427,507 (2018 – gain of \$539,286) and is recorded in finance costs on the statements of earnings.

Mortgages payable on investment properties of \$243,122,213 (2018 - \$132,926,918) bears interest at fixed rates ranging from 1.97% to 6.50% (2018 – 1.97% 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.

Fixed rate mortgage maturity dates range from 2019 to 2028.

## CONTRACTUAL OBLIGATIONS

Principal instalments payable within the next five fiscal years, and thereafter on mortgages payable as at January 31, 2019 are as follows:

	Total	1 Year	2 to 3 Years	4 to 5 Years	After 5 Years
Mortgages payable	\$ 328,953,387	\$ 127,267,160	\$ 19,763,987	\$ 21,200,403	\$ 160,721,837

## COMMITMENTS AND CONTINGENCIES

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

At January 31, 2019, the estimated costs to complete properties under construction are approximately \$151,700,000 (2018 - \$176,930,000). These costs predominantly reflect construction expenditures for the development projects.

## LIQUIDITY AND FINANCIAL CONDITION

As at January 31, 2019, cash and cash equivalents totalled \$32,769,970. Net cash generated from operations was \$152,278,106, primarily as a result of funds received on the closing of condominium units from the Central Park, Strathcona, and Shannon Wall Phase 2 projects of \$249,393,141 offset by funds used in development activities of \$188,683,080 (which includes the acquisition of the development property for the Ivy at the Park project for \$82,884,000), interest paid of \$38,302,788, and taxes paid of \$8,803,276.

Investment activities decreased cash by \$18,951,691 due mainly to additions to investment properties, including the Company's purchase of a 50% interest in a property located in Vancouver, British Columbia for \$7,600,000, as further discussed below under "Transactions Between Related Parties".

Financing activities decreased cash by \$135,232,738, primarily due to the repayment of bank indebtedness of \$193,391,979 from proceeds received on the closing of condominium units and the payment of a \$1.00 per common share dividend on outstanding shares in the amount of \$33,953,365, offset in part by funds received on the refinancing of the Wall Centre Yaletown property for gross proceeds of \$115,397,088.

## DISCLOSURE OF OUTSTANDING SHARE DATA

The authorized capital of the Company consists of 54,000,000 common shares without par value. The number of common shares issued and fully paid as at April 18, 2019 was 33,953,365 (January 31, 2018 – 33,953,365).

At the Company's annual general meeting on May 29, 2008, the shareholders approved the Company's Stock Option Plan (2008) (the "**Stock Option Plan**"). Under the 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 represented 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 Toronto Stock Exchange ("**TSX**") during the trading day immediately preceding the date of grant; if there was no such sale, the weighted average trading price on the TSX for the common shares for the five trading days immediately preceding the date of the grant.

For the year ended January 31, 2019, no options were granted; 1,310,000 common shares are available for future issuance under the Stock Option Plan.

## DIVIDENDS

On September 13, 2018, the Board approved a dividend of \$1.00 per common share for each share held on September 27, 2018. This aggregate dividend of \$33,953,365 was paid on October 11, 2018.

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

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

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

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's significant accounting estimates and judgements are described in note 2 to the Company's January 31, 2019 audited consolidated financial statements, and the Company's significant accounting policies are described in note 3 to these financial statements.

## CHANGES IN ACCOUNTING POLICIES

The Company's significant accounting policies and standards are described in note 4 of the Company's consolidated financial statements for the year ended January 31, 2019.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Under the supervision of the President, the CEO and the CFO, the operating effectiveness of the disclosure controls and procedures and internal control over financial reporting were assessed using the criteria set forth by the Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO 2013 Framework) in Internal Control Over Financial Reporting. Based on these evaluations, the CEO and the CFO concluded that as at January 31, 2019:

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

For the year ended January 31, 2019, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's management will continue to periodically evaluate the Company's disclosure controls and procedures and internal control over financial reporting and will make any modifications from time to time as deemed necessary.

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

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at January 31, 2019, the Company's financial assets and liabilities consisted primarily of cash and cash equivalents, amounts receivable, deposits held in trust, bank indebtedness, accounts payable and accrued liabilities, income taxes payable, loans from shareholders, and mortgages payable. These financial instruments relate to the Company's normal course of business, with respect to the financing of its day-to-day operations, capital expenditures and acquisitions.

The carrying values of the Company's amounts receivable, deposits held in trust, accounts payable and accrued liabilities generally approximate their fair values due to their short term nature with the exception of interest rate

swap contracts which are recorded at fair value. The face value of bank and other indebtedness approximates its fair value, as it is due on demand. The fair value of mortgages payable is estimated by discounting the future contractual cash flows at the market interest rate that is available to the Company for similar financial instruments. The fair value of the mortgages payable at January 31, 2019 is \$326,929,000 (2018 - \$218,327,000).

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

#### *Interest rate risk:*

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

Based on the debt outstanding for the year ended January 31, 2019, management has determined that every 1% increase or decrease in the applicable interest rates results in a corresponding \$2,910,000 decrease or increase in the Company's net earnings.

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. For the year ended January 31, 2019, a mark-to-market loss in the fair value of the interest rate swap of \$427,507 (2018 – gain of \$539,286) was recorded in finance costs on the statement of earnings. As at January 31, 2019, the fair value of the interest rate swap asset is \$287,165 (2018 - \$714,673) and is included in accounts receivable on the statement of financial position.

