

**WATERFRONT CAPITAL CORPORATION**

**Interim Consolidated Financial Statements**  
**(Unaudited – Prepared by Management)**

**For the three month period ended March 31, 2012**

**Contact Information:**

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# **WATERFRONT CAPITAL CORPORATION**

**Dated May 30, 2012**

## **Management's Comments on Unaudited Interim Financial Statements**

The accompanying unaudited interim financial statements of Waterfront Capital Corporation for the three months ended March 31, 2012 and 2011 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the three months period ended March 31, 2012.

**WATERFRONT CAPITAL CORPORATION**  
**Interim Consolidated Statements of Financial Position**  
As at March 31, 2012 and December 31, 2011  
(Unaudited - Expressed in Canadian Dollars, except for share amounts)

	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 37,723	\$ 22,310
Accounts receivable	57,804	48,008
Investments (Note 5)	72,280	84,543
Prepaid expenses	5,080	1,423
	<u>172,887</u>	<u>156,284</u>
<b>Loan receivable</b> (Note 4)	250,000	250,000
<b>Property and equipment</b> (Note 6)	<u>68,584</u>	<u>74,102</u>
	<u>\$ 491,471</u>	<u>\$ 480,386</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 50,031	\$ 41,482
Deferred revenue (Note 7)	42,531	43,873
	<u>92,562</u>	<u>85,355</u>
<b>Shareholders' equity</b>		
Share Capital (Note 8)	7,459,938	7,459,938
Reserves	235,287	235,287
Deficit	<u>(7,296,316)</u>	<u>(7,300,194)</u>
	<u>398,909</u>	<u>395,031</u>
	<u>\$ 491,471</u>	<u>\$ 480,386</u>

**Nature of operations and going concern** (Note 1)  
**Commitments and contingencies** (Note 10)

**On behalf of the Board:**

"Douglas L. Mason"

Director

"Sead Hamzagic"

Director

The accompanying notes are an integral part of these consolidated financial statements

## WATERFRONT CAPITAL CORPORATION

### Interim Consolidated Statements of Loss and Comprehensive Loss

Three months ended March 31, 2012 and 2011

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

	Three month period ended March 31, 2012	Three month period ended March 31, 2011 (Note 3)
<b>REVENUE</b>		
Corporate and administrative services	\$ 74,835	\$ 77,391
Interest and other income	10,968	32,861
	<u>85,803</u>	<u>110,252</u>
<b>EXPENSES</b>		
Consulting fees	10,500	10,500
Depreciation	5,518	7,867
Office and general	31,291	28,206
Professional fees	16,870	16,870
Regulatory and transfer agent fees	5,933	6,152
Rent	13,413	12,273
Wages and benefits	-	337
	<u>83,525</u>	<u>82,205</u>
<b>Income and comprehensive income before other items</b>	2,278	28,047
<b>OTHER ITEMS</b>		
Gain on sale of subsidiary	-	10
Loss on sale of investments	(18,477)	-
Unrealized gain (loss) on investments	20,077	(56,483)
Unrealized foreign exchange gain (loss)	-	(8,069)
	<u>3,878</u>	<u>(36,495)</u>
<b>Net income (loss) and comprehensive income (loss) for the period</b>	\$ 3,878	\$ (36,495)
Basic and diluted earnings (loss) per common share	\$ 0.00	\$ (0.00)
Weighted average shares used in computation of basic and diluted earnings (loss) per common share	9,654,066	9,654,066

The accompanying notes are an integral part of these consolidated financial statements

## WATERFRONT CAPITAL CORPORATION

### Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

	Number of Shares	Capital Stock	Reserves	Deficit	Total
<b>Authorized Capital</b>					
Unlimited number of common shares without par value					
<b>Balance as at December 31, 2010</b>	<b>9,654,066</b>	<b>\$ 7,459,938</b>	<b>\$ 231,674</b>	<b>\$ (7,034,533)</b>	<b>\$ 657,079</b>
Net loss for the period	-	-	-	(36,495)	(36,495)
<b>Balance as at March 31, 2011</b>	<b>9,654,066</b>	<b>7,459,938</b>	<b>231,674</b>	<b>\$ (7,071,028)</b>	<b>620,584</b>
Shared-based payments	-	-	3,613	-	3,613
Net loss for the period	-	-	-	(229,166)	(229,166)
<b>Balance as at December 31, 2011</b>	<b>9,654,066</b>	<b>\$ 7,459,938</b>	<b>\$ 235,287</b>	<b>\$ (7,300,194)</b>	<b>\$ 395,031</b>
Net income for the period	-	-	-	3,878	3,878
<b>Balance as at March 31, 2012</b>	<b>9,654,066</b>	<b>\$ 7,459,938</b>	<b>\$ 235,287</b>	<b>\$ (7,296,316)</b>	<b>\$ 398,909</b>

The accompanying notes are an integral part of these consolidated financial statements.

