

Consolidated Financial Statements of

WALL FINANCIAL CORPORATION

And Independent Auditors' Report thereon

Years ended January 31, 2020 and 2019



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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Wall Financial Corporation:

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

- the consolidated statements of financial position as at January 31, 2020 and January 31, 2019
- 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, 2020 and January 31, 2019, 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; and
- 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 consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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.
- 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 consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Lorne Burns.

Vancouver, Canada
April 23, 2020

WALL FINANCIAL CORPORATION

Consolidated Statements of Financial Position

January 31, 2020 and 2019

	2020	2019
Assets		
Investment properties (note 5)	\$ 464,590,635	\$ 468,753,484
Property, plant and equipment (note 6)	127,775,220	134,015,051
Properties under development for sale (note 7)	141,948,616	258,370,722
Investments in joint ventures	216,708	430,019
Deferred tax asset (note 14)	30,491,256	29,878,904
Non-current assets	765,022,435	891,448,180
Current portion of properties under development for sale (note 7)	208,796,693	198,234,989
Deposits held-in-trust	4,090,077	95,571,496
Other assets (note 9)	8,653,746	16,998,663
Amounts receivable (note 8)	8,870,519	9,765,165
Cash and cash equivalents	56,237,950	32,769,970
Current assets	286,648,985	353,340,283
	\$ 1,051,671,420	\$ 1,244,788,463
Liabilities		
Mortgages payable (note 10)	\$ 214,070,799	\$ 195,394,304
Loans from shareholder (note 16(d))	-	90,000,000
Deferred tax liability (note 14)	62,085,569	28,034,888
Non-current liabilities	276,156,368	313,429,192
Current portion of mortgages payable (note 10)	138,456,643	127,267,160
Income tax payable	4,393,617	769,967
Accounts payable and accrued liabilities	25,060,562	30,025,870
Deposits on real estate sales	47,566,840	94,483,054
Loans from shareholder (note 16(d))	20,000,000	10,000,000
Bank and other indebtedness (note 10)	272,581,865	445,735,020
Current liabilities	508,059,527	708,281,071
	\$ 784,215,895	\$ 1,021,710,263
Equity		
Share capital (note 13)	\$ 24,099,401	\$ 24,099,401
Contributed surplus (note 13)	370,000	370,000
Retained earnings	165,159,589	110,609,830
Equity attributable to shareholders of the Company	189,628,990	135,079,231
Non-controlling interests (note 12)	77,826,535	87,998,969
Total equity	267,455,525	223,078,200
	\$ 1,051,671,420	\$ 1,244,788,463

Commitments and contingencies (note 15)
Subsequent events (notes 16, 19)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board:

"Bruno Wall" Director

"Peter Ufford" Director

WALL FINANCIAL CORPORATION

Consolidated Statements of Earnings and Comprehensive Income

Years ended January 31, 2020 and 2019

	2020	2019
Revenue (note 18)	\$ 474,600,527	\$ 452,216,646
Cost of sales and operating expenses	267,775,908	331,168,760
	206,824,619	121,047,886
Expenses:		
General and administrative	4,466,454	4,151,065
Depreciation (notes 5, 6 and 9)	19,576,104	17,427,761
	24,042,558	21,578,826
Loss from investments in joint ventures	-	7,906
Net finance expense (income) (note 11):		
Investment and other income	(3,784,835)	(1,671,694)
Finance expense	17,956,414	17,527,800
	14,171,579	15,856,106
Earnings before income taxes	168,610,482	83,605,048
Income tax expense (note 14):		
Current	10,908,877	7,599,662
Deferred	33,438,328	11,956,076
	44,347,205	19,555,738
Net earnings and comprehensive income	\$ 124,263,277	\$ 64,049,310
Net earnings and comprehensive income attributable to:		
Shareholders of the Company	\$ 122,456,489	\$ 54,982,639
Non-controlling interests (note 12)	1,806,788	9,066,671
	\$ 124,263,277	\$ 64,049,310
Basic and diluted earnings per share	\$ 3.61	\$ 1.62
Weighted average shares outstanding	33,953,365	33,953,365

See accompanying notes to these consolidated financial statements.

