

# MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months ended March 31, 2015

May 27, 2015

The following management's discussion and analysis ("**MD&A**") is a review of the consolidated financial condition and consolidated results of operations of Walton Westphalia Development Corporation (the "**Corporation**") for the three months ended March 31, 2015. The MD&A should be read in conjunction with the Corporation's unaudited condensed interim financial statements for the three months ended March 31, 2015, and the Corporation's audited consolidated financial statements for the year ended December 31, 2014 and December 31, 2013.

All financial information is reported in Canadian dollars and has been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). In limited situations, IFRS has not issued rules and guidance applicable to the real estate investment and development industry. In such instances, the Corporation has followed guidance issued by the Real Property Association of Canada to the extent that such guidance does not conflict with the requirements under IFRS or the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the IFRS framework.

Additional information about the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

Certain information set forth in this MD&A, including the disclosure of the anticipated completion dates of key project milestones, are based on the Corporation's current expectations, intentions, plans and beliefs, which are based on experience and the Corporation's assessment of historical and future trends. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond management's control. These risks and uncertainties include, but are not limited to, the timing of approval by municipalities, the estimated time required for construction and the business and general economic environment. These uncertainties may cause the Corporation's actual performance, as well as financial results in future periods, to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Investors are cautioned against attributing undue certainty to forward-looking statements as actual results could differ materially from management's targets, expectations or estimates. See also "Risk Factors" in this MD&A.

The forward-looking statements contained in this MD&A are given as of the date hereof. Except as otherwise required by law, the Corporation does not intend to, and assumes no obligation to, update or revise these or other forward-looking statements it may provide, whether as a result of new information, plans or events or otherwise.

## RESPONSIBILITY OF MANAGEMENT

This MD&A has been prepared by, and is the responsibility of, the management of the Corporation.

The registered office and principal place of business of the Corporation is 23<sup>rd</sup> floor, 605 – 5<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 3H5.

## APPROVAL BY THE BOARD OF DIRECTORS

This MD&A was authorized for issue by the Board of Directors on May 27, 2015.

## BUSINESS OVERVIEW

The Corporation, which is managed by Walton Asset Management L.P. ("**WAM**"), was established on January 4, 2012, under the laws of the province of Alberta. The wholly-owned subsidiary of the Corporation, Walton Westphalia Development (USA), LLC (the "**U.S. Subsidiary**"), is a limited liability company organized under the laws of the state of Maryland on January 6, 2012. The Corporation and the U.S. Subsidiary were formed for the purpose and objective of providing investors with the opportunity to participate in the acquisition and development of the approximately 310 acre "Westphalia" property located in Prince George's County in Maryland, U.S.A. (the "**Property**"), approximately 7 miles southeast of the District of Columbia.

The Property is located along the north side of Maryland State Route 4 directly across from Joint Base Andrews (formerly known as Andrews Air Force Base), approximately 1.5 miles east of the Capital Beltway. The Capital Beltway is the 64 mile long ring road that encompasses Washington D.C. and its inner suburbs in Maryland and Virginia. The southern edge of the Property runs parallel to Pennsylvania Avenue with over 1.5 miles of frontage. Pennsylvania Avenue is a major commuter route, which runs 13.5 miles from the Property all the way to the U.S. Capitol Hill, the site of the White House, the National Mall and the U.S. Capitol Building.

In order to raise sufficient capital for the acquisition and development of the Property, the Corporation completed an initial public offering ("**IPO**") in March 2012. The IPO resulted in the issuance of 1,442,300 units of the Corporation ("**Units**") at \$10 per Unit, for gross proceeds of \$14,423,000. The completion of the IPO was followed by a private placement offering (the "**Private Placement**") which was completed in multiple closings under the offering memorandum ("**Offering Memorandum**") dated March 26, 2012. The final closing of the Private Placement was completed on October 31, 2012. The Private Placement resulted in the issuance of 1,574,870 Units of the Corporation at \$10 per Unit, for gross proceeds of \$15,748,700. Each Unit issued by the Corporation through the IPO and the Private Placement (collectively, the "**Offerings**") was comprised of a \$5.00 principal amount of unsecured, subordinated, convertible, extendable debenture bearing simple annual interest at a rate of 8% ("**Debenture**") and one class B non-voting common share of the Corporation ("**Class B share**") having a price of \$5.00 per share.

The Offerings raised gross proceeds of \$30,171,700, of which \$15,085,850 was received for the Debentures and \$15,085,850 was received for the Class B shares. The total costs incurred with respect to the Offerings was \$2,194,076, which consisted of commissions paid to agents, work fees and costs associated with the preparation of the Offering Documents (defined below). The commissions and work fees were allocated equally to the Debentures and Class B shares based on their proportionate share of the gross proceeds raised.

The Corporation's original investment objectives were to:

- i) preserve the capital investment of the purchasers in the Units;
- ii) make annual cash distributions on the Units beginning in June of 2013, until the final distribution of funds from the project, which was originally anticipated to be in March of 2019; and
- iii) achieve a net internal rate of return ("**IRR**") of 15.0% on the \$10.00 purchase price of the Units.

