

WATERFRONT CAPITAL CORPORATION

Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2012 and 2011

Contact Information:

Waterfront Capital Corporation

2489 Bellevue Avenue

West Vancouver, BC

V7V 1E1

Phone: (604) 922-2030

Fax: (604) 922-2037

Contact Person: Mr. Clive Shallow

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Waterfront Capital Corp.

We have audited the accompanying consolidated financial statements of Waterfront Capital Corp., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Waterfront Capital Corp. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Waterfront Capital Corp.'s ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

April 2, 2013

WATERFRONT CAPITAL CORPORATION

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at December 31,

	2012	2011
ASSETS		
Current		
Cash	\$ 28,625	\$ 22,310
Accounts receivable	14,948	48,008
Investments (Note 5)	33,140	84,543
Prepaid expenses	1,613	1,423
	<u>78,326</u>	<u>156,284</u>
Loan receivable (Note 4)	-	250,000
Property and equipment (Note 6)	<u>52,030</u>	<u>74,102</u>
	<u>\$ 130,356</u>	<u>\$ 480,386</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 42,623	\$ 41,482
Deferred revenue (Note 7)	-	43,873
	<u>42,623</u>	<u>85,355</u>
Shareholders' equity		
Share Capital	7,459,938	7,459,938
Reserves	241,771	235,287
Deficit	<u>(7,613,976)</u>	<u>(7,300,194)</u>
	<u>87,733</u>	<u>395,031</u>
	<u>\$ 130,356</u>	<u>\$ 480,386</u>

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 10)

Subsequent events (Note 15)

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
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
Years Ended December 31,

	2012	2011
REVENUE		
Corporate and administrative services	\$ 289,132	\$ 307,764
Interest and other income	43,884	139,587
	<u>333,016</u>	<u>447,351</u>
EXPENSES		
Consulting fees	43,167	52,700
Depreciation	22,072	31,468
Office and general	65,203	112,402
Professional fees	72,762	77,965
Regulatory and transfer agent fees	26,478	31,544
Rent	51,333	51,627
Share-based payments (Note 8)	6,484	3,613
Wages and benefits	6,000	177
	<u>293,499</u>	<u>361,496</u>
Income and comprehensive income before other items	39,517	85,855
OTHER ITEMS		
Gain (loss) on sale of investments	(18,477)	10
Write-down of loan receivable (Note 4)	(250,000)	(191,353)
Write-down of accounts receivable	(65,759)	(47,162)
Unrealized loss on investments	(19,063)	(123,302)
Unrealized foreign exchange gain	-	10,291
Loss and comprehensive loss for the year	<u>\$ (313,782)</u>	<u>\$ (265,661)</u>
Basic and diluted loss per common share	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>
Weighted average shares outstanding	<u>9,654,066</u>	<u>9,654,066</u>

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

WATERFRONT CAPITAL CORPORATION
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number of Shares	Capital Stock	Share-based payment reserves	Deficit	Total
Authorized Capital					
Unlimited number of common shares without par value					
Balance as at December 31, 2010	9,654,066	\$ 7,459,938	\$ 231,674	\$ (7,034,533)	\$ 657,079
Share-based payments	-	-	3,613	-	3,613
Net loss for the year	-	-	-	(265,661)	(265,661)
Balance as at December 31, 2011	9,654,066	7,459,938	235,287	(7,300,194)	395,031
Share-based payments	-	-	6,484	-	6,484
Net loss for the year	-	-	-	(313,782)	(313,782)
Balance as at December 31, 2012	9,654,066	\$ 7,459,938	\$ 241,771	\$ (7,613,976)	\$ 87,733

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

WATERFRONT CAPITAL CORPORATION

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

Years Ended December 31,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (313,782)	\$ (265,661)
Items not affecting cash:		
Depreciation	22,072	31,468
Amortization of deferred revenue	(43,873)	(43,872)
Accrued interest income included in loan receivable	-	(95,714)
Loss on sale of investments	18,477	-
Gain on sale of subsidiary	-	(10)
Share-based payments	6,484	3,613
Unrealized foreign exchange (gain) loss	-	(10,291)
Unrealized (gain) loss on investments	19,063	123,302
Write-down of loan receivable	250,000	191,353
Write-down of accounts receivable	65,759	47,162
	24,200	(18,650)
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	(32,699)	39,415
Increase in prepaid expenses	(190)	(58)
Increase (decrease) in accounts payable and accrued liabilities	1,141	(13,507)
	(7,548)	7,200
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of investments	13,863	-
Proceeds on sale of subsidiary shares	-	10
	13,863	10
Increase in cash for the year	6,315	7,210
Cash, beginning of year	22,310	15,100
Cash, end of year	\$ 28,625	\$ 22,310

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 Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2012 and 2011

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. The Company has incurred significant operating losses over the past several fiscal years (2012 - \$313,782; 2011 - \$265,661), has a deficit of \$ 7,613,976 (2011 - \$7,300,194) and limited resources. These factors indicate the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern. 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 International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2012. The Board of Directors approved the financial statements for issue on April 2, 2013.