WALL FINANCIAL CORPORATION

Consolidated Statements of Changes in Equity

Years ended January 31, 2020 and 2019

	Attributable to shareholders of the Company			Total	Non-controlling interests	Total equity
	Share capital	Contributed surplus	Retained earnings			
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
Net earnings	-	-	122,456,489	122,456,489	1,806,788	124,263,277
Contributions	-	-	-	-	5,842,500	5,842,500
Distributions	-	-	-	-	(17,821,722)	(17,821,722)
Dividends declared (note 13(c))	-	-	(67,906,730)	(67,906,730)	-	(67,906,730)
Balance, January 31, 2020	\$ 24,099,401	\$ 370,000	\$ 165,159,589	\$ 189,628,990	\$ 77,826,535	\$ 267,455,525

See accompanying notes to these consolidated financial statements.

WALL FINANCIAL CORPORATION

Consolidated Statements of Cash Flows

Years ended January 31, 2020 and 2019

	2020	2019
Cash provided by (used in):		
Cash flows from operating activities:		
Net earnings and comprehensive income	\$ 124,263,277	\$ 64,049,310
Adjustments for items not involving cash:		
Depreciation	19,576,104	17,427,761
Loss from investments in joint ventures	-	7,906
Amortization of deferred financing fees	291,323	223,758
Deferred income tax expense	33,438,328	11,956,076
Current income tax expense	10,908,877	7,599,662
Finance expense (note 11)	17,956,414	17,527,800
	206,434,323	118,792,273
Recovery of costs through real estate sales	177,400,086	249,393,141
Additions to properties under development for sale	(58,624,151)	(188,683,080)
Interest paid (note 11)	(29,529,729)	(38,302,788)
Income taxes paid	(7,285,226)	(8,803,276)
Deposits held-in-trust	91,481,419	29,837,320
Deposits on real estate sales	(46,916,214)	(29,894,553)
Changes in non-cash operating working capital:		
Amounts receivable	607,481	(1,767,094)
Accounts payable and accrued liabilities	(5,456,563)	(12,761,095)
Inventory	(6,785)	(62,521)
Deposits and prepaids	7,062,675	34,472,546
	335,167,316	152,220,873
Cash flows from investing activities:		
Additions to investment properties	(6,279,276)	(13,104,365)
Additions to property, plant, and equipment	(1,710,327)	(4,400,595)
Additions to sales centres	(458,592)	(1,437,298)
Distributions from investments in joint ventures	213,311	47,800
	(8,234,884)	(18,894,458)
Cash flows from financing activities:		
Repayment of loans from shareholder	(80,000,000)	-
Repayment of mortgages payable	(42,110,041)	(8,543,945)
Payment of financing fees	(367,237)	(3,046,712)
Proceeds from mortgages payable	72,051,933	115,397,088
Bank and other indebtedness	(173,153,155)	(193,391,979)
Contributions by non-controlling interests	5,842,500	7,766,151
Distributions to non-controlling interests	(17,821,722)	(19,459,976)
Dividends paid (note 13(c))	(67,906,730)	(33,953,365)
	(303,464,452)	(135,232,738)
Increase (decrease) in cash and cash equivalents	23,467,980	(1,906,323)
Cash and cash equivalents, beginning of year	32,769,970	34,676,293
Cash and cash equivalents, end of year	\$ 56,237,950	\$ 32,769,970
Non-cash transaction:		
Assumption of bank indebtedness on acquisition of investment property (note 16(b))	\$ -	\$ 24,000,000

See accompanying notes to these consolidated financial statements.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

1. Reporting entity:

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

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

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

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Company has consistently applied the accounting policies in all periods presented except for the adoption of IFRS 16, *Leases* which was adopted on February 1, 2019.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 23, 2020.

(b) Basis of measurement:

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

(c) Basis of consolidation:

(i) Subsidiaries:

These consolidated financial statements comprise the assets and liabilities of all subsidiaries and the results of operations of all subsidiaries. Subsidiaries are entities controlled directly or indirectly by WFC. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

2. Basis of presentation (continued):

(c) Basis of consolidation (continued):

(i) Subsidiaries (continued):

The material subsidiaries and percentage owned in these subsidiaries are as follows:

Name	% owned
1300 Richards Street Developments Limited Partnership	100%
1415 Commercial Developments Ltd.	100%
1415 Condominium Developments Ltd.	100%
41 st Ave. Development Limited Partnership	100%
588526 British Columbia Ltd.	100%
Brunswick & 6 th Development Ltd.	100%
Cambie and 43 rd Developments Limited Partnership	100%
Cambie and 58 th (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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

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) Classification 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.