While management has had to adjust such objectives for those reasons discussed below, the Corporation still 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 three-step investment strategy:

- i) 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;
- ii) construct municipal services infrastructure on the Property in phases to provide a controlled supply of serviced lots and parcels to the marketplace; and

- iii) 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 through the life of the investment in the Property and/or winding up the Corporation and distributing its assets to the holders of the Class B shares.

Although management expects that the execution of the investment strategy will allow the Corporation to pay distributions on the Units, distributions by the Corporation are neither guaranteed nor will they be paid in a steady or stable stream, as evidenced by the past issuance of additional Interest Debentures (“**Interest Debentures**”) in lieu of cash interest payments on the Debentures. 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 and Interest Debentures), including (i) the Performance Fee (defined below) payable to WAM and Walton Development and Management (USA), Inc. (“**WDM**”), both affiliated parties by virtue of the fact that they and the Corporation are all controlled by Walton Global Investments Ltd. (“**WGI**”), 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 cash payments on the Debentures or cash distributions on the Class B shares equal to \$10.00 per Unit, plus a cumulative compounded priority return thereon on a declining basis, equal to 8% per annum.

## REVIEW OF OPERATIONS

### Summary

During the quarter ended March 31 2015, the primary focus of the Corporation was to continue construction, prepare additional submittals necessary to achieve the remaining regulatory and construction approvals as described in the Corporation’s prospectus in respect of its IPO issued February 27, 2012 (the “**Prospectus**”) and meet with county officials to properly coordinate and discuss plans for the project. In addition, the following key activities were undertaken by the Corporation during the quarter:

- The Corporation received USD \$1.2 Million from the State Highway Administration for 4.4 acres of condemned land that will be used for the construction of the Suitland Parkway interchange;
- On April 24, 2015, NVR, Inc. d/b/a Ryan Homes closed on their model home building containing 7 lots for USD \$580,000 which was used to pay down amounts owing under both the senior and mezzanine loans;
- On April 29, 2015, HWR LLC (Haverford Homes) closed on their model home building containing 6 lots for USD \$540,000 which was used to pay down amounts owing under both the senior and mezzanine loans;
- The Corporation received the following development permits with USD \$2.8 million in bonds provided to the related agencies to be used as construction guarantees for the associated permits:
  - The street construction permit for the extension of Woodyard Road
  - The temporary road construction permit connecting Woodyard Road extended to Melwood Road
  - State Highway Administration access permit for storm drain work along Pennsylvania Avenue;
- The State Highway Administration approved the Traffic Impact Study for the redesigned Woodyard Road interchange; and
- Phase 1 site grading, utilities and culvert construction continued throughout the quarter.

The current project schedule is behind key project milestones as outlined in the Prospectus and Offering Memorandum (collectively, the “**Offering Documents**”). The delay was due to longer than anticipated time to obtain necessary regulatory and government approvals and permits, as well as weather delays. This resulted in a fifteen-month delay in the delivery of finished lots to builders (January 2014 to April 2015).

During 2013, 2014 and the quarter ended March 31, 2015, greater cost certainty was obtained on the anticipated costs for developing Phase 1. The offsite improvement for Phase 1, the Woodyard Road interchange, has been

redesigned to provide a more cost-effective design and the conceptual plan has been approved. A third-party cost estimate has been prepared based on this conceptual design of the interchange. The Corporation will continue to look at ways to further reduce the cost as it designs the final construction plans. Excluding the redesign of the Woodyard Road interchange, the current budget for Phase 1 exceeds the original cost assumptions used by management in preparing the Offering Documents.

Due to weather delays and permit issues, the Phase 1 residential lot sales will be delayed until April 2015, however the revenues from these residential lot sales have increased 28% from that forecasted in the Offering Documents due to increase in market price for the lots and adding additional lots to this phase. Additionally, based on current market conditions, the Phase 1 retail, hotel and multi-family sales have been delayed and the projected revenue has been revised downward.

The combined impact of these factors is a change in the timing and amount of cash distributions when compared to the original assumptions. As reported in the 2014 first quarter news release, delays in construction, downward revenue revisions for the retail and hotel sites, the extension of the estimated sale dates for the office sites, high office vacancy rates and the impact of the U.S. Government's budget sequestration on the market were expected to result in a downward revision to the IRR from the projected 15% disclosed in the Offering Documents. Based on management's current information as at the end of Q1 2015, the forecasted IRR is 5.7%. This IRR is based on achieving certain revenue targets, maintaining construction schedules, the timely receipt of recoveries, third-party sales and commitments for additional lots from the builders. Further changes to the IRR projection could occur due to changes in the aforementioned and other factors.