#### *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.

#### *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 support the Company's ongoing operational and capital requirements.

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

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

As at January 31, 2019	Carrying amount	Total contractual cash flows	Less than one year	1-5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 30,025,870	\$ 30,025,870	\$ 30,025,870	-	-
Bank and other indebtedness	\$ 445,735,020	\$ 445,735,020	\$ 445,735,020	-	-
Loans from Shareholder	\$ 10,000,000	\$ 10,475,000	\$ 10,475,000	-	-
Mortgages payable	\$ 332,661,464	\$ 375,412,524	\$ 133,985,837	\$ 71,956,419	\$ 169,470,267
Non-current portion of loans from shareholder	\$ 90,000,000	\$ 97,318,750	\$ 4,525,000	\$ 92,793,750	-
	\$ 898,422,354	\$ 958,967,164	\$ 624,746,727	\$ 164,750,169	\$ 169,470,267

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

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

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

## OFF-BALANCE SHEET FINANCING

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

The Company has outstanding letters of credit at January 31, 2019 of \$20,418,539 (2018 - \$35,103,262) related primarily to works and services to be performed by the Company as required in respect of its development projects.

## TRANSACTIONS BETWEEN RELATED PARTIES

As at January 31, 2019, the Company has loans payable of \$100,000,000 (2018 - \$100,000,000) due to a company owned by Mr. Peter Wall, a significant shareholder of the Company. Of this amount, \$80,000,000 is used for general corporate purposes, secured by a second mortgage on the Sheraton Wall Centre and Westin Wall Centre hotel properties, and bears interest at the greater of 4.75% and prime plus 1.00%. The \$80,000,000 loan is due on October 31, 2020, with \$10,000,000 payable per annum upon written notice provided to the Company. The remaining balance of \$20,000,000 is used to fund activities for the Trails project, and is secured by a charge over that property, bears interest at 6.00% and is due on April 11, 2020.

For the year ended January 31, 2019, the Company recorded interest on loans payable to the significant shareholder totaling \$5,000,000 (2018 - \$4,668,786).

On April 13, 2017, the Company, along with other investors, acquired property located in North Vancouver, B.C., for a gross purchase price of \$138,500,000 for the Trails project. The Company has a 28.6% interest in the property and will guarantee all loans incurred in respect of the property and development. The other investors in this property include a wholly owned company of the President of the Company, and a wholly owned company of Mr. Michael Redekop, a director of the Company, which in aggregate comprise an 18.60% interest in this property. All the other remaining investors are arm's length with the Company. At January 31, 2019, non-controlling interests relating to this project totals \$52,559,981 (2018 - \$50,052,221), and includes the interest held by the wholly owned company of the President of the Company in the amount of \$10,511,996 (2018 - \$10,010,444), and by a wholly owned company of Mr. Michael Redekop, a director of the Company in the amount of \$3,153,599 (2018 - \$3,003,130).

As discussed under "Development Properties" in this MD&A, a wholly owned company of the President of the Company holds a 25% interest in the Ivy on the Park project on leased land at the University of British Columbia. As at January 31, 2019, non-controlling interests, comprised of the interest held by a wholly owned company of the President of the Company, totals \$10,883,971 (2018 - \$7,342,704).

On January 30, 2019, the Company acquired a 50% interest in a property located in Vancouver, British Columbia from a wholly owned company of a significant shareholder of the Company, and assumed its 50% share of the debts and liabilities associated with this property for consideration of \$7,600,000 which was determined based on the fair value of the investment property of \$39,200,000 less debt of 24,000,000. The transaction was accounted for as an asset acquisition. The Company intends to redevelop the property with a wholly owned company of the President of the Company, which owns the remaining 50% interest in the property. On January 31, 2019, the Company and the wholly owned company of the President of the Company transferred their respective interest into a partnership, of which they each own a 50% interest. The Company has determined that it controls the partnership

and has consolidated the partnership's results in its financial statements with the other partner's 50% interest being recorded as non-controlling interest. As at January 31, 2019, non-controlling interest totals \$7,845,000.

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, 2019, 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 \$1,759,800 (2018 - \$1,506,110).

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.

For the year ended January 31, 2019, the Company sold two condominium units to officers of the Company for gross proceeds of \$706,210 (2018 - \$539,800) on similar terms as sales to unrelated parties.

## 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 as at January 31, 2019 and 2018:

	January 31, 2019	January 31, 2018
Liabilities:		
Bank and other indebtedness	\$ 445,735,020	\$ 615,126,999
Loans from shareholder	100,000,000	100,000,000
Mortgages payable	322,661,464	218,631,275
Shareholders' equity:		
Share capital	24,099,401	24,099,401
Non-controlling interest	87,998,969	83,026,123
<b>Total capital</b>	<b>\$ 980,494,854</b>	<b>\$ 1,040,883,798</b>

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

## OUTLOOK FOR OPERATING CONDITIONS

### Rental Apartments

The trend of lower rent increases and higher turnover continued over the past quarter; however, re-rentals remain strong, keeping vacancy rates at below 2%. Our renovation program is now largely complete; we spent \$1,120,000 upgrading 44 units plus common areas and are now only renovating units on turnover at three of the eleven properties.