(iv) Capitalization of borrowing costs:

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

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

2. Basis of presentation (continued):

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

Estimates:

(i) Fair value of investment properties:

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

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

(ii) Income taxes:

Significant estimates are required in determining the provision for income taxes due to the various transactions and calculations for which the ultimate tax determination is uncertain. Management annually evaluates tax positions taken which could be subject to differing interpretations of applicable tax legislation. The Company recognizes a tax provision when a payment to tax authorities is considered probable. 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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

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.

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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

3. Significant accounting policies (continued):

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

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 may be used towards the Company's construction costs if authorized by the lender(s) on the project through an insured program.

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.

(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 a point in time when possession or title passes to the purchaser, and all performance obligations of the sales contract have been met, and at which time all proceeds are received or collectability is reasonably assured.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

3. Significant accounting policies (continued):

(h) Revenue recognition (continued):

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 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 presented 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.

(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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

3. Significant accounting policies (continued):

(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.

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

Asset/liability	Classification
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

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

3. Significant accounting policies (continued):

(m) Financial instruments (continued):

(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.

(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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

4. Accounting standard changes:

(a) New standards and interpretations issued and adopted:

(i) IFRS 16 - Leases ("IFRS 16"):

The Company adopted the new requirements of IFRS 16 on February 1, 2019 by applying the modified retrospective approach. IFRS 16 sets out a new model for lease accounting, replacing IAS 17, *Leases* ("IAS 17"). The new standard recognizes the initial present value of unavoidable future lease payments as right-of-use assets and lease liabilities on the consolidated statement of financial position, including those for most leases that were previously accounted for as operating leases.

At inception of a contract, the Company assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use asset may be periodically adjusted by impairment losses.

The lease liability is initially measured at the present value of future lease payments discounted using an implicit interest rate or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

4. Accounting standard changes (continued):

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

(i) IFRS 16 - Leases ("IFRS 16") (continued):

If the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets:

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases in net earnings on a straight-line basis over the lease term.

Lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained

IFRS 16 was applied using the modified retrospective approach effective February 1, 2019 under which the cumulative effect of initial application would be recognized as at February 1, 2019. The information presented for 2019 has not been restated and remains as previously reported under IAS 17. There was no material impact as a result of the adoption of IFRS 16 on the Company's financial statements.

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

IFRS 3 amendments:

IFRS 3 *Amendments – Clarifying What is a Business*, was issued in October 2018 and effective as of January 1, 2020. The amendments provide guidance on whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments include an election to use a concentration test which is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. The Company will adopt the standard effective February 1, 2020.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

5. Investment properties:

	Land	Buildings	Major components	Total
Cost:				
Balance, January 31, 2018	\$ 208,175,690	\$ 199,496,671	\$ 53,751,540	\$ 461,423,901
Additions	39,029,303	2,905,060	2,770,006	44,704,369
Disposals	(337,672)	(480,000)	-	(817,672)
Reclass to properties under development	-	-	-	-
Balance, January 31, 2019	246,867,321	201,921,731	56,521,546	505,310,598
Additions	11,078	4,432,827	707,775	5,151,680
Disposal	-	-	-	-
Reclass from properties under development	-	-	563,798	563,798
Balance, January 31, 2020	246,878,399	206,354,558	57,793,119	511,026,076
Accumulated depreciation:				
Balance, January 31, 2018	-	16,286,320	10,670,554	26,956,874
Depreciation	-	5,223,069	4,377,171	9,600,240
Disposals	-	-	-	-
Balance, January 31, 2019	-	21,509,389	15,047,725	36,557,114
Depreciation	-	5,205,377	4,672,950	9,878,327
Balance, January 31, 2020	-	26,714,766	19,720,675	46,435,441
Net carrying value at January 31, 2020	\$ 246,878,399	\$ 179,639,792	\$ 38,072,444	\$ 464,590,635
Net carrying value at January 31, 2019	\$ 246,867,321	\$ 180,412,342	\$ 41,473,821	\$ 468,753,484

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

	Fair value	Carrying value
January 31, 2020	\$ 912,653,000	\$ 464,590,635
January 31, 2019	887,816,000	468,753,484

The fair value of the investment properties has been determined internally by management. Included in the fair value of the investment properties is \$222,931,647 (2019 - \$215,754,102) in which the Company has measured based on acquisition costs of land plus development costs to date as the assumptions that would be used in other valuation methods such as the direct capitalization approach or discounted cash flow models are not reliably determinable at this stage of the properties under redevelopment.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