On March 24, 2015, the Board of Directors approved an action plan proposed by management to address a range of strategies to potentially improve the IRR projections. Under the action plan, management will undertake the following initiatives and strategies:

1. Pursue the option of vertical development participation with development partners.
  - o Management is having discussions with potential partners on the retail, multi-family, hotel and future phases of the residential portion of the development.
2. Accelerate the development of Phase 1A.
  - o Management is pursuing mezzanine financing for soft costs, as well as having discussions with potential joint venture partners on this phase.
3. Pursue Tax Increment Financing ("TIF") bonds to recover applicable offsite improvements.
  - o Management has brought on a best in class consultant, Municap Inc., to provide financial consulting services related to the public bond financing.
4. Pursue the re-planning of Phases 2 and 3, including for example a town centre re-design to realize on current market opportunities such as a senior living component and/or flex industrial within Phases 2 and 3.
  - o Management has received a proposal from a land planner and will move forward with the re-planning once the potential uses are researched further.

Based on management's current information and assessment of the identified strategies and executing on the identified action plans, preliminary analysis suggests the potential hold period for the Project could increase to 13 years from the seven years disclosed in the Offering Documents.

Management also continues to focus on additional complementary strategies to maximize the returns of the project, which include, but are not limited to:

- Securing a grocery anchor for the retail site, which can increase the attractiveness for other future retail tenants to locate in the project, and positively impact retail values, lease rates, and project absorptions. Securing a grocery anchor tenant will also positively impact the sales momentum for other components of the project, including the townhome product and other future residential development by providing an important retail based service and community amenity.

- Engaging in discussions with commercial and residential developers to broaden the awareness of the project and explore sales and/or partnering opportunities to realize the highest and best use and associated values for the project.
- Evaluating project positioning and retail product opportunities to maximize usable retail space and project amenities to accelerate market demand.
- Continuing efforts to attract a major hotel chain to construct a hotel in the Westphalia site.
- Partnering with the Prince George's County Economic Development Corporation to assist with marketing the office site, and with a strategic focus related to locating future government office buildings in Westphalia.

## NON-FINANCIAL INDICATORS

The amount of revenues generated by the Corporation is not expected to be significant until the sale of lots commences. As a result, the financial statements alone are not a good indicator of the progress of the Corporation toward its investment objectives. The Corporation makes use of the following non-financial indicators in evaluating its performance.

### Key Milestones

For Phase 1 of the project, the key milestones used by management include those presented in the Offering Documents. The Corporation's progress toward these milestones has been summarized in the following table.

Walton Westphalia Development Corporation – Key Project Milestones for Phase 1		
Anticipated steps to completion	Anticipated completion date per the offering documents	Status
Obtain detailed site plan approval	September 2012	Completed October 2012
Negotiate final terms of bank financing for construction loan and obtain lender commitment	September 2012	Completed March 2013
Recorded Plat of Subdivision	November 2012	Completed October 2013
Obtain permits	February 2013	Completed June 2013
Close construction loan	February 2013	Completed June 2013
Commence Phase 1 construction	February 2013	Completed June 2013
Deliver finished lots to builders	January 2014	Amended to April 2015
Grand Opening	March 2014	Amended to September 2015

Based on construction to date, the Corporation did not achieve paving in order to deliver lots for the anticipated timeline of January 2014. The Corporation is now projecting lot deliveries in April 2015. This delay is associated with both the difficulty in obtaining plan approvals and permits in a timely manner and ongoing weather issues. The grand opening has been projected to occur after all model homes have been completed and to coincide with the start of the fall selling season.

## SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION

	Three months ended March 31, 2015	Three months ended March 31, 2014
Total other income/(expense) (\$)	(285,419)	(210,189)
Other items gain (\$)	1,908,426	683,390
Net income before tax(\$)	1,623,007	473,201
Comprehensive income (\$)	2,159,639	898,971
Weighted average shares outstanding <sup>1</sup>	3,017,170	3,017,170
Basic net income per share (\$)	0.32	0.16
Diluted net income per share (\$)	0.16	0.08

1 - Weighted average shares outstanding exclude the 100 Class A voting common shares issued. Based on the Corporation's articles of incorporation, Class A shareholders are not entitled to participate in any dividends declared by the Corporation or the distributions of any part of the assets of the Corporation.

	March 31, 2015	December 31, 2014
Total assets (\$)	68,071,337	57,688,767
Total non-current liabilities (\$)	42,677,339	37,873,438
Total other liabilities (\$)	8,128,493	4,709,463
Total liabilities (\$)	50,805,832	42,582,901
Total equity (\$)	17,265,505	15,105,866
Class B shares outstanding – end of period	3,017,170	3,017,170

## ANALYSIS OF FINANCIAL PERFORMANCE

Total other expenses increased by \$75,230 from \$210,189 for the period ended March 31, 2014 to \$285,419 for the period ended March 31, 2015. The increase in other expenses was primarily due to marketing expenses.