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. The comparative figures presented in these consolidated financial statements are in accordance with IFRS.

WATERFRONT CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2012 and 2011

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 amounts reported in the financial statements and accompanying notes. 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 accounting estimates:

a) 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.

b) Share-based payments

The fair value of share options granted is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, expected life of the options, expected dividends and the risk-free rate. These estimates will impact the amount of share-based payments recognized.

c) Income taxes

Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences and, accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time.

d) Depreciation for equipment

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

WATERFRONT CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2012 and 2011

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.

(b) Cash

Cash 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 loss and 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 loss and comprehensive loss.

WATERFRONT CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2012 and 2011

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 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 loss and 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 statement of financial position at fair value with changes in fair value recognized in the consolidated statements of loss and 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 using the effective interest method. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

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 Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2012 and 2011

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 using the declining balance method:

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

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 the consolidated statements of loss and comprehensive 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 consolidated statements of loss and comprehensive 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 Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2012 and 2011

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. Share-based payments to non-employees are measured at the fair value of goods or services received or at the fair value of equity instruments issued, if it is determined the fair value of the goods or services cannot be readily measured, and are recorded at the date the goods or services are received.

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 Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2012 and 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Loss per share

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 will not be recognized.

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 Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2012 and 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(I) New accounting standards, interpretations and amendments not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2012 and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

Effective for annual periods beginning on or after January 1, 2013

- **New standard IFRS 10 Consolidated Financial Statements**

Provides a new single consolidation model that identifies control as the basis for consolidation for all types of entities, and replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities.

- **New standard IFRS 11 Joint Arrangements**

Improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. Such a principle-based approach will provide users with greater clarity about an entity's involvement in its joint arrangements by increasing the verifiability, comparability and understandability of the reporting of these arrangements. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities-Non-Monetary Contributions by Venturers.

- **New standard IFRS 12 Disclosure of Interests in Other Entities**

Combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

- **New standard IFRS 13 Fair Value Measurement**

Defines fair value and sets out a framework for measuring fair value and disclosures about fair value measurements. It applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value.

- **Revised standard IAS 27 Separate Financial Statements**

As a result of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 27 has been reissued to reflect the change as the consolidation guidance has recently been included in IFRS 10. In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements.

- **IAS 28 Associates and Joint Ventures**

As a consequence of the issue of IFRS 11, IAS 28 has been amended and provides the accounting guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

WATERFRONT CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2012 and 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) New accounting standards, interpretations and amendments not yet effective

Effective for annual periods beginning on or after January 1, 2015

- New standard IFRS 9 Financial Instruments

Partial replacement of IAS 39 Financial Instruments: Recognition and Measurement

The Company has not early adopted these revised standards and is currently assessing the impact that these standards could have on future financial statements.

4. LOAN RECEIVABLE

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

During the year ended December 31, 2012, the Company has not accrued or received any payments of any interest or principle. On December 31, 2011, the Company wrote down the loan by \$191,353 to its estimated fair value at that time of \$250,000. On September 30, 2012, the Company determined that the loan had a permanent impairment and that the Company may not be able to realize on the loan and as such wrote down the remaining \$250,000.

5. INVESTMENTS

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

	2012	2011
Black Panther Mining Corp. – 82,000 common shares (2011 – 82,000 common shares)	\$ 1,640	\$ 4,920
Columbia Yukon Explorations Inc. – 300,000 common shares (2011 – 300,000 common shares)	10,500	27,000
International Bethlehem Mining Corp. – 600,000 common shares (2011 – 600,000 common shares)	21,000	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)	-	7,500
	\$ 33,140	\$ 84,543

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

WATERFRONT CAPITAL CORPORATION

Notes to Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2012 and 2011

6. PROPERTY AND EQUIPMENT

	Computer equipment	Computer software	Furniture and fixtures	Total
Cost				
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, December 31, 2012	<u>\$ 54,178</u>	<u>\$ 114,313</u>	<u>\$ 45,127</u>	<u>\$ 213,618</u>
Accumulated depreciation				
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	4,076	17,668	328	22,072
Balance, December 31, 2012	<u>\$ 44,670</u>	<u>\$ 73,082</u>	<u>\$ 43,836</u>	<u>\$ 161,588</u>
Carrying amounts				
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 December 31, 2012	<u>\$ 9,508</u>	<u>\$ 41,231</u>	<u>\$ 1,291</u>	<u>\$ 52,030</u>

