# UNAUDITED CONDENSED INTERIM

# CONSOLIDATED FINANCIAL STATEMENTS

## Walton Westphalia Development Corporation

For the three and six months ended June 30, 2015 and June 30, 2014

(Expressed in Canadian dollars)

## NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Section 4.3(3) of National Instrument 51-102, Continuous Disclosure Obligations, provides that if an auditor has not performed a review of the condensed interim consolidated financial statements, the condensed interim consolidated financial statements must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor. The Corporation's external auditors have not performed a review of these condensed interim consolidated financial statements of Walton Westphalia Development Corporation.

## Condensed Interim Consolidated Statements of Financial Position

As at June 30, 2015 and December 31, 2014

(Expressed in Canadian dollars)

| | June 30, 2015 $ | December 31, 2014 $ |
|---|---|---|
| **ASSETS** | | |
| Land development inventory (note 4) | 61,699,739 | 52,042,267 |
| Interest rate cap (note 8) | 3,612 | 38,527 |
| Deferred financing and transaction costs (note 8) | 1,335,779 | 1,396,409 |
| Prepaid expenses | - | 1,110 |
| GST recoverable | 1,431 | 242 |
| Due from related party (note 5) | 192,032 | 168,913 |
| Restricted cash (note 6) | 3,146,819 | 2,955,069 |
| Cash | 3,311,552 | 1,086,230 |
| **TOTAL ASSETS** | 69,690,964 | 57,688,767 |
| **LIABILITIES** | | |
| Debentures payable (note 7) | 14,410,622 | 14,337,245 |
| Interest debentures payable (note 7) | 2,486,218 | 1,206,872 |
| Project debt (note 8) | 28,927,815 | 22,329,321 |
| Derivative financial liability (note 8) | 120,465 | 102,092 |
| Deferred income tax liability (note 12) | 958,340 | 362,457 |
| Interest payable (note 7) | 326,408 | 957,956 |
| Provision for land development costs (note 9) | 425,513 | - |
| Deferred revenue (note 10) | 1,060,557 | 1,015,777 |
| Accounts payable and accrued liabilities | 1,575,559 | 1,975,790 |
| Due to related parties (note 5) | 2,613,642 | 295,391 |
| **TOTAL LIABILITIES** | 52,905,139 | 42,582,901 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | 13,988,912 | 13,988,912 |
| Retained earnings (accumulated deficit) | 198,359 | (520,601) |
| Accumulated other comprehensive income | 2,598,554 | 1,637,555 |
| **TOTAL EQUITY** | 16,785,825 | 15,105,866 |
| **TOTAL LIABILITIES & EQUITY** | 69,690,964 | 57,688,767 |

Commitments (note 14)

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these statements.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Condensed Interim Consolidated Statements of Comprehensive Income

For the three and six months ended June 30, 2015 and June 30, 2014

(Expressed in Canadian dollars)

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 30, 2015<br>$ | June 30, 2014<br>$ | June 31, 2015<br>$ | June 30, 2014<br>$ |
| **REVENUE** | | | | |
| Land development sales | 1,183,930 | - | 1,183,930 | - |
| **COST OF SALES** | | | | |
| Land development | (1,023,407) | - | (1,023,407) | - |
| **GROSS MARGIN** | 160,523 | - | 160,523 | - |
| **OTHER INCOME/(EXPENSES)** | | | | |
| Management fees (note 5) | (139,505) | (139,505) | (277,477) | (277,477) |
| Marketing expense | (19,417) | - | (82,643) | - |
| Servicing fees (note 5) | (34,876) | (34,876) | (69,369) | (69,369) |
| Professional fees | (9,944) | (19,686) | (37,514) | (30,685) |
| Directors' fees (note 5) | (12,531) | (12,766) | (25,302) | (25,798) |
| Office and other expenses | (6,013) | (8,308) | (16,602) | (22,948) |
| Interest income | 1,487 | 1,326 | 2,690 | 2,273 |
| **TOTAL INCOME/(EXPENSES)** | (220,799) | (213,815) | (506,217) | (424,004) |
| **LOSS BEFORE OTHER ITEMS** | (60,276) | (213,815) | (345,694) | (424,004) |
| Gain/(loss) on derivative financial liability revaluation | 7,505 | 8,746 | (10,581) | (55,407) |
| Loss on interest rate cap revaluation | (7,099) | (54,019) | (37,440) | (96,241) |
| Foreign exchange gain/(loss) | (248,292) | (655,728) | 1,708,561 | 134,037 |
| **TOTAL OTHER ITEMS** | (247,886) | (701,001) | 1,660,540 | (17,611) |
| **NET INCOME(LOSS) BEFORE TAXES** | (308,162) | (914,816) | 1,314,846 | (441,615) |
| Deferred tax (expense)/recovery (note 12) | 76,528 | 314,836 | (595,886) | 319,831 |
| **NET INCOME(LOSS) AFTER TAX** | (231,634) | (599,980) | 718,960 | (121,784) |
| **OTHER COMPREHENSIVE INCOME(LOSS)** | | | | |
| Cumulative translation gain/(loss) | (248,044) | (379,440) | 960,999 | 41,334 |
| **COMPREHENSIVE INCOME(LOSS)** | (479,678) | (979,420) | 1,679,959 | (80,450) |
| Basic net income/(loss)( per share (note 11) | (0.08) | (0.20) | 0.24 | (0.04) |
| Diluted net income/(loss) per share (note 11) | (0.08) | (0.20) | 0.11 | (0.04) |