During the period ended March 31, 2015, the Corporation had comprehensive income of \$2,159,639 which was an increase of \$1,260,668 from \$898,971 from the period ended March 31, 2014. The increase in comprehensive income was mainly due to gains on foreign exchange of \$1,956,853 for the period ending March 31, 2015 which was an increase of \$1,167,088 from March 31, 2014.

## ANALYSIS OF FINANCIAL CONDITION

The Corporation's total assets increased by \$10,382,570 from \$57,688,767 at December 31, 2014 to \$68,071,337 at March 31, 2015. The increase was primarily due to an increase in development costs on the Property of \$7,689,637 and an increase in cash of \$2,428,512.

During the three months ended March 31, 2015, land development inventory increased by \$7,689,637 in relation to Phase 1 grading, the construction of utilities, culvert and stormwater management ponds and permit approvals, including \$1,097,235 of capitalized interest.

Total liabilities increased by \$8,222,931 from \$42,582,901 at December 31, 2014 to \$50,805,832 at March 31, 2015. Liabilities primarily increased due to an increase in the project debt of \$4,767,643, related party payables of \$1,623,701, Interest payable of \$321,390 and accounts payable and accrued liabilities of \$678,782. Accounts payable and accrued liabilities increased due to increased activity in Phase 1 of the project and amounts due to related parties increased as development fees and asset management fees were incurred and a loan was provided to the Corporation.

## DEBENTURES PAYABLE AND INTEREST DEBENTURES PAYABLE

The Debentures and Interest Debentures are unsecured and bear interest at a rate of 8% per annum. Interest on the Debentures and Interest Debentures is calculated annually based on the principal amount of the Debentures and Interest Debentures on March 31, and is payable annually on June 30. The Debentures and Interest Debentures mature at their principal amount on March 31, 2019, however, the maturity date can be extended by the Corporation at its sole discretion until March 31, 2021.

The Corporation may also, at its sole discretion, (i) repay all or any portion of the principal amount of, or interest under, the Debentures or Interest Debentures through the issuance of Class B shares, (ii) evidence its obligation to pay all or any portion of the interest under the Debentures or Interest Debentures through the issuance of Interest Debentures, and/or (iii) convert all or any principal amount of the Debentures or Interest Debentures into Class B shares.

For the three month period ended March 31, 2015, there has been no change in the Debentures or Interest Debentures payable from December 31, 2014 other than amortization of \$36,258 of accretion. Interest payable has increased by \$321,390 relating to the interest accrued on the Debentures and Interest Debentures payable. As at March 31, 2015 and December 31, 2014, Walton International Group Inc. ("**WIGI**"), owned approximately 6.3% of the outstanding Units of the Corporation. As a result, approximately 6.3% of the balance of Debentures payable, Interest Debentures payable and interest payable was payable to WIGI.

The Corporation has elected to pay its third interest payment on the Corporation's by issuing to the holders of the Debentures, on a pro rata basis and on or before June 30, 2015, that principal amount of interest debentures that is equal to the amount of interest owing under the Debentures, which is approximately \$1,206,872. In addition, the Corporation has elected to pay the interest obligation owing under the Interest Debentures that were issued in June 2014, in respect of the second interest payment on the Debentures by issuing additional Interest Debentures in the amount of \$1,206,872 at the same time.

## PROJECT DEBT

The project debt balances have been described in note 8 of the financial statements.

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.

### Senior Loan

The Senior loan facility is a secured loan for up to USD \$43.01 million with an interest rate of LIBOR plus 5.1% with a minimum interest rate floor of 6.2% per annum entered collectively by the U.S subsidiary and Walton Westphalia Europe LLP ("**WWE**"). For the period ended March 31, 2015 the Corporation incurred interest of \$243,069 (December 31, 2014 - \$427,875) which was capitalized to land development inventory.

The loan agreement allows for up to \$6.15 million in letters of credit to Prince George's County, Maryland for purposes of providing required credit assurances with respect to the Corporation's performance bond facility agreement. As at March 31, 2015 \$6.14 million in letters of credit were issued.

The Senior Loan matures May 31, 2016, but may be extended, subject to the satisfaction of certain conditions, for two additional 12 month-terms. The Senior Loan is secured by, among other things, a first priority deed of trust lien on the Property. The Senior Loan is being used to fund the first phase of construction on the Property. As at December 31, 2014 the interest rate floor is in effect since LIBOR plus 5.1% was less than 6.2% per annum.

During the period ended March 31, 2015, the Corporation was advanced \$2,153,958 from the facility. The funds advanced were used for the continued construction of the project including final grading, sanitary sewer construction, design and engineering costs, inspection fees and asset management and development fees.

WGI entered into an agreement with the lender of the Senior Loan which guarantees that WWE and the U.S. Subsidiary, collectively, will make the payments of principal and interest due under the Senior Loan. WGI also provided a limited guarantee that WWE and the U.S. Subsidiary will complete the development of the project in accordance with the plans and on a lien-free basis. The lender has the obligation to continue making advances to facilitate the completion, but WGI is obligated to cover cost overruns. WGI also guarantees any losses incurred by the lender in connection with certain events under the Senior Loan, including, but not limited to, waste or intentional/grossly negligent damage to the Property, and the misappropriation of funds. WGI becomes fully liable for the Senior Loan if WWE or the U.S. Subsidiary file bankruptcy or take advantage of other laws protecting debtors. The CEO of WGI has also provided a personal guarantee for the Senior Loan in certain limited circumstances.