## WATERFRONT CAPITAL CORPORATION

### Interim Consolidated Statements of Cash Flows

Three months ended March 31, 2012 and 2011

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

	Three month period ended March 31, 2012	Three month period ended March 31, 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss) for the period	\$ 3,878	\$ (36,495)
Items not affecting cash:		
Depreciation	5,518	7,867
Amortization of deferred revenue	(10,968)	(10,968)
Accrued interest income included in loan receivable	-	(21,893)
Loss on sale of investments	18,477	-
Gain on sale of subsidiary	-	(10)
Unrealized foreign exchange loss	-	8,069
Unrealized (gain) loss on investments	(20,077)	56,483
	(3,172)	3,053
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	(9,796)	23,892
Increase in prepaid expenses	(3,657)	(3,510)
Increase in accounts payable and accrued liabilities	8,549	2,120
Increase in deferred revenue	9,626	-
Net cash provided by operating activities	1,550	25,555
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds on sale of investments	13,863	10
Net cash provided by investing activities	13,863	10
<b>Increase (decrease) in cash for the period</b>	15,413	25,565
<b>Cash, beginning of period</b>	22,310	15,100
<b>Cash, end of period</b>	\$ 37,723	\$ 40,665

Supplemental disclosures with respect to cash flows (Note 9)

The accompanying notes are an integral part of these consolidated financial statements

# **WATERFRONT CAPITAL CORPORATION**

## **Notes to the Interim Consolidated Financial Statements**

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

#### **Nature of operations**

The Company was incorporated under the laws of Alberta and was continued into British Columbia during the year ended December 31, 2000. The Company's principal business activity is merchant banking and providing reporting and financial services and investment assistance to public and non-public companies.

#### **Going concern**

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Management believes the Company will be successful in continuing to collect on revenues and therefore believes capital resources will be sufficient to carry its operations through the next twelve months. The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and receive continued financial support from its creditors and shareholders. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Management is actively engaged in the review and due diligence of its revenue and expenses and may seek to raise the necessary capital to meet new funding requirements. There can be no assurance that management's plan will be successful. If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used. Such adjustments could be material.

### **2. BASIS OF PREPARATION**

#### **Statement of compliance**

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of May 30, 2012, the date the Board of Directors approved the financial statements.

#### **Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

## **WATERFRONT CAPITAL CORPORATION**

### Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

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#### **2. BASIS OF PREPARATION (Continued)**

##### **Functional and presentation currency**

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information is expressed in Canadian dollars unless otherwise stated and have been rounded to the nearest dollar.

##### **Use of estimates and judgements**

The preparation of the consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the depreciation of equipment, impairment of assets, valuation of share-based payments, and recognition of deferred tax amounts.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

##### Impairment of assets

At each reporting period, assets, including accounts receivable, investments and loan receivable, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates and future operating performance.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

##### Valuation of share-based payments

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

##### Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expect timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

##### Depreciation for equipment

Depreciation expense is allocated based on assumes asset lives. Should the asset life or depreciation rates differ from the initial estimate, and adjustment would be made in the consolidated statements of comprehensive loss.



## WATERFRONT CAPITAL CORPORATION

### Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

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### 3. SIGNIFICANT ACCOUNTING POLICIES

The following are a list of significant accounting policies used by the Company.

#### (a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Churchill Debenture Corp. All significant inter-company transactions and balances have been eliminated. During the three month period ended March 31, 2012.

#### (b) Cash and cash equivalents

Cash and cash equivalents includes highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

#### (c) Financial instruments

Financial assets and financial liabilities are recognized on the statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

##### Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the consolidated statements of comprehensive loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity dates. They are initially recognized at fair value and subsequently carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are initially recognized at fair value and subsequently are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statements of comprehensive loss.