6. Property, plant and equipment:

	Land	Buildings	Major components	Furniture, fixtures and equipment	Total
Cost:					
Balance, January 31, 2018	\$ 18,391,761	\$ 115,685,808	\$ 37,030,581	\$ 61,708,645	\$ 232,816,795
Additions	-	-	34,380	4,366,215	4,400,595
Balance, January 31, 2019	18,391,761	115,685,808	37,064,961	66,074,860	237,217,390
Additions	-	-	374,230	1,336,097	1,710,327
Balance, January 31, 2020	18,391,761	115,685,808	37,439,191	67,410,957	228,927,717
Accumulated depreciation:					
Balance, 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, January 31, 2019	-	36,562,408	19,179,704	47,460,227	103,202,339
Depreciation	-	2,044,484	1,237,972	4,667,702	7,950,158
Balance, January 31, 2020	-	38,606,892	20,417,676	52,127,929	111,152,497
Net carrying value, January 31, 2020	\$ 18,391,761	\$ 77,078,916	\$ 17,021,515	\$ 15,283,028	\$ 127,775,220
Net carrying value, January 31, 2019	\$ 18,391,761	\$ 79,123,400	\$ 17,885,257	\$ 18,614,633	\$ 134,015,051

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

	2020	2019
Properties under development for sale	\$ 141,948,616	\$ 258,370,722
Properties held-for-sale	208,796,693	198,234,989
	\$ 350,745,309	\$ 456,605,711

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 \$199,697,724 (2019 - \$249,393,141).

The following carrying amounts were capitalized to properties under development for sale for the years ended January 31, 2020 and 2019.

	2020	2019
Property taxes	\$ 1,236,621	\$ 1,593,846
Interest on borrowings	12,351,735	21,202,495

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

8. Amounts receivable:

Included in amounts receivable are the following:

- (a) Loans to third parties of \$1,164,684, 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, 2019, 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 \$2,079,739 (2019 - \$2,279,739), secured by real estate property, bearing interest ranging from 1% to 2% (2019 - 1% to 2%), and due on demand.

Total interest accrued as at January 31, 2020 on the above loans receivable, and included in amounts receivable on the statement of financial position is \$1,506 (2019 - \$12,168).

- (c) Trade and other receivables of \$5,626,096 (2019 - \$6,143,577).
- (d) The fair value of an interest rate swap asset of nil (2019 - \$287,165). For the year ended January 31, 2020, the fair value of an interest swap was a liability of \$491,255, which is included in accounts payable on the statement of financial position.

9. Other assets:

	2020	2019
Prepaid commissions on properties under development for sale	\$ 5,223,137	\$ 10,548,922
Deposits and prepaids	2,644,487	4,381,378
Sales centres, less accumulated amortization of \$1,989,479 (2019 - \$284,950)	409,464	1,698,490
Inventory	376,658	369,873
	\$ 8,653,746	\$ 16,998,663

10. Debt on properties:

	Weighted average interest rate	2020	2019
Bank and other indebtedness:			
Properties under development	(a) 4.56% (2019 - 4.71%)	\$ 167,081,865	\$ 282,447,853
General corporate debt	(b) 4.63% (2019 - 4.69%)	105,500,000	163,287,167
		\$ 272,581,865	\$ 445,735,020
Mortgages payable:			
Investment properties	(c) 3.15% (2019 - 3.11%)	\$ 237,593,310	\$ 243,122,213
Property, plant and equipment	(c) 4.06% (2019 - 3.92%)	121,301,969	85,831,174
		358,895,279	328,953,387
Less: deferred financing fees		6,367,837	6,291,923
		352,527,442	322,661,464
Less: current portion of mortgages payable		138,456,643	127,267,160
Non-current portion of mortgages payable		\$ 214,070,799	\$ 195,394,304

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

10. Debt on properties (continued):

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

At January 31, 2020, the Company had outstanding borrowings of \$167,081,865 (2019 - \$282,447,853) 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 \$251,660,000 (2019 - \$355,682,000). 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, 2020, the Company's borrowings of \$105,500,000 (2019 - \$163,287,167) are made available by way of lines of credit with a maximum available aggregate amount of \$274,100,000 (2019 - \$259,100,000). The debt is secured by fixed and floating demand debentures, second mortgages, and an assignment of rents on certain investment properties, and property, plant, and equipment. The borrowings are due on demand.