#### Mezzanine Loan

On June 6, 2013, the U.S. Subsidiary and WWE collectively entered into the Mezzanine Loan ("**Mezzanine Loan**") (subordinate financing). The Mezzanine Loan is a second priority secured loan for up to USD \$7,285,850 with interest accruing at 15% per annum. For the period ended March 31, 2015 the Corporation incurred interest of \$380,384. Repayment of the Mezzanine Loan is to be repaid with 100% of the Corporation's proceeds from the sale of the Property and other assets of the Corporation after payment to the Senior Loan as described above.

The Mezzanine Loan matures June 6, 2016, but may be extended, subject to the satisfaction of certain conditions, for two additional 12 month-terms. The Mezzanine Loan is subordinate to the terms of the Senior Loan and is secured by, among other things, a second-priority deed of trust lien on the Property. The Mezzanine Loan was used to fund the first phase of purchase and construction on the Property.

WGI has entered into an agreement with the lenders of the Mezzanine Loan whereby WGI guarantees that U.S. Subsidiary will complete the development of the project in accordance with the plans and on a lien-free basis. The lender will continue making advances to facilitate the completion, but WGI is obligated to cover cost overruns. WGI also guarantees any losses incurred by the lender in connection with certain bad acts or particular events under the Mezzanine Loan, including, but not limited to, waste or intentional/grossly negligent damage to the Property, and misappropriation of funds. WGI becomes fully liable for the loan if U.S. Subsidiary or WWE file bankruptcy or take advantage of other laws protecting debtors.

As a result of entering into a subordinated loan agreement with Walton International Group (USA), Inc. ("**WUSA**") (see "Transactions with Related Parties"), 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.

#### WORKING CAPITAL

The balance of the Corporation's liabilities as at March 31, 2015 was significant relative to its cash and receivables. The Corporation plans to fund its liabilities as follows:

Debentures payable, Interest Debentures payable and interest payable – Management has the ability to settle the interest on the Debentures payable and Interest Debentures payable through the issuance of Interest Debentures or the conversion of the amount owing to Class B shares. The Debentures and Interest Debentures have a maturity date of March 31, 2019; however, the maturity date can be extended to March 31, 2021 at the



sole discretion of the Corporation. The Corporation currently intends to repay the Debentures and Interest Debentures through future lot sale revenues generated by the Corporation.

Accounts payable and accrued liabilities – The majority of accounts payable and accrued liabilities are for development related expenses. These expenses will be funded by cash on hand and construction loans on future phases, which will result in an increase in project debt.

Due to related parties – The payment of outstanding development fees will be paid through construction loans on future phases, which will result in an increase in the balance of project debt. All other amounts due to related parties will be paid out of working capital, proceeds from lot sales, and future construction loans.

Project debt – The balance of project debt will be repaid from the proceeds from completed lot sales.

## TRANSACTIONS WITH RELATED PARTIES

The related parties transactions and balances have been described in note 5 of the financial statements.

Walton Maryland LLC, WAM, WIGI, WDM, WWE, WUSA, and WUSF 1 Westphalia, LLC (“**WUSF**”), are considered to be related to the Corporation by virtue of the fact that they are all controlled by WGI. All transactions entered into between the related parties during the year were under terms and conditions agreed upon between the parties. The following are the significant transactions that have occurred with related parties during the year.

- During the period ended March 31, 2015, the Corporation incurred \$8,481 (December 31, 2013 – \$219,394) in costs under the cost sharing agreement with WUSF. During the period ended March 31, 2015, there were no amounts received by the Corporation (December 31, 2014 - \$125,205) from WUSF in relation to these costs.
- The Corporation has entered into a Subordinated loan agreement with WUSA for \$4.1 USD million, bearing interest at 11% per annum, payable semi-annually. 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 of the financial statements. Funds of \$1,495,573 were advanced by WUSA to the Corporation in advance of the loan document being executed. Interest of \$17,179 has been capitalized to land development inventory. The loan replaces a previous demand loan with WUSA.
- Development fees of \$53,686 (March 31, 2014 – \$36,693) were charged by WDM to the Corporation for project management fees which are paid in accordance with the project management agreement between the Corporation and WDM. The development fees are based on 2% of certain development costs incurred during the year. The Corporation paid development fees of \$nil (March 31, 2014 - \$68,276).
- WDM will receive a performance fee of 25% of cash distributions after all investors of Units in the Corporation have received cash payments on the Debentures or cash distributions equal to \$10.00 per Unit plus a cumulative return of 8% per annum on a declining basis. No performance fee was incurred by the Corporation during the year ended December 31, 2014 and December 31, 2013 because the \$10.00 per Unit amount and the cumulative priority return have not been received by the investors in the Units of the Corporation.
- Under Agency Agreements with various agents, the Corporation is obligated to pay the agents a servicing fee equal to 0.50% or \$137,972 annually of the net proceeds for each Unit sold under the IPO. The servicing

fee is payable to WAM, which is responsible for the distribution of the fees to the agents in accordance with the Management Services Agreement.