In March, we renewed the CMHC first mortgage financing at three properties at 2.80% for a ten-year term.

We continue to pursue expanding our rental portfolio and have three active projects that we are working on through the rezoning process that could total over 300 units.

### Hotel Operations

We achieved another successful year of improved operating results at both of the Company's hotel properties; revenue increased by over 11% and the gross margin increased by over 16% from the previous year as illustrated on the next page:

	ADR		Occupancy		Gross Margin	
	Jan 2019	Jan 2018	Jan 2019	Jan 2018	Jan 2019	Jan 2018
Sheraton Vancouver Wall Centre	\$236	\$214	77%	77%	\$27,383,040	\$23,539,217
Westin Wall Centre Vancouver Airport	\$208	\$198	79%	71%	\$4,657,659	\$3,932,521

Operating costs are also increasing, primarily for both salaried and hourly staff, as we need to offer competitive rates for staff retention and recruitment.

We are budgeting this year for revenue and gross margin growth at both hotel properties.

We are working at a plan to redevelop the site at Cambie & 43rd in Vancouver, British Columbia, which will add approximately 320 hotel rooms to the Company's hotel portfolio. We anticipate submitting a rezoning application in July 2019.

### Development Properties

Condominium sales volumes continue to decline throughout Metro Vancouver with flat or decreasing prices.

We now have completed all four buildings at Shannon Wall Phase 2 with 226 of 322 unit sales closed as of the date of this report. There are 12 units not sold.

Lot sales at the Eagle Mountain subdivision continue to close with 14 lot sales that closed in the year ended January 31, 2019 and 2 new lot sales since February 1, 2019. We are proceeding with our subdivision application for our last and final phase and expect approval in late 2019.

Excavation is now underway at the Ivy on the Park project at UBC's Wesbrook Village; pre-sales activity continues with 160 out of 226 sales in place.

Construction is underway at Phase 1 of the Trails project; the first phase has been reduced to 31 units reflecting the slower sales activity; this phase is expected to complete in December 2019.

### Financing

All of the company's credit facilities remain in good standing and we have arranged construction financing and mortgage and renewals as required. Credit facilities secured by our hotel assets have been renewed and increased.

### NON-STANDARD MEASURES

Throughout this MD&A, we refer to terms that are not specifically defined in the CICA Handbook and do not have any standardized meaning prescribed by IFRS. These non-standard measures may not be comparable to similar measures presented by other companies.

We believe these non-standard measures are useful in assisting investors in understanding components of our financial results. The non-standard terms that are referred to in this MD&A are defined below.

**ADR** = average daily rate, which represents the average rental income per paid occupied room in a given time period. ADR is calculated by dividing the rooms revenue earned by the number of rooms sold.

**Gross margin** = gross revenues less cost of sales and operating expenses.

**Occupancy (%)** = calculated by dividing the total number of rooms occupied by the total number of rooms available.

**Revenue and other income** = gross revenue plus earnings from investments in joint ventures and investment and other income.

*Independent  
Auditors'  
Report*

To the Shareholders of Wall Financial Corporation

We have audited the consolidated financial statements of Wall Financial Corporation (the Entity), which comprise:

- the consolidated statements of financial position as at January 31, 2019 and January 31, 2018
- the consolidated statements of earnings and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at January 31, 2019 and January 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors’ report thereon, included in a document likely to be entitled “Annual Report”.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors’ report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors’ report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion;
 

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit; and
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

The image shows the handwritten signature "KPMG LLP" in black ink. The letters are bold and slanted. A long, horizontal, slightly curved line is drawn underneath the signature, extending from the left side of the "K" towards the right.

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Michael Kennedy

Vancouver, Canada

April 18, 2019

# Consolidated Statements of Financial Position

January 31, 2019 and 2018

	2019	2018
<b>Assets</b>		
Investment properties (note 5)	\$ 468,753,484	\$ 434,467,031
Property, plant and equipment (note 6)	134,015,051	137,157,027
Properties under development for sale (note 7)	258,370,722	279,525,284
Investments in joint ventures (note 15)	430,019	485,725
Deferred tax asset (note 14(b))	29,878,904	29,835,577
<b>Non-current assets</b>	<b>891,448,180</b>	<b>881,470,644</b>
Current portion of properties under development for sale (note 7)	198,234,989	215,770,321
Deposits held-in-trust	95,571,496	125,408,816
Other assets (note 9)	16,998,663	50,256,341
Amounts receivable (note 8)	9,765,165	8,425,578
Cash and cash equivalents	32,769,970	34,676,293
<b>Current assets</b>	<b>353,340,283</b>	<b>434,537,349</b>
	<b>\$ 1,244,788,463</b>	<b>\$ 1,316,607,993</b>
<b>Liabilities</b>		
Mortgages payable (note 10)	\$ 195,394,304	\$ 125,513,148
Loans from shareholder (note 17(d))	90,000,000	90,000,000
Deferred tax liability (note 14(b))	28,034,888	16,035,485
<b>Non-current liabilities</b>	<b>313,429,192</b>	<b>231,548,633</b>
Current portion of mortgages payable (note 10)	127,267,160	93,118,127
Income tax payable	769,967	1,973,582
Accounts payable and accrued liabilities	30,025,870	42,786,965
Deposits on real estate sales	94,483,054	124,377,607
Loans from shareholder (note 17(d))	10,000,000	10,000,000
Bank and other indebtedness (note 10)	445,735,020	615,126,999
<b>Current liabilities</b>	<b>708,281,071</b>	<b>887,383,280</b>
	<b>\$ 1,021,710,263</b>	<b>\$ 1,118,931,913</b>
<b>Equity</b>		
Share capital (note 13)	\$ 24,099,401	\$ 24,099,401
Contributed surplus (note 13)	370,000	370,000
Retained earnings	110,609,830	89,580,556
<b>Equity attributable to shareholders of the Company</b>	<b>135,079,231</b>	<b>114,049,957</b>
Non-controlling interests (note 12)	87,998,969	83,026,123
<b>Total equity</b>	<b>223,078,200</b>	<b>197,076,080</b>
	<b>\$ 1,244,788,463</b>	<b>\$ 1,316,007,993</b>