(c) Mortgages payable:

Of the \$121,301,969 (2019 - \$85,831,174) in mortgages on property, plant and equipment, \$38,300,789 (2019 - \$49,281,138) 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 \$83,001,180 (2019 - \$36,550,036) at rates ranging from 3.80% to 4.16% for terms of 3 years maturing August 2, 2022 to November 2, 2022. For the year ended January 31, 2020, a mark-to-market loss in the fair value of the interest rate swap of \$778,420 (2019 - gain of \$539,286) was recorded in finance costs on the statement of earnings. As at January 31, 2020, the fair value of the interest rate swap liability is \$492,255 and is included in accounts payable (2019 - asset of \$287,165 included in amounts receivable) on the statement of financial position.

Mortgages payable on investment properties of \$237,593,310 (2019 - \$243,122,213) bears interest at fixed rates ranging from 1.97% to 6.50% (2019 - 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:

2021	\$	138,456,643
2022		5,478,227
2023		11,100,192
2024		13,133,676
2025		5,351,962
Thereafter		185,374,579
	\$	358,895,279

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

11. Net finance expense (income):

	2020	2019
Finance income:		
Investment income	\$ 58,555	\$ 58,566
Interest income	3,726,280	1,613,128
	3,784,835	1,671,694
Finance expense:		
Interest on:		
Bank and other indebtedness	21,603,408	30,253,824
Mortgages payable	7,926,321	8,048,964
	29,529,729	38,302,788
Interest capitalized to properties under development for sale	(12,351,735)	(21,202,495)
	17,177,994	17,100,293
Change in fair value of interest rate swap contracts	778,420	427,507
	17,956,414	17,527,800
Net finance expense	\$ 14,171,579	\$ 15,856,106

12. Non-controlling interests:

Non-controlling interests includes the following significant amounts with related parties:

- (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, 2020 includes \$6,427,372 (2019 - \$13,068,926) 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, 2020, non-controlling interest relating to these agreements totals \$26,864,111 (2019 - \$74,930,043). Of this amount, \$23,453,779 (2019 - \$29,240,968) 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 \$3,410,333 (2019 - \$3,153,599) 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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

13. Share capital:

(a) Issued and outstanding:

Common shares:

	Shares		Amount	
	2020	2019	2020	2019
Authorized:				
54,000,000 common shares without par value				
Issued and outstanding at				
January 31, 2020 and 2019	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, 2020 and 2019 and the Company did not record any stock-based compensation expense for the years ended January 31, 2020 and 2019.

(c) Dividends:

On June 13, 2019, the Board of Directors approved a dividend of \$2.00 per common share for each share held on June 27, 2019. This dividend of \$67,906,730 was paid on July 11, 2019.

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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

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% (2019 - 27%) to earnings before income taxes and non-controlling interest as a result of the following:

	2020	2019
Tax expense at statutory rate	\$ 45,525,074	\$ 22,573,364
Increase (decrease) resulting from:		
Attributable to non-controlling interest	(487,833)	(2,448,001)
Non-deductible expenses and non-taxable income	14,271	16,679
Change in filing estimates for prior periods and other	(704,307)	(586,304)
	\$ 44,347,205	\$ 19,555,738

- (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:

	2020	2019
Deferred tax assets:		
Non-capital loss-carry forwards	\$ 2,764,655	\$ 1,931,073
Properties	27,726,601	27,947,831
	30,491,256	29,878,904
Deferred tax liabilities:		
Properties	(62,085,569)	(28,034,888)
Net deferred tax assets (liabilities)	\$ (31,594,313)	\$ 1,844,016

The Company estimates that it has \$10,239,465 (2019 - \$7,152,122) of non-capital losses for income tax purposes available at January 31, 2020 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 2040.

15. Commitments and contingencies:

- (a) The Company has entered into hotel franchise agreements in respect of its two hotel properties, with one maturing June 30, 2034 and the other maturing March 31, 2030. Fees paid are calculated based on a percentage of monthly gross hotel revenues and are paid monthly.
- (b) At January 31, 2020, the estimated committed costs to complete properties under development at year-end are approximately \$74,760,000 (2019 - \$151,700,000).
- (c) The Company has outstanding letters of credit at January 31, 2020 of \$16,735,784 (2019 - \$20,418,539) related primarily to works and services to be performed by the Company as required in respect of its properties under development.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

16. 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:

	2020	2019
Salaries and wages	\$ 2,328,100	\$ 2,037,290
Employee benefits	115,845	179,483
	<u>\$ 2,443,945</u>	<u>\$ 2,216,773</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, 2020, 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 \$3,024,800 (2019 - \$1,759,800).

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.

- (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 jointly 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 interests 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, 2020, non-controlling interest totals \$7,802,646.

Subsequent to January 31, 2020, the Company's Board of Directors approved a resolution for the Company to acquire the non-controlling 50% interest held by the other related partner for approximately \$7,925,000.