## WATERFRONT CAPITAL CORPORATION

### Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Financial instruments (Continued)

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income, within equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statements of comprehensive loss.

Transactions costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

#### **Financial liabilities**

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the consolidated balance sheets at fair value with changes in fair value recognized in the consolidated statements of comprehensive loss.

*Other financial liabilities*: This category includes promissory notes, amounts due to related parties, and accounts payables and accrued liabilities, all of which are initially recognized at fair value, net of transaction costs, and are subsequently stated at amortized cost.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## WATERFRONT CAPITAL CORPORATION

### Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Property and equipment are depreciated at the following annual rates:

Computer equipment	30% declining balance
Computer software	30% declining balance
Furniture and fixtures	20% declining balance

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statements of comprehensive income or loss.

Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

The Company compares the carrying value of property and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

#### (e) Impairment of non-current assets

At each financial position reporting date, the Company's non-current assets are reviewed to determine whether there is any indication that the carrying value of those assets are impaired and may not be recoverable. If any such indication exists, the recoverable amount of the asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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. If the recoverable amount is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## **WATERFRONT CAPITAL CORPORATION**

### **Notes to the Interim Consolidated Financial Statements**

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **(f) Share capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

##### **(g) Share-based payment transactions**

The Company's stock option plan allows employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. The fair value of the options is accrued and charged to operations with the offset credit to contributed surplus, over the vesting period. If and when the stock options are exercised, the applicable amounts from contributed surplus are transferred to capital stock.

The Black-Scholes option valuation model used by the Company to determine fair values of options and similar financial instruments requires the input of highly subjective assumptions including future stock volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate.

##### **(h) Revenue recognition**

Security transactions are recorded on a settlement date basis. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the consolidated statements of operations and are calculated on an average cost basis. Upon disposal of an investment, previously recognized unrealized gains or losses are reversed, so as to recognize the full realized gain or loss in the period of disposition. All transaction costs are expensed to the consolidated statements of operations as incurred.

Consulting, rent and administration fees are recognized when the services are rendered and collection is reasonably assured. Deposits received in advance of services rendered are recorded as deferred revenue.

Interest income is recorded on an accrual basis. Loan commitment fees are recorded over the term of the loans. Annual loan fees are recorded quarterly based on the terms of the loan agreement and adjusted to the amount agreed to by the parties. Reasonable assurance of collectability is also required for recognition as revenue.

## **WATERFRONT CAPITAL CORPORATION**

### Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

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### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(i) Earnings (loss) per share**

Earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under this method the dilutive effect on earnings (loss) per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

#### **(j) Income taxes**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized as equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### **(k) Provisions**

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

## WATERFRONT CAPITAL CORPORATION

### Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (I) New accounting standards and interpretations not yet adopted

The Company has not yet adopted the following revised or new IFRS that have been issued, but are not yet effective at March 31, 2012:

##### **IFRS 9 *Financial Instruments* (2010)**

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

Applies to annual periods beginning on or after January 1, 2015. This standard supersedes IFRS 9 (2009). However, for annual reporting periods beginning before January 1, 2015, an entity may early- adopt IFRS 9 (2009) instead of applying this standard.

##### **IFRS 10 *Consolidated Financial Statements***

Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities*.

The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in “special purpose entities”). Under IFRS 10, control is based on whether an investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the returns.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, must be adopted together with IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

##### **IFRS 13 *Fair Value Measurement***

Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

This IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

## WATERFRONT CAPITAL CORPORATION

### Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (I) New accounting standards and interpretations not yet adopted (Continued)

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a “fair value hierarchy” based on the nature of the inputs:

- **Level 1** - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- **Level 2** - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- **Level 3** - unobservable inputs for the asset or liability

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

Applicable to annual reporting periods beginning on or after January 1, 2013.

#### ***Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)***

Amends IAS 1 *Presentation of Financial Statements* to revise the way other comprehensive income is presented.

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e., either as a single “statement of profit or loss and comprehensive income”, or a separate “statement of profit or loss” and a “statement of comprehensive income” – rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e., those that might be reclassified and those that will not be reclassified
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

## WATERFRONT CAPITAL CORPORATION

### Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (I) New accounting standards and interpretations not yet adopted (Continued)

Applicable to annual reporting periods beginning on or after July 1, 2012.