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these statements.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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

For the three and six months ended June 30, 2015 and June 30, 2014

(Expressed in Canadian dollars)

| | Class A Voting Common Shares | | Class B Non-voting Common Shares | | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive (Loss)/Income | Total |
|---|---|---|---|---|---|---|---|
| | # of Shares | $ | # of Shares | $ | $ | $ | $ |
| JANUARY 1, 2014 | 100 | 100 | 3,017,170 | 13,988,812 | (646,271) | 633,292 | 13,975,933 |
| Net loss after tax | - | - | - | - | (121,784) | - | (121,784) |
| Other comprehensive income | - | - | - | - | - | 41,334 | 41,334 |
| JUNE 30, 2014 | 100 | 100 | 3,017,170 | 13,988,812 | (768,055) | 674,626 | 13,895,483 |
| Net income after tax | - | - | - | - | 247,454 | - | 247,454 |
| Other comprehensive income | - | - | - | - | - | 962,929 | 962,929 |
| DECEMBER 31, 2014 | 100 | 100 | 3,017,170 | 13,988,812 | (520,601) | 1,637,555 | 15,105,866 |
| Net income after tax | - | - | - | - | 718,960 | - | 718,960 |
| Other comprehensive income | - | - | - | - | - | 960,999 | 960,999 |
| JUNE 30, 2015 | 100 | 100 | 3,017,170 | 13,988,812 | 198,359 | 2,598,554 | 16,785,825 |

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these statements.

WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Condensed Interim Consolidated Statements of Cash Flows

For the three and six months ended June 30, 2015 and June 30, 2014

(Expressed in Canadian dollars)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2015 $ | June 30, 2014 $ | June 30, 2015 $ | June 30, 2014 $ |
| **CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES** | | | | |
| Net (loss) income for the period | (231,634) | (599,980) | 718,960 | (121,784) |
| Adjustments for: | | | | |
| Unrealized foreign exchange gain | 339,906 | 655,728 | (1,520,399) | (134,037) |
| Deferred income tax (recovery)/expense | (76,528) | (314,836) | 595,886 | (319,831) |
| Loss on interest rate cap revaluation | 7,099 | 54,019 | 37,440 | 96,241 |
| Loss on derivative financial liability revaluation | (7,505) | (8,746) | 10,581 | 55,407 |
| Interest income | (1,487) | (1,326) | (2,690) | (2,273) |
| Changes in non-cash operating items | | | | |
| Decrease/(increase) GST recoverable | 409 | (861) | (1,189) | (332) |
| Increase in due from related party | 52 | (26,660) | (10,305) | (38,796) |
| Decrease in prepaid expenses | - | 85,461 | 1,110 | 174,856 |
| Increase/(decrease) in accounts payable and accrued liabilities | (1,028,806) | 840,742 | (537,334) | 581,622 |
| Increase in provision for land development costs | 425,513 | - | 425,513 | - |
| Increase in deferred revenue | (31,346) | 376,156 | (31,345) | 378,334 |
| Increase/(decrease) in due to related parties | 171,682 | (11,436) | 291,232 | (23,168) |
| Increase in land development inventory | (1,757,063) | (2,282,671) | (3,361,603) | (4,003,045) |
| Increase in restricted cash | 30,833 | (376,610) | 30,322 | (379,293) |
| Increase/(decrease) in deposits | - | - | - | 1,743,340 |
| Interest paid | (401,450) | - | (640,083) | - |
| Interest received | 1,598 | 1,169 | 1,938 | 2,071 |
| | (2,558,727) | (1,609,851) | (3,991,966) | (1,990,688) |
| **FINANCING ACTIVITIES** | | | | |
| Advances from project debt | 2,757,086 | 435,052 | 5,033,540 | 2,070,124 |
| Project debt repayment | (984,294) | - | (984,294) | - |
| Advances from related parties | 536,231 | - | 1,999,842 | - |
| | 2,309,023 | 435,052 | 6,049,088 | 2,070,124 |
| Effect of exchange rate on cash | 46,514 | 2,223 | 168,200 | 153,848 |
| (Decrease)/Increase in cash | (203,190) | (1,172,576) | 2,225,322 | 233,284 |
| Cash – Beginning of period | 3,514,742 | 2,676,639 | 1,086,230 | 1,270,779 |
| Cash – End of period | 3,311,552 | 1,504,063 | 3,311,552 | 1,504,063 |
| **SUPPLEMENTAL NON-CASH** | | | | |
| Accretion related to Debentures payable capitalized to land development inventory | 37,346 | 33,794 | 73,377 | 66,805 |
| Deferred financing and transaction costs transferred to | 18,226 | - | 156,680 | - |
| Non-cash interest capitalized to land development | 263,149 | 824,072 | 643,538 | 1,658,143 |
| Interest paid capitalized to land development inventory | 401,450 | - | 640,083 | - |
| Non-cash issuance of interest debentures | 1,279,346 | 1,206,872 | 1,279,346 | 1,206,872 |
| Accretion on project debt | 122,856 | (17,459) | 269,372 | 55,541 |