- Management fees of \$137,972 (March 31, 2014 - \$137,972) were charged to the Corporation from WAM, for providing management and administrative services in accordance with the terms of the Management Services Agreement. Administrative services provided by WAM include, but are not limited to, the overseeing of the offerings of the Corporation, responding to investor inquiries, assisting in the delivery of quarterly and annual reports to the investors and monitoring the daily activities of the Corporation.
- The Corporation has paid \$12,771 (March 31, 2014 - \$13,032) to independent directors of the Corporation. The independent directors are paid quarterly in advance, and the amount of compensation is fixed over the life of the Corporation.

## SUMMARY OF QUARTERLY RESULTS

A summary of operating results for the past eight quarters is as follows:

	Three months ended							
	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Total assets (\$)	68,071,337	57,688,767	53,147,565	44,750,093	44,563,352	41,514,733	39,375,514	39,572,796
Total liabilities (\$)	50,805,832	42,582,901	38,261,134	30,854,610	29,688,448	27,538,800	25,969,280	25,270,859
Total equity (\$)	17,265,505	15,105,866	14,886,431	13,895,483	14,874,904	13,975,933	13,406,234	14,301,937
Total cost of sales (\$)		-	-	-	-	-	-	-
Gross margin (\$)		-	-	-	-	-	-	-
Expenses (\$)	(285,419)	(800,046)	(222,510)	(213,815)	(210,189)	(154,368)	(208,694)	(223,411)
Other items gain/(loss) \$	1,908,426	532,177	1,001,114	(701,001)	683,390	622,888	(452,464)	677,285
Net income/(loss) before tax (\$)	1,623,007	(267,869)	778,604	(914,816)	473,201	468,520	(661,158)	453,874
Deferred tax expense/(recovery)	(672,411)	(81,113)	344,394	(314,836)	(4,995)	419,007	-	-
Net income/(loss) after tax (\$)	950,596	(186,756)	434,210	(599,980)	478,196	49,513	(661,158)	453,874
Cumulative translation gain/(loss) (\$)	1,209,043	406,191	556,737	(379,440)	420,775	349,297	(234,546)	351,281
Comprehensive income / (loss) (\$)	2,159,639	219,435	990,947	(979,420)	898,971	398,810	(895,704)	805,155
Weighted average shares outstanding <sup>1</sup>	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170
Basic net income/(loss) per Class B share (\$)	0.32	(0.06)	0.14	(0.20)	0.16	0.02	(0.22)	0.15
Diluted net income per share (\$)	0.16	(0.06)	0.07	(0.20)	0.08	0.01	(0.22)	0.07
Class B shares issued during the period	-	-	-	-	-	-	-	-
Class B shares outstanding – end of period	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170

1 - 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

In the fourth quarter of 2013, the Corporation recognized a deferred tax expense relating to a deferred tax liability as a result of the significant increase in an unrealized foreign exchange gain against which no deferred tax asset could be fully offset. In the first quarter of 2015, the increase in total assets was due to the increase in development activity, the corresponding increase in project debt, accounts payable and accrued liabilities can be seen in total liabilities.

The other income and expenses of the Corporation have remained fairly consistent over the last eight quarters, except for Q4, 2014. The higher costs in the 4<sup>th</sup> quarter of 2014 relate to marketing expenditures which were reclassified from land development inventory and expensed in the fourth quarter. The Corporation's other income and expenses are expected to remain fairly constant over the life of the Corporation because the expenses of the Corporation, being the management fees, servicing fees and directors' fees, are fixed over the life of their respective contracts.

During the fourth quarter of 2014, the Corporation recognized a deferred tax recovery as a result of increased expenses and a loss on the interest rate cap. This is not consistent with the fourth quarter of 2013 as the entire deferred tax expense was booked in the last quarter of 2013.

## SUPPLEMENTAL INFORMATION

### Liquidity and Capital Resources

The Corporation defines capital as total shareholders' equity, Debentures payable and Interest Debentures payable, project debt, and balances due to related parties.

The Corporation's objectives when managing capital are to:

- (i) ensure adequate capital is retained by the Corporation to obtain construction loans to fund construction of the project;
- (ii) ensure that the Corporation is able to meet all obligations relating to the entity and the development of the land, through sale of the lots; and
- (iii) maximize the rate of return to its shareholders.