Commitments and contingencies (note 16)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board:

\_\_\_\_\_  
"Bruno Wall" Director

\_\_\_\_\_  
"Peter Ufford" Director

# *Consolidated Statements of Earnings and Comprehensive Income*

Years ended January 31, 2019 and 2018

	2019	2018
Revenue (note 19)	\$ 452,216,646	\$ 295,714,137
Cost of sales and operating expenses	331,168,760	245,877,672
	121,047,886	49,836,465
Expenses:		
General and administrative	4,151,065	3,494,906
Depreciation (notes 5, 6 and 9)	17,427,761	14,423,624
	21,578,826	17,918,530
Loss from investments in joint ventures (note 15)	7,906	-
Net finance costs (income) (note 11):		
Investment and other income	(1,671,694)	(222,370)
Finance costs	17,527,800	11,657,454
	15,856,106	11,435,084
Earnings before income taxes	83,605,048	20,482,851
Income tax expense (recovery) (note 14):		
Current	7,599,662	8,433,213
Deferred	11,956,076	(6,570,556)
	19,555,738	1,862,657
<b>Net earnings and comprehensive income</b>	<b>\$ 64,049,310</b>	<b>\$ 18,620,194</b>
Net earnings and comprehensive income attributable to:		
Shareholders of the Company	\$ 54,982,639	\$ 12,426,057
Non-controlling interests (note 12)	9,066,671	6,194,137
	\$ 64,049,310	\$ 18,620,194
<b>Basic and diluted earnings per share</b>	<b>\$ 1.62</b>	<b>\$ 0.37</b>
<b>Weighted average shares outstanding</b>	<b>33,953,365</b>	<b>33,953,365</b>

See accompanying notes to these consolidated financial statements.

## *Consolidated Statements of Changes in Equity*

Years ended January 31, 2019 and 2018

	Atributable to shareholders of the Company				Total	Non-controlling interests	Total equity
	Share capital	Contributed surplus	Retained earnings	Total			
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	
Net earnings	-	-	54,982,639	54,982,639	9,066,671	64,049,310	
Contributions	-	-	-	-	15,366,151	15,366,151	
Distributions	-	-	-	-	(19,459,976)	(19,459,976)	
Dividends declared (note 13(c))	-	-	(33,953,365)	(33,953,365)	-	(33,953,365)	
Balance, January 31, 2019	\$ 24,099,401	\$ 370,000	\$ 110,609,830	\$ 135,079,231	\$ 87,998,969	\$ 223,078,200	

See accompanying notes to these consolidated financial statements.

# Consolidated Statements of Cash Flows

Years ended January 31, 2019 and 2018

	2019	2018
Cash provided by (used in):		
Cash flows from operating activities:		
Net earnings and comprehensive income	\$ 64,049,310	\$ 18,620,194
Adjustments for items not involving cash:		
Depreciation	17,427,761	14,423,624
Loss from investments in joint ventures	7,906	-
Amortization of deferred financing fees	223,758	253,262
Deferred income tax expense (recovery)	11,956,076	(6,570,556)
Current income tax expense	7,599,662	8,433,213
Finance costs (note 11)	17,527,800	11,657,454
	118,792,273	46,817,191
Recovery of costs through real estate sales	249,393,141	171,398,034
Additions to properties under development for sale	(188,683,080)	(307,413,941)
Interest paid (note 11)	(38,302,788)	(28,489,237)
Income taxes paid	(8,803,276)	(7,107,223)
Changes in non-cash operating working capital:		
Amounts receivable	(1,767,094)	4,184,681
Accounts payable and accrued liabilities	(12,761,095)	176,226
Inventory	(62,521)	43,553
Deposits and prepaids	34,472,546	(12,191,476)
	152,278,106	(132,582,192)
Cash flows from investing activities:		
Additions to investment properties	(13,104,365)	(146,973,882)
Additions to property, plant, and equipment	(4,400,595)	(2,553,611)
Additions to sales centres	(1,437,298)	(784,197)
Distributions from investments in joint ventures	47,800	750,000
Deposits held-in-trust	29,837,320	12,297,752
Deposits on real estate sales	(29,894,553)	(12,255,173)
	(18,951,691)	(149,519,111)
Cash flows from financing activities:		
Proceeds from loans from shareholder	-	20,000,000
Repayment of loans from shareholder	-	(20,000,000)
Repayment of mortgages payable	(8,543,945)	(6,661,585)
Payment of financing fees	(3,046,712)	-
Proceeds from mortgages payable	115,397,088	-
Bank and other indebtedness	(193,391,979)	267,027,301
Contributions by non-controlling interests	7,766,151	58,215,004
Distributions to non-controlling interests	(19,459,976)	(12,290,000)
Dividends paid (note 13(c))	(33,953,365)	(16,976,683)
	(135,232,738)	289,314,037
Increase (decrease) in cash and cash equivalents	(1,906,323)	7,212,734
Cash and cash equivalents, beginning of year	34,676,293	27,463,559
Cash and cash equivalents, end of year	\$ 32,769,970	\$ 34,676,293
Non-cash transaction:		
Assumption of bank indebtedness on acquisition of investment property (note 17(b))	\$ 24,000,000	\$ -