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these statements.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2015 and June 30, 2014

(Expressed in Canadian dollars)

### 1. NATURE OF BUSINESS

Walton Westphalia Development Corporation (the "**Corporation**") was incorporated under the laws of the Province of Alberta on January 4, 2012. The wholly-owned subsidiary of the Corporation, Walton Westphalia Development Corporation (USA), LLC ("**U.S. Subsidiary**") was incorporated under the laws of the state of Maryland on January 6, 2012. The Corporation and the U.S. Subsidiary were formed to provide investors with the opportunity to participate in the development of the approximately 310 acre "Westphalia" property located in Prince George's County, Maryland, USA (the "**Property**") through the purchase of units in the Corporation. Each unit issued by the Corporation ("**Unit**") through its initial public offering ("**IPO**") and private placement ("**Private Placement**") was comprised of a $5.00 principal amount of offering debentures ("**Debentures**") and one Class B non-voting share ("**Class B Shares**") at a price of $5.00 per share.

During 2012, the U.S. Subsidiary sold a 14.4% interest in the Property to Walton Westphalia Europe, LP ("**WWE**"). As a co-owner of the Property, all revenues and expenses incurred for the development of the Property will be allocated proportionately based on each party's ownership interest in the Property.

The Corporation intends to preserve the capital investment of the purchasers of Units in the Corporation, and provide cash distributions on the Units by executing the following four step strategy:

i. acquire the Property (Acquired on February 15, 2012);
ii. obtain letters of intent or expressions of interest from vertical developers and other end users to purchase lots and parcels to be serviced in each of the three planned phases of the development of the Property before construction commences on that phase;
iii. construct municipal services infrastructure on the Property in phases to provide a controlled supply of serviced lots to the marketplace; and
iv. use the revenue from the sale of the serviced lots and parcels to repay construction loans and other obligations of the Corporation and the U.S. Subsidiary and then pay the remainder to the holders of the Debentures and Class B Shares by paying the interest and principal on the Debentures and by declaring a dividend or dividends on the Class B Shares and/or winding up the Corporation and distributing its assets to the holders of the Class B Shares.

Distributions by the Corporation are neither guaranteed nor will they be paid in a steady or stable stream. The amount and timing of any distributions will be at the sole discretion of the Corporation and only after the Corporation has paid or reserved funds for its expenses, liabilities and commitments (other than with respect to the Debentures), including (i) the fees payable to Walton Asset Management L.P. ("**WAM**") and Walton Development & Management (USA), Inc. ("**WDM**") (related parties by virtue of the fact that they are controlled by Walton Global Investments Ltd. ("**WGI**") (including the performance fee), and (ii) any amounts outstanding, on a phase by phase basis, under the construction loans required to develop the Property. The performance fee is only payable provided that the investors of Units in the Corporation have received distributions equal to their invested capital of $10.00 per Unit plus a cumulative compounded priority return thereon equal to 8% per annum on a declining basis.

The address of the registered office is 23rd Floor, 605 – 5th Avenue SW, Calgary, Alberta, T2P 3H5.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on Aug 25, 2015.

## 2. BASIS OF PREPARATION

### Statement of Compliance

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard (**"IAS"**) 34: Interim Financial Reporting and using accounting policies that are consistent with International Financial Reporting Standards (**"IFRS"**) as issued by the International Accounting Standards Board (**"IASB"**). They do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's audited annual financial statements for the year ended December 31, 2014.

### Basis of Presentation

The Corporation's condensed interim consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are initially measured at fair value and those measured on a recurring basis at fair value, as explained in the accounting policies set out in note 3.

The condensed interim consolidated statement of financial position has been prepared using a liquidity based presentation because the operating cycle of the Corporation revolves around the sale of land, the timing of which is uncertain. As a result, presentation based on liquidity is considered by management to provide information that is more reliable and relevant to the users of the condensed interim consolidated financial statements. With the exception of land development inventory (note 4), interest rate cap (note 8), debentures payable (note 7), interest debentures payable (note 7), project debt (note 8), and derivative financial liability (note 8), all assets and liabilities are current in nature and are expected to be settled in less than twelve months.

## 3. ACCOUNTING POLICIES

The accounting policies used in preparation of these condensed interim financial statements are consistent with those which were disclosed in the Corporation's consolidated audited financial statements for the year ended December 31, 2014, except as described below:

### Provision for Land Development Costs

The provision for land development costs is comprised of the estimated costs to complete the development of lots for which revenue has been recognized. These amounts have not been discounted as the costs are expected to be utilized within one year.

### Revenue Recognition

Land is sold by way of an agreement of purchase and sale. Revenue is recognized on these sales once the agreement is duly executed, the collection of sales proceeds is reasonably assured, the purchaser can commence construction, and all other material conditions, if any, are met. Management has determined that these conditions are generally met upon the receipt of a deposit of not less than 20%.

Customer deposits received for purchase of lots on which revenue recognition criteria have not been met are recorded as deferred revenue.

The Corporation recognizes interest income on an accrual basis in the period in which it is earned.