The Corporation manages the capital structure by using short and long term cash flow projections to determine that the amount of cash available to meet on-going obligations is either retained by the Corporation, is available through construction loan facilities or is available through agreements with related parties. The Corporation has in the past and may in the future elect to use Interest Debentures to settle interest payable under the Debentures and has the ability to convert Debentures payable and interest Debentures payable into Class B shares. Project debt is intended to be utilized to finance future phases of development which may require partial or full guarantees by WGI to obtain or maintain facilities at market rates.

There were no changes to the way the Corporation defines capital, its objectives, and its policies and processes for managing capital from the prior fiscal year.

The following are the capital resources currently available to the Corporation:

Out of the net proceeds raised through the Offerings and loans, approximately 23.8% (\$5.8 million) was set aside by the Corporation to pay for the ongoing administrative and operating expenses, development fees, pre-development costs, grading costs, construction costs, interest accruing on Debentures and Interest Debentures and other expenses of the Corporation.

The Corporation has a USD \$43.01 million secured Senior Loan with a US-based financial institution to be used to finance Phase 1 of the project, of which \$6.2 million can be used for issuance of letter of credits.

The U.S. Subsidiary has a subordinated loan agreement with WUSA for \$4.1 Million USD. The purpose of this loan is to finance cost overruns related to phase 1 of the development.

#### Cash Requirements

The table summarizes the Corporation's undiscounted contractual obligations as at March 31, 2015:

	2015	2016	2017	2018	2019 and thereafter
	\$	\$	\$	\$	\$
Debentures payable	-	-	-	-	15,085,850
Interest debentures payable	-	-	-	-	1,206,872
Interest payable	1,279,246	1,315,606	1,323,037	1,324,461	326,194
Project debt	-	-	25,404,628	-	-
Accounts payable and accrued liabilities	2,654,572	-	-	-	-
Due to related parties	440,698	162,623	162,623	162,623	1,478,394
				23	
<b>Total</b>	<b>4,374,516</b>	<b>1,478,229</b>	<b>26,890,288</b>	<b>1,487,084</b>	<b>16,618,916</b>

In addition to these items in the table, based on the current loan amounts 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 March 31, 2015 this amount is \$4,674,684 (December 31, 2014 - \$3,868,240).

#### Sources and uses of cash

The Corporation's primary use of capital includes paying operating expenses and incurring project development costs on the land development inventory.

The Corporation believes that internally generated cash flows, supplemented by borrowings through project debt facilities noted above, will be sufficient to cover the Corporation's normal operating expenditures.

The following table summarizes the Corporation's cash flows from (used in) operating, and financing activities, as reflected in the Statements of Cash Flows.

	For the three months ended March 31	
	2015	2014
Cash flows from operating activities (\$)	(1,464,484)	(224,794)
Cash flows from financing activities (\$)	3,771,310	1,501,104

During the period ended March 31, 2015, significantly higher draws were made on the Senior Loan compared to the same periods of 2014 due to increased land development costs, resulting in higher inflows of cash from financing activities. There is an increase in land development inventory showing the usage of cash for development costs. The year to date variance is due to the timing of payments on costs incurred, as noted by the increase in accounts payable during the period ended March 31, 2015. Due to the longer term nature of this project, operating cash flows may vary from period to period.

#### Off-Balance Sheet Arrangements

As a result of entering into the Senior Loan, the Mezzanine Loan and the WUSA subordinated Loan with WWE, while each party accounts for its proportionate share of the long-term debt thereunder, management has assessed risk resulting from U.S. Subsidiary's relative size and proportion of interest in the project from the joint and several nature of these various loan agreements whereby, in the unlikely event of a default on such long-term debt, U.S. Subsidiary may have a greater than its proportionate share of exposure to any default conditions. The total amount (face value) of the Senior Loan and the Mezzanine Loan and accrued interest is \$27,096,964 and the unrecorded portion to which the Corporation may be party to is \$4,674,684. This amount has not been recognized on the statements of financial position.

#### Financial Instruments

The Corporation's financial instruments consist of interest rate cap, accounts receivable, due from related party, deposits, 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. Accounts receivable, due from related party, deposits, restricted cash and cash are classified as loans and receivables, and are carried at amortized cost using the effective interest rate method. Debentures payable, Interest Debentures payable, project debt, interest payable, accounts payable and accrued liabilities, and amounts due to related parties have been classified as other financial liabilities, and are carried at amortized cost using the effective interest rate method.

Fair value measurements are classified using a three tier fair value hierarchy where each level reflects the significance of the inputs used in making the measurements. In level 1, values are based on unadjusted quoted prices in an active market that are accessible at the measurement date for identical assets and liabilities; level 2 values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and level 3 values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

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 and 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 effective interest rate.

Financial instruments often expose an entity to liquidity, credit, currency or interest rate risk. While it is management's opinion that the financial instruments of the Corporation do not give rise to significant credit risk, the Corporation is exposed to significant interest rate risk and currency risk.

#### Liquidity risk

Liquidity risk arises from the possibility that the Corporation will encounter difficulties in meeting its financial obligations as they become due. The Corporation manages its liquidity risk by continuously monitoring the progress of the development, ensuring timely collection of lot sales, and managing cash receipts and payments. Refer to "Analysis of Financial Condition" for the Corporation's plan for settling existing liabilities.