See accompanying notes to these consolidated financial statements.

# Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

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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”). The Company has consistently applied the accounting policies in all periods presented except for the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* which were adopted on February 1, 2018.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 18, 2019.

### (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.

# Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

## 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 <sup>st</sup> Ave. Development Limited Partnership	100%
588526 British Columbia Ltd.	100%
Cambie and 43 <sup>rd</sup> Developments Limited Partnership	100%
Cambie and 58 <sup>th</sup> (No. 2) Developments Limited Partnership	50%
Eagle Mountain Properties Ltd.	100%
Hastings Street Developments Limited Partnership	100%
Shannon Condominium Developments Unit Trust	100%
Shannon Estates Utility Ltd.	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.

# *Notes to Consolidated Financial Statements*

Years ended January 31, 2019 and 2018

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## **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(a) and 3(b), 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.

# Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

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## 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.

## Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

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### 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.

# *Notes to Consolidated Financial Statements*

Years ended January 31, 2019 and 2018

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

#### **(a) Investment properties (continued):**

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.

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.

## Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

### 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.

# Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

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### 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 not yet closed, 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.

## Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

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### 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.

# Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

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### 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) Classification and measurement:

Financial assets are classified and measured based on three categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit and loss (FVTPL). Financial liabilities are classified and measured on two categories: amortized cost or FVTPL. Derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 *Financial Instruments* are not separated, but the hybrid financial instrument as a whole is assessed for classification.

Financial assets are not reclassified subsequent to their initial recognition, unless the Company identifies changes in its business model in managing financial assets and would reassess the classification of financial assets.

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

## Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

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

#### (m) Financial instruments (continued):

##### (i) Classification and measurement (continued):

The following summarizes the classification and measurement of financial assets and liabilities:

Asset/liability	Classification under IFRS 9
Cash and cash equivalents	Amortized cost
Amounts receivable	Amortized cost
Mortgages payable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loans from shareholders	Amortized cost
Bank and other indebtedness	Amortized cost
Interest rate swap contracts	FVTPL

##### (ii) Impairment of financial assets:

An allowance for expected credit losses (“ECL”) is recognized at each balance sheet date for all financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

Impairment losses, if incurred, would be recorded as expenses in the consolidated statement of income and comprehensive income with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts. In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss would be reversed through the consolidated statement of income and comprehensive income. The impairment reversal would be limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

##### (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.

# Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

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

(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.

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:

(a) New standards and interpretations issued and adopted:

(i) IFRS 9 *Financial Instruments* ("IFRS 9"):

The Company implemented the new requirements of IFRS 9 on February 1, 2018 by applying the requirements for classification and measurement, including impairment, retrospectively with no restatement of comparative periods. The Company also applied related amendments to IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7").

Classification and Measurement:

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on the three categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit and loss (FVTPL). Financial liabilities are classified and measured based on two categories: amortized cost or FVTPL. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification.

Financial assets are not reclassified subsequent to their initial recognition, unless the Company identifies changes its business model in managing financial assets and at that time would reassess the classification.

# Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

## 4. Accounting standard changes (continued):

(a) New standards and interpretations issued and adopted (continued):

(i) IFRS 9 *Financial Instruments* (“IFRS 9”) (continued):

The following table summarizes the classification impacts upon adoption of IFRS 9. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities.

Financial instrument	Original classification under IAS 39	New classification under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other receivables	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	FVTPL

(ii) IFRS 15 *Revenue Contracts with customers* (“IFRS 15”):

In 2014, the IASB issued IFRS 15 replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services.

This is achieved by applying the following five steps:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and
5. recognize revenue when (or as) the entity satisfies a performance obligation.

The adoption of IFRS 15 has not had any impact on the revenue recognition of the Company. The Company’s rental revenue earned from investment properties is outside the scope of IFRS 15.

# Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

## 4. Accounting standard changes (continued):

(b) The standards and interpretations that are issued, but not yet effective:

(i) IFRS 16 *Leases* (“IFRS 16”):

On January 13, 2016, the IASB published a new standard, IFRS 16, *Leases* (“IFRS 16”). The new standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has assessed that the adoption of IFRS 16 has no material impact on the Company’s financial statements.