### Cost of Sales

At the time that revenue recognition criteria are met, the Corporation recognizes cost of sales for the lots sold by allocating to each lot its proportionate share of land development inventory using the net yield method. Under the net yield method, land development inventory is allocated to each lot sold based on the discounted sales price of the lot over the estimated total discounted lot sales that will benefit from the land development inventory. This results in phase specific costs being allocated proportionately based on the net yield of each lot in that phase, general costs being allocated proportionately based on the net yield of each lot that will benefit from the general costs and the land held for development being allocated proportionately based on the aggregate net yield of each lot of the Project. Included in the cost of sales recognized is a provision for land development costs for costs to complete the development of lots for which revenue is recognized.

### Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and equity at the date of the financial statements and the reported amount of revenue and expenses during the period. There have been no significant changes in accounting judgments, estimates and assumptions made by the Corporation in the preparation of these condensed interim consolidated financial statements from those judgments, estimates and assumptions disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2014, except as described below:

Provision for land development costs – In estimating the amount of the provision to be recognized for land development costs, significant judgement is required in estimating the costs required to complete the development of lots for which revenue has been recognized. These estimates are based on initial cost budgets prepared for each phase of development, which are reviewed regularly to determine what adjustments are needed to the provision for land development costs. The provision for land development costs includes, but is not limited to, construction costs, consulting costs, project management fees and financing costs. Changes in these estimates and assumptions could cause the total costs required to satisfy the obligations to differ materially from the amount of this provision.

Revenue recognition – In assessing when to recognize revenue, significant judgment is required in estimating when the purchaser can commence construction and when collection of sales proceeds are reasonably assured. Changes in the market and the economy, or the credit worthiness of the purchaser may impact the amount of deposit required prior to recognizing revenues, which would impact the timing of revenue recognition.

Cost of sales – In determining the amount of cost of sales to recognize in respect to completed lot sales, significant judgment is required in estimating each lot's proportionate share of land development inventory, as well as any remaining costs to complete the development of the lots sold. Changes in these estimates and assumptions could cause the actual cost of each lot sold to differ from the cost of sales recognized at the time that revenue was recognized.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2015 and June 30, 2014

(Expressed in Canadian dollars)

### Future Changes in Accounting Policies

#### Financial instruments

IFRS 9 Financial instruments ("**IFRS 9**") (July 2014) replaces earlier versions of IFRS 9 that had not yet been adopted by the Corporation and supersedes IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new models for classification and measurement of financial instruments, hedge accounting and impairment of financial assets and is mandatorily effective for periods beginning on or after January 1, 2018. The Corporation continues to review the standard as it is updated and monitor its impact on the Corporation's financial statements.

#### Revenue from contracts with customers

IFRS 15, Revenue from Contracts with Customers ("**IFRS 15**"), was issued in May 2014 by the IASB and supersedes IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied retrospectively or through the recognition of the cumulative effect to opening retained earnings and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. We are currently in the process of evaluating the impact that IFRS 15 may have on our consolidated financial statements.

## 4. LAND DEVELOPMENT INVENTORY

| | Six months ended June 30, 2015 $ | Year ended December 31, 2014 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | 52,042,267 | 34,192,040 |
| Development costs | 9,923,164 | 11,516,829 |
| Cost of goods sold | (1,023,407) | - |
| Effect of change in foreign exchange rates | 757,715 | 6,333,398 |
| BALANCE – END OF PERIOD | 61,699,739 | 52,042,267 |

During the six months ended June 30, 2015, $2,342,192 (December 31, 2014 - $3,298,989) of interest was capitalized to development costs.

## 5. RELATED PARTY TRANSACTIONS

The balance due from a related party as at June 30, 2015, is outlined in the table below:

| | June 30, 2015 $ | December 31, 2014 $ |
|---|---|---|
| WUSF 1 Westphalia, LLC | 192,032 | 168,913 |
| TOTAL DUE FROM RELATED PARTY | 192,032 | 168,913 |

### WUSF 1 Westphalia, LLC.

During the six months period ended June 30, 2015, the Corporation incurred $9,413 (December 31, 2014 – $15,810) in costs under the cost sharing agreement with WUSF 1 Westphalia, LLC ("**WUSF**"). The Corporation received $nil (December 31, 2014 - $125,205) payments from WUSF in relation to these costs during the six month period.

The balances due to related parties as at June 30, 2015 are outlined in the table below:

| | June 30, 2015 $ | December 31, 2014 $ |
|---|---|---|
| Walton International Group (USA) Inc | 2,019,858 | - |
| Walton Asset Management | 523,143 | 176,297 |
| Walton Development & Management (USA), Inc | 64,141 | 112,594 |
| Walton International Group Inc. | 6,500 | 6,500 |
| TOTAL DUE TO RELATED PARTY | 2,613,642 | 295,391 |

### Walton International Group (USA) Inc.

The previous demand loan, dated May 16, 2013, has been replaced by a subordinated loan agreement with Walton International Group (USA) Inc. ("**WUSA**") for $4.1 USD million, bearing interest at 11% per annum, payable semi-annually. Interest is capitalized to land development inventory. The Corporation can elect to defer the payment of interest and add to the principal balance of the loan. The subordinate loan has a 60 month term with a maturity date of February 1, 2020. The Corporation has the right and option to extend the term of the loan for up to two additional one-year terms. The loan is unsecured and subordinate to the senior and mezzanine loan described in note 8. Funds were advanced by WUSA to the Corporation in advance of the loan document being executed.