- (c) In the year ended January 31, 2020, the Company sold one condominium unit to an officer of the Company for aggregate gross proceeds of \$799,900 (2019 - \$706,210).

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

16. Related party transactions (continued):

(d) Shareholder loans:

- (i) As at January 31, 2020, the Company has a \$20,000,000 loan payable due to a company owned by a significant shareholder of the Company. The loan is secured by a charge over property under development, bearing interest at 6.00% and matured on April 11, 2020. The loan renewal terms are currently being negotiated.
- (ii) On July 31, 2019, the Company repaid an \$80,000,000 term loan to a company owned by a significant shareholder of the Company. The loan was secured by a second mortgage on the Sheraton Wall Centre and Westin Wall Centre hotel properties and was interest bearing at the greater of prime plus 1.00% or 4.75%.

For the year ended January 31, 2020, the Company recorded interest on loans payable to the significant shareholder totaling \$3,180,000 (2019 - \$5,000,000).

17. 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, 2020 is \$361,361,260 (2019 - \$326,929,000).

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

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

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

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

17. 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, 2020, management has determined that every 1% increase or decrease in the applicable interest rates results in a corresponding \$1,438,000 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, 2020, substantially all of the Company's trade receivables of \$5,626,096 (2019 - \$5,859,579) were current. The historical bad debt write-off has been less than 1% of accounts receivable.

(iii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through the maintenance of sufficient available credit facilities to fund ongoing operational and capital requirements. As at January 31, 2020, the Company has available unused approved credit facilities of \$168,600,000. The Company also has trade receivables of \$5,626,096, which it expects to collect in full, and cash and cash equivalents totaling \$56,237,950.

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.

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

17. Financial instruments (continued):

(b) Financial risk management (continued):

(iii) Liquidity risk (continued):

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, 2020, 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 contractual cash flows of the Company's financial liabilities including expected interest payments are as follows:

January 31, 2020	Carrying amount	Total contractual cash flows	Less than one year	One to five years	More than five years
Accounts payable and accrued liabilities	\$ 25,060,562	\$ 25,060,562	\$ 25,060,562	\$ -	\$ -
Bank and other indebtedness	272,581,865	272,581,865	272,581,865	-	-
Loans from shareholder	20,000,000	20,232,787	20,232,787	-	-
Mortgages payable	358,589,249	405,580,984	145,559,362	84,168,316	175,853,306
	\$ 676,231,676	\$ 723,456,198	\$ 463,434,576	\$ 84,168,316	\$ 175,853,306

(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:

	2020	2019
Liabilities:		
Loans from shareholder	\$ 20,000,000	\$ 100,000,000
Bank and other indebtedness	272,581,865	445,735,020
Mortgages payable	352,527,442	322,661,464
Shareholders' equity:		
Share capital	24,099,401	24,099,401
Non-controlling interest	77,826,535	87,998,969
Total capital	\$ 747,035,243	\$ 980,494,854

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

18. Segment disclosures:

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

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

WALL FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

Years ended January 31, 2020 and 2019

18. Segment disclosures (continued):

	Rental		Hotel		Development		Corporate		Consolidation	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Total assets	\$484,203,007	\$470,658,552	\$135,046,284	\$141,959,263	\$411,983,113	\$625,853,088	\$20,439,016	\$6,317,560	\$1,051,671,420	\$1,244,788,463
Revenue	\$34,557,137	\$32,570,404	\$91,752,872	\$85,112,657	\$348,290,518	\$334,533,585	\$-	\$-	\$474,600,527	\$452,216,646
Depreciation expense	9,878,327	9,600,240	7,950,158	7,542,571	1,747,619	284,950	-	-	19,576,104	17,427,761
Earnings (loss) from operations before income taxes	2,147,968	1,008,304	25,776,655	24,378,128	149,316,945	66,068,813	(8,631,086)	(7,850,197)	168,610,482	83,605,048

19. Subsequent events:

The declaration of the COVID-19 virus as a pandemic by the World Health Organization on March 11, 2020, and the subsequent shut downs globally, domestically and locally have had a significant impact on the Company's businesses, and in particular on the hotel operations. The Company enacted cost reduction programs at its two hotels, which include the closure of one of the two towers at its downtown hotel, the furlough of all non-essential staff, and the elimination of all but the most necessary expenses in order to preserve cash flow. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the Company's business are not known at this time however the Company expects to see a material decline in operating results for its hotel operations.