## 5. Investment properties:

	Land and buildings	Major components	Total
<b>Cost:</b>			
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
Additions	41,934,359	2,770,006	44,704,365
Disposals	(817,672)	-	(817,672)
Balance at January 31, 2019	451,318,622	54,450,830	505,769,452
<b>Accumulated depreciation:</b>			
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
Depreciation	5,223,069	4,377,171	9,600,240
Balance at January 31, 2019	22,408,230	14,607,738	37,015,968
Net carrying value at January 31, 2019	\$ 428,910,392	\$ 39,843,092	\$ 468,753,484
Net carrying value at January 31, 2018	\$ 393,016,774	\$ 41,450,257	\$ 434,467,031

## *Notes to Consolidated Financial Statements*

Years ended January 31, 2019 and 2018

### 5. Investment properties (continued):

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

	Fair value	Carrying value
January 31, 2019	\$ 887,816,000	\$ 468,753,484
January 31, 2018	896,359,000	434,467,031

### 6. Property, plant and equipment:

	Land and building	Major components	Furniture, fixtures and equipment	Total
<b>Cost:</b>				
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
Additions	-	34,380	4,366,215	4,400,595
Balance at January 31, 2019	134,077,569	37,064,961	66,074,860	237,217,390
<b>Accumulated depreciation:</b>				
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
Depreciation	2,044,561	1,239,189	4,258,821	7,542,571
Balance at January 31, 2019	36,562,408	19,179,704	47,460,227	103,202,339
Net carrying value at January 31, 2019	\$ 97,515,161	\$ 17,885,257	\$ 18,614,633	\$ 134,015,051
Net carrying value at January 31, 2018	\$ 99,559,722	\$ 19,090,066	\$ 18,507,239	\$ 137,157,027

## Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

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

	2019	2018
Properties under development for sale	\$ 258,370,722	\$ 279,525,284
Properties held-for-sale	198,234,989	215,770,321
	\$ 456,605,711	\$ 495,295,605

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 \$249,393,141 (2018 - \$171,398,034).

The following carrying amounts were capitalized to properties under development for sale for the years ended January 31, 2019 and 2018.

	2019	2018
Property taxes	\$ 1,593,846	\$ 1,207,244
Interest on borrowings	21,202,495	16,292,497

### 8. Amounts receivable:

Included in amounts receivable are the following:

- (a) Loans to third parties of \$1,054,684, all of which are due on demand and secured by real estate property, bearing interest ranging from 2% to prime + 0.50% per annum. For the year ended January 31, 2018, loans to third parties was \$1,044,684 of which \$994,684 was due on demand and secured by real estate, bearing interest ranging from 2% to prime + 0.50%. The remaining balance of \$50,000 was unsecured, bears interest at 4% per annum and due on demand.
- (b) Loans to employees in the aggregate amount of \$2,279,739 (2018 - \$1,660,000), secured by real estate property, bearing interest ranging from 1% to 2% (2018 - 1% to 2%), and due on demand.  
Total interest accrued as at January 31, 2019 on the above loans receivable, and included in amounts receivable on the statement of financial position is \$12,168 (2018 - \$8,097);
- (c) Trade and other receivables of \$6,143,577 (2018 - \$5,005,198).
- (d) The fair value of an interest rate swap asset of \$287,165 (2018 - \$714,673).

## *Notes to Consolidated Financial Statements*

Years ended January 31, 2019 and 2018

### 9. Other assets:

	2019	2018
Prepaid commissions on properties under development for sale	\$ 10,548,922	\$ 17,665,576
Deposits and prepaids	4,381,378	31,737,271
Sales centres, less accumulated amortization of \$284,950 (2018 - nil)	1,698,490	546,142
Inventory	369,873	307,352
	<b>\$ 16,998,663</b>	<b>\$ 50,256,341</b>

### 10. Debt on properties:

		Weighted average interest rate	2019	2018
<b>Bank and other indebtedness:</b>				
Properties under development	(a)	4.71% (2018 - 4.08%)	\$ 282,447,853	\$ 366,877,190
General corporate debt	(b)	4.69% (2018 - 4.05%)	163,287,167	248,249,809
			<b>\$ 445,735,020</b>	<b>\$ 615,126,999</b>
<b>Mortgages payable:</b>				
Investment properties	(c)	3.11% (2018 - 2.94%)	\$ 243,122,213	\$ 132,926,918
Property, plant and equipment	(c)	3.92% (2018 - 3.25%)	85,831,174	89,173,327
			328,953,387	222,100,245
Less: deferred financing fees			6,291,923	3,468,970
			322,661,464	218,631,275
Less: current portion of mortgages payable			127,267,160	93,118,127
Non-current portion of mortgages payable			<b>\$ 195,394,304</b>	<b>\$ 125,513,148</b>

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

At January 31, 2019, the Company had outstanding borrowings of \$282,447,853 (2018 - \$366,877,190) 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 \$355,682,000 (2018 - \$501,897,000). 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, 2019, the Company's borrowings of \$163,287,167 (2018 - \$248,249,809) are made available by way of lines of credit with a maximum available aggregate amount of \$259,100,000 (2018 - \$291,644,000). 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.

# Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

## 10. Debt on properties (continued):

### (c) Mortgages payable:

Of the \$85,831,174 (2018 - \$89,173,327) in mortgages on property, plant and equipment, \$49,281,138 (2018 - \$13,900,000) bear interest at bankers' acceptance rates plus applicable stamping fees. An interest rate swap is in place to fix the interest rate on the remaining balance of the mortgages payable of \$36,550,036 (2018 - \$75,273,327) at 3.27% for a term of 4 years maturing November 2, 2019. For the year ended January 31, 2018, an interest rate swap was also in place to fix the interest rate on mortgages payable of \$37,593,681 at 2.99% for a term of 2 years that matured March 2, 2018. For the year ended January 31, 2019, a mark-to-market loss in the fair value of the interest rate swap of \$427,507 (2018 – gain of \$539,286) was recorded in finance costs on the statement of earnings. As at January 31, 2019, the fair value of the interest rate swap asset is \$287,165 (2018 - \$714,673) and is included in accounts receivable on the statement of financial position.

Mortgages payable on investment properties of \$243,122,213 (2018 - \$132,926,918) bears interest at fixed rates ranging from 1.97% to 6.50% (2018 - 1.97% 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:

2020	\$ 127,267,160
2021	15,740,195
2022	4,023,792
2023	17,558,112
2024	3,642,291
Thereafter	160,721,837
	\$ 328,953,387

## Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

### 11. Net finance costs (income):

	2019	2018
Finance income:		
Investment income	\$ 58,566	\$ 561
Interest income	1,613,128	221,809
	<u>1,671,694</u>	<u>222,370</u>
Finance costs:		
Interest on:		
Bank and other indebtedness	30,253,824	24,403,605
Mortgages payable	8,048,964	4,085,632
	<u>38,302,788</u>	<u>28,489,237</u>
Interest capitalized to properties under development for sale	(21,202,495)	(16,292,497)
	<u>17,100,293</u>	<u>12,196,740</u>
Change in fair value of interest rate swap contracts	427,507	(539,286)
	<u>17,527,800</u>	<u>11,657,454</u>
Net finance cost	<u>\$ 15,856,106</u>	<u>\$ 11,435,084</u>

### 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, 2019 includes \$13,068,926 (2018 - \$22,016,230) 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, or any other party, will be based on a profit share in proportion to their capital investment in the respective projects. At January 31, 2019, non-controlling interest relating to these agreements totals \$74,930,043 (2018 - \$61,009,893). Of this amount, \$29,240,968 (2018 - \$17,353,148) pertains to the interests held by a wholly owned company of an officer of the company in various development projects with the Company. The balance of \$3,153,599 (2018 - \$3,003,130) pertains to interest held by a wholly owned company of a director of the Company in a development project in North Vancouver, British Columbia. For this project, the Company has guaranteed all loans incurred in respect of this property and development for a fee.

# Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

## 13. Share capital:

### (a) Issued and outstanding:

#### (i) Common shares:

	Shares		Amount	
	2019	2018	2019	2018
Authorized:				
54,000,000 common shares without par value				
Issued and outstanding at				
January 31, 2019 and 2018	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.

There were no outstanding stock options as at January 31, 2019 and 2018 and the Company did not record any stock-based compensation expense for the years ended January 31, 2019 and 2018.

### (c) Dividends:

On September 13, 2018, the Board of Directors approved a dividend of \$1.00 per common share for each share held on September 27, 2018. This dividend of \$33,953,365 was paid on October 11, 2018.

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.

## Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

### 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 27% (2018 - 26.1%) to earnings before income taxes and non-controlling interest as a result of the following:

	2019	2018
Tax expense at statutory rate	\$ 22,573,364	\$ 5,341,928
Increase (decrease) resulting from:		
Attributable to non-controlling interest	(2,448,001)	(1,615,431)
Non-deductible expenses and non-taxable income	16,679	14,494
Change in filing estimates for prior periods and other	(586,304)	(1,878,334)
	\$ 19,555,738	\$ 1,862,657

- (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:

	2019	2018
Deferred tax assets:		
Non-capital loss-carry forwards	\$ 1,931,073	\$ 1,704,981
Properties	27,947,831	28,130,595
	29,878,904	29,835,576
Deferred tax liabilities:		
Properties	(28,034,888)	(16,035,484)
Net deferred tax assets	\$ 1,844,016	\$ 13,800,092

The Company estimates that it has \$7,152,122 (2018 - \$6,314,744) of non-capital losses for income tax purposes available at January 31, 2019 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 2039.

### 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, 2019, the Company's remaining interest in the partnership is \$430,019 (2018 - \$474,235) and recorded a loss of \$7,906 for the year ended January 31, 2019 (2018 - nil).

# Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

## 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, 2019, the estimated committed costs to complete properties under development at year-end are approximately \$151,700,000 (2018 - \$176,930,000).
- (c) The Company has outstanding letters of credit at January 31, 2019 of \$20,418,539 (2018 - \$35,103,262) related primarily to 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:

- (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:

	2019	2018
Salaries and wages	\$ 2,037,290	\$ 1,917,877
Employee benefits	179,483	145,015
	<u>\$ 2,216,773</u>	<u>\$ 2,062,892</u>

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

- (i) 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, 2019, 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 \$1,759,800 (2018 - \$1,506,110).

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.