For the six month period ending, interest of $68,024 has been charged to the Corporation. As at June 30, 2015, $2,019,858 was outstanding on the subordinate loan, which consisted of $1,951,834 (December 31, 2014 - $nil) of principal and $68,024 (December 31, 2014- $nil) of interest. No payments have been made in the six month period ended June 30, 2015.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2015 and June 30, 2014

(Expressed in Canadian dollars)

### Walton Asset Management L.P.

During the three and six months ended June 30, 2015 the total management fees and servicing fees charged to the Corporation by WAM were $139,505 (June 30, 2014 - $139,505) and $277,477 (June 30, 2014 - $277,477) and $34,876 (June 30, 2014 - $34,876) and $69,369 (June 30, 2014 - $69,369) respectively in relation to servicing fees.

During the three and six months ended June 30, 2015 the amount paid to WDM for amounts funded on the Corporation's behalf was $nil (June 30, 2014 - $174,381) and $nil (June 30, 2014 - $346,846)

### Walton Development & Management (USA), Inc.

During the three and six months ended June 30, 2015, the total development fee charged to the Corporation was $63,771 (June 30, 2014 – $32,872) and $190,218 (June 30, 2014 – $69,565). The development fees paid by the Corporation was $65,615 (June 30, 2014 - $29,073) and $135,734 (June 30, 2014 - $97,349). The development fees are capitalized to land development inventory as incurred.

No performance fee was incurred by the Corporation during the period ended June 30, 2015 and June 30, 2014 because the $10 per Unit amount and the cumulative priority return have not been received by the investors of the Units in the Corporation.

### Key Management Compensation

Key management personnel are comprised of the Corporation's directors and executive officers. The total compensation expense incurred by the Corporation relating to its independent directors during the year was as follows:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| | $ | $ | $ | $ |
| Director's fees | 12,531 | 12,766 | 25,302 | 25,798 |

All services performed for the Corporation by its executive officers and its non-independent directors are governed by the Management Services Agreement. The annual management fee that WAM receives under the Management Services Agreement has been disclosed above.

The compensation of key management does not include the remuneration paid to individuals who are paid directly by WGI and WIGI. The Officers of the Corporation are also Officers and Directors of numerous entities controlled or managed by WGI and it is not practicable to make a reasonable apportionment of their compensation in respect of each of those entities.

(Expressed in Canadian dollars)

## 6. RESTRICTED CASH

The restricted cash balance at June 30, 2015, is outlined in the table below.

| | June 30, 2015 $ | December 31, 2014 $ |
|---|---|---|
| Funds pledged as security for the senior loan | 2,086,262 | 1,939,292 |
| Customer deposits | 1,060,557 | 1,015,777 |
| | 3,146,819 | 2,955,069 |

The customer deposits consist of deposits received from homebuilders for lots which revenue recognition criteria have not been met. The deposits are non-refundable and are being held in trust with a lawyer.

## 7. DEBENTURES PAYABLE AND INTEREST PAYABLE

Interest debentures in the amount of $1,279,346 were issued to the holders of the Debentures and Interest Debentures for the six months ended June 30, 2015 (June 30, 2014 - $1,206,277). The 2015 Interest Debentures have the same terms as the Offering Debentures.

The following table reconciles the change in debentures payable:

| | Six months ended June 30, 2015 $ | Year ended December 31,2014 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | 14,337,245 | 14,200,426 |
| Accretion on Debentures | 73,377 | 136,819 |
| BALANCE – END OF PERIOD | 14,410,622 | 14,337,245 |

The following table reconciles the change in Interest Debentures Payable:

| | June 30, 2015 $ | December 31, 2014 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | 1,206,872 | - |
| Interest Debentures issued | 1,279,346 | 1,206,872 |
| BALANCE – END OF PERIOD | 2,486,218 | 1,206,872 |

(Expressed in Canadian dollars)

Interest payable is comprised of accrued interest on the Debentures payable and Interest Debentures payable. The following table reconciles the change in interest payable:

| | June 30, 2015 $ | December 31, 2014 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | 957,956 | 909,288 |
| Accrued interest on the Debentures | 647,798 | 1,255,540 |
| Settlement of interest through issuance of Interest Debentures | (1,279,346) | (1,206,872) |
| BALANCE – END OF PERIOD | 326,408 | 957,956 |

As at June 30, 2015 and December 31, 2014, WIGI owned approximately 6.3% of the outstanding Units of the Corporation. As a result, approximately 6.3% of the share capital and approximately 6.3% of the balance of Debentures payable, Interest Debentures and interest payable is payable to WIGI.