##### **IAS 19 *Employee Benefits* (2011)**

An amended version of IAS 19 *Employee Benefits* with revised requirements for pensions and other post-retirement benefits, termination benefits and other changes.

The key amendments include:

- Requiring the recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of re-measurements in other comprehensive income, plan amendments, curtailments and settlements (eliminating the “corridor approach” permitted by the existing IAS 19)
- Introducing enhanced disclosures about defined benefit plans
- Modifying accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits
- Clarifying various miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features
- Incorporating other matters submitted to the IFRS Interpretations Committee.

Applicable to annual reporting periods beginning on or after January 1, 2013.

##### **IAS 27 *Separate Financial Statements* (2011)**

This amended version of IAS 27 that now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in IFRS 10 *Consolidated Financial Statements*.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

The Company is currently assessing the impact that these new accounting standards will have in the consolidated financial statements.



## WATERFRONT CAPITAL CORPORATION

### Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

#### 4. LOAN RECEIVABLE

	March 31, 2012	December 31, 2011
Loan receivable due from a company with common directors, denominated in United States dollars, payable in monthly installments of US\$9,892, including interest (25.3% effective rate of interest per annum), unsecured and due December 31, 2012.	\$ 250,000	\$ 250,000

During the three month period ended March 31, 2012, the Company has not accrued or received payment of any interest. The Company is currently negotiating settlement of the loan and accordingly wrote-down the loan on December 31, 2011 to its expected fair value.

#### 5. INVESTMENTS

Investments are marketable securities comprised of common shares in publicly traded companies as follows:

	March 31, 2012	December 31, 2011
Black Panther Mining Corp. – 82,000 common shares (2011 – 82,000 common shares)	\$ 3,280	\$ 4,920
Columbia Yukon Explorations Inc. – 300,000 common shares (2011 – 300,000 common shares)	16,500	27,000
International Bethlehem Mining Corp. – 600,000 common shares (2011 – 600,000 common shares)	30,000	33,000
White Tiger Mining Corp. – Nil common shares (2011 – 93,250 common shares)	-	12,123
World Famous Pizza Company Ltd. – 1,500,000 common shares (2011 – 1,500,000 common shares)	22,500	7,500
	\$ 72,280	\$ 84,543

All of the investee companies have certain common directors with the Company.

## WATERFRONT CAPITAL CORPORATION

### Notes to the Interim Consolidated Financial Statements

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March 31, 2012

#### 6. PROPERTY AND EQUIPMENT

	Computer equipment	Computer software	Furniture and fixtures	Total
<b>Cost</b>				
Balance, December 31, 2010	54,178	114,313	45,127	213,618
Additions	-	-	-	-
Balance, December 31, 2011	54,178	114,313	45,127	213,618
Additions	-	-	-	-
Balance, March 31, 2012	\$ 54,178	\$ 114,313	\$ 45,127	\$ 213,618
<b>Accumulated depreciation</b>				
Balance, December 31, 2010	\$ 34,774	\$ 30,174	\$ 43,100	\$ 108,048
Additions	5,820	25,240	408	31,468
Balance, December 31, 2011	40,594	55,414	43,508	139,516
Additions	1,019	4,417	82	5,518
Balance, March 31, 2012	\$ 41,613	\$ 59,831	\$ 43,590	\$ 145,034
<b>Carrying amounts</b>				
As at December 31, 2010	\$ 19,404	\$ 84,139	\$ 2,027	\$ 105,570
As at December 31, 2011	\$ 13,584	\$ 58,899	\$ 1,619	\$ 74,102
As at March 31, 2012	\$ 12,565	\$ 54,482	\$ 1,537	\$ 68,584

#### 7. RELATED PARTY TRANSACTIONS

- (a) Included in accounts receivable at March 31, 2012 is \$57,045 (December 31, 2011 - \$47,243) due from companies controlled by directors and/or companies with common directors;
- (b) Included in accounts payable at March 31, 2012 is \$nil (December 31, 2011 - \$2,839) due to companies controlled by directors and/or companies with common directors;
- (c) Included in deferred revenue at March 31, 2012 is \$42,531 (December 31, 2011 - \$43,873) from companies with common directors to cover the cost of implementing new computer hardware and software and other expense recoveries;
- (d) During the three month period ended March 31, 2012, the Company paid or accrued the following amounts to directors, companies or limited partnerships controlled by directors and/or companies with common directors:

	March 31, 2012	March 31, 2011
Consulting fees	\$ 10,500	\$ 10,500
Professional fees	7,500	7,500
Rent	13,413	12,273

## WATERFRONT CAPITAL CORPORATION

### Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

#### 7. RELATED PARTY TRANSACTIONS (Continued)

(e) During the three month period ended March 31, 2012, the Company received or accrued the following amounts from companies controlled by directors and/or companies with common directors:

	March 31, 2012	March 31, 2011
Interest and other income	\$ 10,968	\$ 32,861
Corporate and administrative services revenue	71,374	72,957

#### 8. STOCK OPTIONS AND WARRANTS

##### Stock Options

The Company has a stock option plan to grant options to directors, officers, employees and consultants to acquire up to 1,800,000 common shares in the capital of the Company. The exercise price of each option granted under the plan is determined by the directors but cannot be less than the closing price of the Company's shares on the day preceding the day of which the directors grant such options, less any discount allowed by the TSX Venture Exchange. The options can be granted for a maximum term of 5 years and are subject to vesting over an 18 month period, with one-quarter of the options vesting on the date of grant and an additional one-quarter vesting at each subsequent 6 month interval.

On November 1, 2011, the Company granted 200,000 stock options to a director and officer at an exercise price of \$0.10 per share and for a term of five years. These options are subject to vesting over an 18 month period, with one-quarter of the options vesting on the date of grant and an additional one-quarter vesting at each subsequent 6 month interval. During the three month period ended March 31, 2012, the Company recorded share-based payments of \$nil (December 31, 2011 - \$3,613) in relation to the vested portion.

As at March 31, 2012, the following incentive stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
1,300,000	\$ 0.15	September 10, 2012
100,000	\$ 0.10	February 12, 2013
200,000	\$ 0.10	November 1, 2016
1,600,000		

## WATERFRONT CAPITAL CORPORATION

### Notes to the Interim Consolidated Financial Statements

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March 31, 2012

#### 8. STOCK OPTIONS AND WARRANTS (Continued)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2010	1,400,000	\$ 0.15
Granted	200,000	\$ 0.10
Outstanding, December 31, 2011 and March 31, 2012	1,600,000	\$ 0.15
Exercisable, March 31, 2012	1,500,000	\$ 0.15

#### Warrants

There were no warrants outstanding as at March 31, 2012 and December 31, 2011.

#### 9. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

There were no non-cash financing or investing transactions during the three month period ended March 31, 2012 and December 31, 2011.

#### 10. COMMITMENTS AND CONTINGENCIES

(a) The Company has entered into lease agreements for premises and equipment expiring through 2014. The minimum annual lease commitments under these leases are as follows:

2012	\$	34,251
2013	\$	8,771
2014	\$	7,309

(b) The Company has entered into three 5-year term renewable agreements with companies controlled by three directors of the Company for the provision of consulting and/or legal services at a cost of \$2,500 per month (\$30,000 per annum), \$2,500 per month (\$30,000 per annum) and \$1,000 per month (\$12,000 per annum), respectively. If any of such agreements are terminated without cause, or if there is a change in control of the Company, the Company is required to pay an amount equal to five times the annual fees payable there under.

(c) The Company has entered into three agreements with certain directors/officers for services rendered in such capacities. If such agreements are terminated without consent of the director/officer or the director/officer resigns within 120 days following a change in control, the Company must pay \$100,000 to such director/officer and allow any unvested stock options to vest.

## **WATERFRONT CAPITAL CORPORATION**

### **Notes to the Interim Consolidated Financial Statements**

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

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#### **11. CAPITAL MANAGEMENT**

The Company manages its common shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 365 days or less from the original date of acquisition, selected with regard to the expected timing of expenditures from continuing operations.

To fund future operating activities the Company may need to raise funds through future share issuances, issue new debt or dispose of assets.

There have been no changes to the Company's approach to capital management during the three month period ended March 31, 2012. The Company is not subject to externally imposed capital requirements.

The Company expects its current capital resources will be sufficient to carry its corporate and administrative services and operations through its current operating period.

#### **12. FINANCIAL INSTRUMENTS**

##### **Fair value**

The Company classifies its cash and cash equivalents and short-term investments as fair value through profit or loss; accounts receivable, loans receivables; and accounts payable as other financial liabilities.