7. RELATED PARTY TRANSACTIONS

- (a) Included in accounts receivable at December 31, 2012 is \$14,801 (2011 - \$47,243) due from companies controlled by directors and/or companies with common directors;
- (b) Included in accounts payable at December 31, 2012 is \$628 (2011 - \$2,839) due to companies controlled by directors and/or companies with common directors;
- (c) Included in deferred revenue at December 31, 2012 is \$nil (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 year ended December 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:

	2012	2011
Consulting fees	\$ 43,167	\$ 48,000
Professional fees	30,000	32,000
Rent	51,333	51,627
Share-based payments	6,484	3,613

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For the years ended December 31, 2012 and 2011

7. RELATED PARTY TRANSACTIONS (Continued)

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

	2012	2011
Interest and other income	\$ 43,873	\$ 139,587
Corporate and administrative services revenue	272,861	284,595

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 year ended December 31, 2012, the Company recorded share-based payments of \$4,903 (2011 - \$3,613) in relation to the vested portion.

On July 24, 2012, the Company granted 75,000 stock options to a director 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 year ended December 31, 2012, the Company recorded share-based payments of \$1,581 (2011 - \$nil) in relation to the vested portion.

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

	Number of Options	Exercise Price	Expiry Date
	100,000	\$ 0.10	February 12, 2013*
	200,000	\$ 0.10	November 1, 2016
	75,000	\$ 0.10	July 24, 2017
	375,000		

* Expired subsequent to the year end

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For the years ended December 31, 2012 and 2011

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	1,600,000	\$ 0.15
Expired	(1,300,000)	\$ 0.15
Granted	75,000	\$ 0.10
Outstanding, December 31, 2012	375,000	\$ 0.10
Exercisable, December 31, 2012	268,750	\$ 0.10

The weighted average grant-date fair value of options granted during the year ended December 31, 2012 was \$0.03 (2011 was \$0.05) per share.

The fair value of stock options was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2012	2011
Expected life (years)	5	5
Interest rate	1.16%	1.43%
Volatility	136.69%	131.95%
Dividend yield	0.00%	0.00%

Stock-based compensation for the year ended December 31, 2012 was \$6,484 (December 31, 2011 - \$3,613).

Warrants

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

9. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

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

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Notes to Consolidated Financial Statements

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10. COMMITMENTS AND CONTINGENCIES

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

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.

11. CAPITAL MANAGEMENT

The Company manages its common shares and stock options 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 year ended December 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.

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12. FINANCIAL INSTRUMENTS

Fair value

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

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

	Total	Level 1	Level 2	Level 3
December 31, 2012				
Cash	\$ 28,625	\$ 28,625	\$ -	\$ -
Investments	\$ 33,140	\$ 33,140	\$ -	\$ -
December 31, 2011				
Cash	\$ 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

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(Expressed in Canadian Dollars)

For the years ended December 31, 2012 and 2011

12. FINANCIAL INSTRUMENTS (Continued)

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

	2012	2011
Bank accounts	\$ 28,625	\$ 22,310
Investments	33,140	84,543
Loan receivable	-	250,000
Trade accounts receivable	14,948	48,008
	\$ 76,713	\$ 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 December 31, 2012, the Company had accounts payable and accrued liabilities of \$42,623 (2011 - \$41,482). Based on the current funds held as at December 31, 2012, 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	December 31, 2012		
	Accounts Payable and Accrued Liabilities	Due to Related Parties	Total
0 – 90 days	\$ 41,995	\$ 628	\$ 42,623

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

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(Expressed in Canadian Dollars)

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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 consists 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 and investments, as they are carried at fair values based on quoted market prices, and investments.

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13. INCOME TAXES

A reconciliation of current income taxes at statutory rates with the reported taxes for the year ended December 31, 2012 and 2011 is as follows:

	2012	2011
Income (loss) for the year	\$ (313,782)	\$ (265,661)
Expected income tax (recovery)	(78,000)	(70,000)
Non-deductible expenditures	42,000	2,000
Impact on different tax rates and other	6,000	109,000
Change in unrecognized deductible temporary differences	30,000	(41,000)
	\$ -	\$ -

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

	Expiry Dates	2012	2011
Allowable capital losses	not applicable	\$ 2,657,000	\$ 2,446,000
Non-Capital losses	2013 to 2031	435,000	299,000
Property and equipment	not applicable	194,000	172,000
Investments	not applicable	303,000	309,000
Financing costs		-	-

14. SEGMENTED INFORMATION

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

15. SUBSEQUENT EVENTS

On February 15, 2013, the Company granted 675,000 incentive stock options to certain directors, officers employees and consultants at an exercise price of \$0.10 per share for a term of five years.