## 8. PROJECT DEBT

The following table provides a continuity of the project debt:

| | Senior Loan $ | Mezzanine Loan $ | Total $ |
|---|---|---|---|
| BALANCE – JANUARY 1, 2014 | 3,656,282 | 6,859,449 | 10,515,731 |
| Advances, net of transaction costs | 9,032,392 | - | 9,032,392 |
| Interest incurred | 427,875 | 1,232,734 | 1,660,609 |
| Interest paid | (427,875) | - | (427,875) |
| Accretion on debt | 89,155 | 156,866 | 246,021 |
| Effect of changes in foreign exchange rates | 615,256 | 687,187 | 1,302,443 |
| BALANCE – DECEMBER 31, 2014 | 13,393,085 | 8,936,236 | 22,329,321 |
| Advances, net of transaction costs | 5,033,540 | - | 5,033,540 |
| Payment on loan | (876,116) | (108,178) | (984,294) |
| Interest incurred | 519,099 | 764,522 | 1,283,621 |
| Interest paid | (519,099) | (120,984) | (640,083) |
| Accretion on debt | 188,284 | 81,088 | 269,372 |
| Effect of changes in foreign exchange rates | 971,883 | 664,455 | 1,636,338 |
| BALANCE – JUNE 30, 2015 | 18,710,676 | 10,217,139 | 28,927,815 |

(Expressed in Canadian dollars)

The following table provides a summary of the project debt balances outstanding as at June 30, 2015 and December 31, 2014:

| | Senior Loan | Mezzanine Loan | Total |
|---|---|---|---|
| | $ | $ | $ |
| Principal, net of transaction costs | 13,393,085 | 6,417,127 | 19,810,212 |
| Interest payable | - | 2,519,109 | 2,519,109 |
| BALANCE – DECEMBER 31, 2014 | 13,393,085 | 8,936,236 | 22,329,321 |
| | | | |
| Principal, net of transaction costs | 18,710,676 | 7,054,492 | 25,765,168 |
| Interest payable | - | 3,162,647 | 3,162,647 |
| BALANCE – June 30, 2015 | 18,710,676 | 10,217,139 | 28,927,815 |

During 2015, certain conditions concerning deadlines for the delivery of the WGI financial statements to the Phase 1 lender were not met within the required timeline. The financial statements have since been delivered and the matter rectified.

As a result of entering into the subordinated loan agreement with WUSA (note 5), the Corporation has amended the loan agreements for the senior loan and the mezzanine loan to acknowledge the subordinated loan agreement and to modify the existing arrangement to address cost over runs.

The balance on the interest rate cap as at June 30, 2015 is outlined in the table below.

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Interest rate cap purchase price | 182,527 | 182,527 |
| Interest rate cap revaluation | (188,664) | (157,661) |
| Effect of change in foreign exchange rates | 9,749 | 13,661 |
| | 3,612 | 38,527 |

The balance on the derivative financial liability as at June 30, 2015 is outlined in the table below.

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Derivative financial liability initial measurement | 130,845 | 101,002 |
| Derivative financial liability revaluation | (13,267) | 5,582 |
| Effect of change in foreign exchange rates | 2,887 | (4,492) |
| | 120,465 | 102,092 |

(Expressed in Canadian dollars)

The amount of deferred financing and transaction costs as at June 30, 2015 are as follows:

| | June 30, 2015 $ | December 31, 2014 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | 1,396,409 | 1,616,216 |
| Transfer to Senior loan | (156,680) | (348,868) |
| Transfer to Mezzanine loan | - | |
| Effects of changes in foreign exchange rates | 96,050 | 129,061 |
| BALANCE – END OF PERIOD | 1,335,779 | 1,396,409 |

## 9. PROVISION FOR LAND DEVELOPMENT COSTS

The following table provides a breakdown of the provision for land development costs:

| | June 30, 2015 $ | December 31, 2014 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | - | - |
| Additional provisions | 413,403 | - |
| Effects of changes in foreign exchange rates | 12,110 | |
| BALANCE – END OF PERIOD | 425,513 | - |

## 10. DEFERRED REVENUE

Deferred revenue is comprised of deposits received from homebuilders for lots, for which revenue recognition criteria have not been met. The deposits are non-refundable and are paid in accordance with the terms of the purchase and sales agreements between the Corporation and the homebuilders. In addition to cash deposits received from builders, on March 4, 2014, in lieu of a deposit, an irrevocable letter of credit in the amount of USD $367,200 has been received from the second homebuilder. The letter of credit will be reduced proportionately as gross proceeds are received from the sale of lots in accordance with the purchase and sale agreement with this builder.

## 11. SHARE CAPITAL

### Per Share Amount

Basic net income per share ("EPS") is calculated by dividing the Corporation's net income (prior to other comprehensive income) by the weighted average number of shares outstanding. Class A shares outstanding have not been included in the weighted average shares outstanding because the Class A shares do not participate in the profits or losses of the Corporation. The weighted average number of shares outstanding for the period ended June 30, 2015 and December 31, 2014 was 3,017,170.

As the Corporation has the right to convert any portion of the Debentures payable and Interest Debentures payable into Class B shares, this conversion feature could result in potentially dilutive shares in the determination of the weighted average diluted shares outstanding. For the period ended June 30, 2015, the potentially dilutive shares were 3,579,695 and December 31, 2014 was 3,450,136.