## *Notes to Consolidated Financial Statements*

Years ended January 31, 2019 and 2018

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### **17. Related party transactions (continued):**

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

- (ii) On January 30, 2019, the Company acquired a 50% interest in a property located in Vancouver, British Columbia from a wholly owned company of a significant shareholder of the Company, and assumed its 50% share of the debts and liabilities associated with this property for consideration of \$7,600,000 which was determined based on the fair value of the investment property of \$39,200,000 less debt of 24,000,000. The transaction was accounted for as an asset acquisition. The Company intends to redevelop the property with a wholly owned company of the President of the Company, which owns the remaining 50% interest in the property. On January 31, 2019, the Company and the wholly owned company of the President of the Company transferred their respective interest into a partnership, of which they each own a 50% interest. The Company has determined that it controls the partnership and has consolidated the partnership's results in its financial statements with the other partner's 50% interest being recorded as non-controlling interest. As at January 31, 2019, non-controlling interest totals \$7,845,000.
- (c) In the year ended January 31, 2019, the Company sold one condominium unit to an officer of the Company and one condominium unit to the President of the Company for aggregate gross proceeds of \$706,210 (2018 - \$539,800).
- (d) Shareholder loans:
- As at January 31, 2019, 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.
- (ii) \$20,000,000 loan secured by a charge over property under development, bearing interest at 6.00% and due on April 11, 2020.

# Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

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## 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).

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, 2019 is \$326,929,000 (2018 - \$218,327,000).

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.

## *Notes to Consolidated Financial Statements*

Years ended January 31, 2019 and 2018

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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, 2019, management has determined that every 1% increase or decrease in the applicable interest rates results in a corresponding \$2,910,000 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, 2019, substantially all of the Company's trade receivables of \$5,859,579 (2018 - \$5,005,198) were current. The historical bad debt write-off has been less than 1% of accounts receivable.

# Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

## 18. Financial instruments (continued):

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

#### (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, 2019, the Company has available unused approved credit facilities of \$151,033,711. The Company also has trade receivables of \$5,859,579 which it expects to collect in full, and cash and cash equivalents totaling \$32,769,970.

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, 2019, 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.

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

January 31, 2019	Carrying amount	Total contractual cash flows	Less than one year	One to five years	More than five years
Accounts payable and accrued liabilities	\$ 30,025,870	\$ 30,025,870	\$ 30,025,870	\$ -	\$ -
Bank and other indebtedness	445,735,020	445,735,020	445,735,020	-	-
Loans from shareholder	10,000,000	10,475,000	10,475,000	-	-
Mortgages payable	322,661,464	375,412,524	133,985,837	71,956,419	169,470,267
Non-current portion of loans from shareholders	90,000,000	97,318,750	4,525,000	92,793,750	-
	\$ 898,422,354	\$ 958,967,164	\$ 624,746,727	\$ 164,750,169	\$ 169,470,267

## Notes to Consolidated Financial Statements

Years ended January 31, 2019 and 2018

### 18. Financial instruments (continued):

#### (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:

	2019	2018
Liabilities:		
Loans from shareholder	\$ 100,000,000	\$ 100,000,000
Bank and other indebtedness	445,735,020	615,126,999
Mortgages payable	322,661,464	218,631,275
Shareholders' equity:		
Share capital	24,099,401	24,099,401
Non-controlling interest	87,998,969	83,026,123
<b>Total capital</b>	<b>\$ 980,494,854</b>	<b>\$ 1,040,833,798</b>

### 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.

# *Notes to Consolidated Financial Statements*

Years ended January 31, 2019 and 2018

## 19. Segment disclosures (continued):

	Rental		Hotel		Development		Corporate		Consolidation	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Total assets	\$ 470,658,552	\$ 440,312,873	\$ 141,959,263	\$ 144,100,049	\$ 625,853,088	\$ 727,740,699	\$ 6,317,560	\$ 3,854,372	\$ 1,244,788,463	\$ 1,316,007,993
Revenue	\$ 32,570,404	\$ 21,342,349	\$ 85,112,657	\$ 76,210,250	\$ 334,533,585	\$ 198,161,538	\$ -	\$ -	\$ 452,216,646	\$ 295,714,137
Depreciation expense	9,600,240	6,411,781	7,542,571	7,304,351	284,950	707,492	-	-	17,427,761	14,423,624
Earnings (loss) from operations before income taxes	1,008,304	(1,455,007)	24,378,128	20,067,386	66,068,813	9,030,125	(7,850,197)	(7,159,653)	83,605,048	20,482,851



## Corporate Information

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### Directors

Peter Ufford  
Brett Finlay  
David Gruber  
Robert King  
Michael Redekop  
Bruno Wall

### Officers

PETER UFFORD  
Chair of Board  
BRUNO WALL  
President  
JOANNE LIU  
Vice-President, Finance  
SASCHA VOTH  
Vice-President, Hotel Operations

### Stock Exchange

Wall Financial is listed on the Toronto Stock Exchange.  
Its symbol is WFC and the CUSIP number is 931902.

Total shares issued and outstanding: 33,953,365

Total number of registered shareholders: 155

### Transfer Agent

Computershare Investor Services  
510 Burrard Street, Vancouver, BC V6C 3B9

### Head Office

Wall Financial Corporation  
1010 Burrard Street  
Vancouver, BC V6Z 2R9  
Telephone: 604.893.7131  
Facsimile: 604.893.7179

### Auditors

KPMG LLP

### Annual Meeting

Vancouver, BC  
June 13, 2019, 10:30 AM Pacific Time  
Constellation Suite, 34<sup>th</sup> floor, South Tower, Sheraton  
Vancouver Wall Centre Hotel  
1088 Burrard Street



# WALL FINANCIAL CORPORATION

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