The carrying values of accounts receivable, loans receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

## WATERFRONT CAPITAL CORPORATION

### Notes to the Interim Consolidated Financial Statements

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#### 12. FINANCIAL INSTRUMENTS (Continued)

##### Fair value (Continued)

The Company's measurement of fair value of financial instruments as at March 31, 2012 and December 31, 2011 in accordance with the fair value hierarchy is as follows:

	Total	Level 1	Level 2	Level 3
March 31, 2012				
Cash and cash equivalents	\$ 37,723	\$ 37,723	\$ -	\$ -
Investments	\$ 72,280	\$ 72,280	\$ -	\$ -
December 31, 2011				
Cash and cash equivalents	\$ 22,310	\$ 22,310	\$ -	\$ -
Investments	\$ 84,543	\$ 84,543	\$ -	\$ -

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

##### Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash and cash equivalents, trade accounts receivable and other receivables.

The Company's credit risk is primarily attributable to cash and short-term investments. Management believes that the credit risk concentration with respect to cash and short-term investments is remote as it maintains accounts with highly-rated financial institutions. Accounts receivable are due primarily from companies with common directors and/or officers.

Credit risk with respect to other receivables is considered to be moderate due to the balance being outstanding from related parties (see Note 7). Credit risk with respect to trade accounts receivable has been assessed as low from management, as the Company has strong working relationships with the parties involved.

The credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed with a major financial institution with strong investment-grade ratings by a primary ratings agency.

## WATERFRONT CAPITAL CORPORATION

### Notes to the Interim Consolidated Financial Statements

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#### 12. FINANCIAL INSTRUMENTS (Continued)

The Company's concentration of credit risk and maximum exposure thereto is as follows:

	March 31, 2012	December 31, 2011
Bank accounts	\$ 37,723	\$ 22,310
Investments	72,280	84,543
Loan receivable	250,000	250,000
Trade accounts receivable	48,178	48,008
	\$ 408,181	\$ 404,861

#### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At March 31, 2012, the Company had accounts payable and accrued liabilities of \$50,031 (December 31, 2011 - \$41,482). Based on the current funds held as at March 31, the Company has sufficient working capital to cover its current liabilities.

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Company:

Due Date	March 31, 2011		
	Accounts Payable and Accrued Liabilities	Due to Related Parties	Total
0 – 90 days	\$ 50,031	\$ -	\$ 50,031

Due Date	December 31, 2011		
	Accounts Payable and Accrued Liabilities	Due to Related Parties	Total
0 – 90 days	\$ 38,643	\$ 2,839	\$ 41,482

## **WATERFRONT CAPITAL CORPORATION**

### Notes to the Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars, except for share amounts)

March 31, 2012

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#### **12. FINANCIAL INSTRUMENTS (Continued)**

##### **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

##### **(i) Interest rate risk**

Interest rate risk consists of two components:

- (a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's cash and cash equivalents consist of cash held in bank accounts. Due to the short-term nature of the Company's financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values.

Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. Given the balance of the cash and equivalents, any fluctuations in the interest rate would lead to an immaterial change in the consolidated statements of comprehensive loss.

##### **(ii) Foreign currency risk**

The Company is not exposed to significant foreign currency risk.

##### **(iii) Other price risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is exposed to other price risk with respect to its marketable securities, as they are carried at fair values based on quoted market prices, and investments, as they are carried at fair values based on quoted market prices.



## WATERFRONT CAPITAL CORPORATION

### Notes to the Interim Consolidated Financial Statements

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#### 13. INCOME TAXES

A reconciliation of current income taxes at statutory rates with the reported taxes for the years ended December 31, 2011 and 2010 is as follows:

	2011
Income (loss) for the year	\$ (265,661)
Expected income tax (recovery)	(70,000)
Non deductible expenditures	2,000
Impact on different tax rates and other	109,000
Change in unrecognized deductible temporary differences	(41,000)
	\$ -

The deductible temporary differences and unused tax losses that are not recognized as deferred tax assets are as follows:

	Expiry Dates	2011
Allowable capital losses	not applicable	\$ 2,446,000
Non-Capital losses	2013 to 2031	299,000
Property and equipment	not applicable	172,000
Investments	not applicable	309,000
Financing costs		-

#### 14. SEGMENTED INFORMATION

The Company currently operates its business in one operating segment in Canada.