The dilutive impact of the convertible debentures has been determined using a fair value of the Class B shares of $5.00 per share. To effect a + 0.01 change in diluted earnings per share, the fair value of the Class B shares would have to change by 118% or $0.92 per Class B Share. To effect a -0.01 change in diluted earnings per share, the fair value of the Class B shares would have to change by 84% or $0.78 per Class B Share.

### Share Issuance Price

The Class A shares issued and outstanding of the Corporation were issued at a price of $1.00/share.

The Class B shares issued and outstanding of the Corporation were issued at a price of $5.00/share.

(Expressed in Canadian dollars)

## 12. INCOME TAXES

The following table reconciles the tax recovery calculated on the Corporation's consolidated net income before tax using the weighted average tax rate to the income tax recovery recognized:

| | June 30, 2015 $ | June 30, 2014 $ | June 30, 2015 $ | June 30, 2014 $ |
|---|---|---|---|---|
| Consolidated net (loss)/income before tax | (308,162) | (914,816) | 1,314,846 | (441,615) |
| Applicable tax rate | 26% | 25% | 26% | 25% |
| Expected tax expense | (80,122) | (228,704) | 341,860 | (110,404) |
| Increase/(decrease) in income taxes resulting from: | | | | |
| Effect of Rate Change | (21,942) | - | (21,942) | - |
| Impact of tax rate in foreign jurisdiction | 210,139 | 118,190 | 185,097 | 123,185 |
| Change in deferred tax asset not recognized | (31,547) | 425,350 | 90,871 | 307,050 |
| DEFERRED TAX RECOVERY (EXPENSE) | 76,528 | 314,836 | (595,886) | 319,831 |

The components of the deferred tax assets (liabilities) are as follows:

| | June 30, 2015 $ | December 31, 2014 $ |
|---|---|---|
| Share issuance costs | 89,751 | 110,303 |
| Non-capital losses | 681,953 | 551,666 |
| Timing difference on interest expense | 465,966 | 393,070 |
| Timing difference on accretion of debentures | 110,864 | 84,308 |
| Unrealized gain on foreign exchange | (1,785,087) | (1,125,309) |
| Debenture issuance costs | (206,449) | (163,956) |
| Other | 321,280 | 333,207 |
| Unrecognized deferred tax asset | (636,618) | (545,746) |
| NET DEFERRED TAX LIABILITY | (958,340) | (362,457) |

Deferred income tax assets and liabilities are a result of temporary differences between the carrying amount of assets and liabilities in the financial statements and their carrying amount for income tax purposes, as well as recognition of tax losses. Deferred income tax expense is mainly a result of a foreign exchange gain in the US $1,642,129 (December 31, 2014 - $545,746) which has not been recognized.

(Expressed in Canadian dollars)

The unused non-capital losses of $2,525,751 will expire as follows:

| | $ |
|---|---|
| 2032 | 847,219 |
| 2033 | 647,600 |
| 2034 | 711,846 |
| 2035 | 319,086 |
| | 2,525,751 |

## 13. FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of interest rate cap, accounts receivable, due from related party, restricted cash, cash, debentures payable, interest debentures payable, project debt, interest payable, accounts payable and accrued liabilities, derivative financial liability, and amounts due to related parties.

With the exception of the interest rate cap, debentures payable, interest debentures payable, project debt, and derivative financial liability, the fair value of these financial instruments approximate their carrying value due to the short-term nature of these items. The fair value of the interest rate cap and derivative financial liability are determined using a third party valuator who uses a discounted future cash flow approach, making use of level 2 (other than quoted prices) inputs to arrive at a current value. The discount rate applicable to a transaction is generally LIBOR for the relevant currency, however other discount rates may be used where the valuator feels that LIBOR is not appropriate. This interest rate cap and derivative financial liability are recorded at fair value with changes being recorded through profit and loss.

The fair value of debentures payable, interest debentures payable, and project debt are determined using the income approach, primarily making use of level 3 (unobservable) inputs. Using the income approach, the expected future cash commitments arising from these financial liabilities are discounted by the Corporation's market rate. As at June 30, 2015, the fair value of debentures payable and interest debentures payable approximate the carrying amount because there have been no significant changes in the Corporation's risk premium or to market interest rates, since the issuance of these financial liabilities.

(Expressed in Canadian dollars)

The following tables set out the Corporation's classification and carrying amount of the financial instruments along with the fair value as at June 30, 2015 and December 31, 2014:

| JUNE 30, 2015 | Fair Value | | Amortized Cost | | Totals | |
|---|---|---|---|---|---|---|
| | Through profit and loss | Derivatives | Loans and receivables | Other financial liabilities | Carrying amount | Fair Value |
| Asset (liability): | $ | $ | $ | $ | $ | $ |
| Interest rate cap | 3,612 | - | - | - | 3,612 | 3,612 |
| Due from related party | - | - | 192,032 | - | 192,032 | 192,032 |
| Restricted cash | - | - | 3,146,819 | - | 3,146,819 | 3,146,819 |
| Cash | - | - | 3,311,552 | - | 3,311,552 | 3,311,552 |
| Debentures payable | - | - | - | (14,410,622) | (14,410,622) | (14,410,622) |
| Interest Debentures payable | - | - | - | (2,486,218) | (2,486,218) | (2,486,218) |
| Project debt | - | - | - | (28,927,815) | (28,927,815) | (28,927,815) |
| Derivative financial liability | - | (120,465) | - | - | (120,465) | (120,465) |
| Interest payable | - | - | - | (326,408) | (326,408) | (326,408) |
| Accounts payable and accrued liabilities | - | - | - | (1,575,559) | (1,575,559) | (1,575,559) |
| Due to related parties | - | - | - | (2,613,642) | (2,613,642) | (2,613,642) |
| | 3,612 | (120,465) | 6,650,403 | (50,340,264) | (43,806,714) | (43,806,714) |

(Expressed in Canadian dollars)

[1] – Note that sensitivity table below shows that the carrying value approximates fair value

| DECEMBER 31, 2014 | Fair Value | | | Amortized Cost | | Totals |
|---|---|---|---|---|---|---|
| | Through profit and loss | Derivatives | Loans and receivables | Other financial liabilities | Carrying amount | Fair Value |
| Asset (liability): | $ | $ | $ | $ | $ | $ |
| Interest rate cap | 38,527 | - | - | - | 38,527 | 38,527 |
| Due from related party | - | - | 168,913 | - | 168,913 | 168,913 |
| Restricted cash | - | - | 2,955,069 | - | 2,955,069 | 2,955,069 |
| Cash | - | - | 1,086,230 | - | 1,086,230 | 1,086,230 |
| Debentures payable | - | - | - | (14,337,245) | (14,337,245) | (14,337,245) |
| Interest Debentures payable | - | - | - | (1,206,872) | (1,206,872) | (1,206,872) |
| Project debt | - | - | - | (22,329,321) | (22,329,321) | (22,329,321) |
| Derivative financial liability | - | (102,092) | - | - | (102,092) | (102,092) |
| Interest payable | - | - | - | (957,956) | (957,956) | (957,956) |
| Accounts payable and accrued liabilities | - | - | - | (1,975,790) | (1,975,790) | (1,975,790) |
| Due to related parties | - | - | - | (295,391) | (295,391) | (295,391) |
| | 38,527 | (102,092) | 4,210,212 | (41,102,575) | (36,955,928) | (36,955,928) |

[1] – Note that sensitivity table below shows that the carrying value approximates fair value

The interest rate cap (note 8) was purchased to mitigate the interest rate risk on the senior loan. The following table shows the impact on the fair value to debentures payable, interest debentures payable, and Mezzanine loan (note 5, 7 and 8) included in project debt if the market interest rate were to change.

| | Sensitivity Analysis | | |
|---|---|---|---|
| Change in market interest rate | +/- 1% | +/- 3% | +/- 5% |
| Debentures payable (8% interest per annum) | 47,655 | 142,430 | 236,494 |
| Interest Debentures payable (8% interest per annum) | 7,134 | 21,334 | 35,441 |
| Mezzanine Loan (15% interest per annum) | 16,703 | 49,975 | 83,058 |

(Expressed in Canadian dollars)

The future undiscounted obligations of the Corporation as at June 30, 2015 are as follows:

| | 2015 | 2016 | 2017 | 2018 | 2019 and thereafter |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Debentures payable | - | - | - | - | 15,085,850 |
| Interest debentures payable | - | - | - | - | 2,486,218 |
| Interest payable | 659,989 | 1,315,606 | 1,323,037 | 1,324,461 | 326,194 |
| Project debt | 580,031 | 483,359 | 30,332,671 | - | - |
| Accounts payable and accrued liabilities | 1,575,559 | - | - | - | - |
| Due to related parties | 704,876 | 222,184 | 222,184 | 222,184 | 2,242,042 |
| Total | 3,520,455 | 2,021,149 | 31,877,892 | 1,546,645 | 20,140,304 |

In addition to these items in the table, based on the current loan amount outstanding and as a result of the joint and several nature of the Senior Loan and Mezzanine Loan, the U.S. Subsidiary may be liable for WWE's portion of these loans. As at June 30, 2015 this amount is $4,960,195 (December 31, 2014 - $3,868,240).

## 14. COMMITMENTS

The following table presents future commitments of the Corporation under the Management Services Agreement (note 5). It does not include the performance fee payable to WDM under the Project Management Agreement, which is determined at the time land sales are completed.

| | Servicing fee | Management fee | Total |
|---|---|---|---|
| | $ | $ | $ |
| 2015 | 70,519 | 234,692 | 305,211 |
| 2016 | 139,888 | 559,552 | 699,440 |
| 2017 | 139,888 | 559,552 | 699,440 |
| 2018 | 139,888 | 559,552 | 699,440 |
| 2019 and thereafter | - | 137,972 | 137,972 |
| | 490,183 | 2,051,320 | 2,541,503 |

The commitment for the management fee will extend for the length of the project however after April 1, 2019, it is calculated based on the book value of the Property at the end of the previous calendar quarter, which cannot be reasonably estimated at this time.

The Corporation also has a commitment to complete the construction of onsite water and sewer and lines, as well as the construction of an offsite sewer outfall as part of the permits issued by Prince George's County, Maryland. In April 2014, the Corporation provided the Washington Suburban Sanitary Commission with two bonds totalling US $7,583,558 which are used as construction guarantees.