#### Interest rate risk

The Corporation is exposed to significant interest rate risk due to the variable interest rate charged on the project debt. Changes in market interest rates will cause fluctuations in the interest expense incurred on any project debt outstanding. The Corporation monitors the effects of market changes in interest rates.

Specifically, LIBOR is the variable rate underlying the Corporation's Senior Loan. To mitigate this market risk, the Corporation has purchased an interest rate cap with a third party which caps the Senior Loan's interest rate as follows:

From:	To:	Rate:
June 6, 2013	But excluding July 1, 2015	1.2000%
July 1, 2015	July 1, 2016	1.6000%

#### Currency risk

Currency risk arises when future recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Corporation is exposed to foreign exchange risk because the operations, development expenditures and construction loans are denominated in US dollars.

At March 31, 2015, if the Canadian dollar had strengthened by 10% against USD with all other variables held constant, comprehensive income for the period would have been \$1,975,676 mainly as a result of foreign exchange losses on translation of USD denominated project debt and accounts payable and accrued liabilities compensated by foreign exchange gains on translation of USD denominated cash and restricted cash.

Conversely, if the Canadian dollar had weakened by 10% against USD with all other variables held constant, comprehensive income for the period would have been \$2,343,601.

To manage this risk, the Corporation monitors changes in foreign exchange rates to determine if and when U.S. dollars should be converted to Canadian dollars and vice versa. As part of the Corporation's on-going risk management strategy, U.S. construction funding will be used for U.S. denominated expenditures to further mitigate foreign currency risk exposure.

As at March 31, 2015, the Corporation did not have any outstanding foreign currency forward contracts.

## Outstanding Shares

As of the date of this MD&A, the Corporation had 100 Class A shares outstanding and 3,017,170 Class B shares outstanding.

## Outstanding Debentures and Interest Debentures

As of the date of this MD&A, the Corporation had 3,017,170 Debentures payable outstanding with a principal amount outstanding of \$15.1 million, as well as Interest Debentures with a principal amount outstanding of \$1.2 million. The Corporation may in its sole discretion, convert all or any principal amount of the Debentures payable or Interest Debentures payable into a variable number of Class B shares, based on the fair market value per Class B share on the date of the conversion.

## Commitments

The following table presents future commitments of the Corporation under the Management Services Agreement and the Agency Agreements over the next five years. It does not include WDM's Performance Fee under the Project Management Agreement, which is determined at the time land sales are completed. These commitments will be funded through future revenues generated by the Corporation and the capital resources available to the Corporation.

	Servicing fee (\$)	Management fee (\$)	Total (\$)
2015	105,395	421,580	526,975
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
Total	525,059	2,238,208	2,763,267

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 USD \$7,583,558 which are used as construction guarantees.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial information 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 revenues and expenses during the year. The estimates and assumptions that have the most significant effect on the amounts recognized in the Corporation's consolidated financial statements are as follows:

### Recoverability of land development inventory



In assessing the recoverability of the land development inventory, management is required to make estimates and assumptions regarding the sale price for serviced lots, the costs to service the lots, the timing of lot sales, the completion date for the serviced lots and the Corporation's cost of borrowing. Changes in these estimates and assumptions could cause the amount of the recoverability of land development inventory to differ materially from the carrying amount.

#### Deferred tax asset

In assessing the amount of deferred tax assets to recognize, significant judgment is required in estimating the likelihood, timing and level of future taxable profits. Changes in the timing and level of future taxable profits could cause the amount of the deferred tax assets to be recovered to differ materially from the carrying amount.

#### Interest rate cap and derivative financial liability

In assessing the fair value of the interest rate cap and derivative financial liability, judgment is used to determine the inputs required. Management's assumptions rely on using external data including LIBOR (3 month USD-LIBOR) ("**LIBOR**").

#### Intercompany loans

Exchange differences arising from intercompany loans that are not considered part of the net investment in the U.S. Subsidiary and are expected to be repaid in the foreseeable future are recognised in the statement of comprehensive income. The Corporation has certain intercompany loans expected to be repaid in the foreseeable future with the exchange differences being recognized in the statement of comprehensive income.

#### Capitalization of borrowing costs

The Corporation capitalizes borrowing costs to qualifying assets by determining if borrowings are general or specific to the Property, whether the project will be active throughout the period of capitalization and whether it takes a substantial period of time to prepare the Property for its intended use or sale. The Corporation considers a substantial period of time to be a period that is greater than one year.

#### Recognition of joint and several arrangements

The Corporation has joint and several liability with WWE in respect of the Senior Loan, the Mezzanine Loan and the WUSA subordinated Loan agreement. The Corporation is required to record its proportion of the obligation in accordance with such loans. In addition to the Corporation recording its proportionate share of the obligation, the Corporation would be required to recognise an additional provision for WWE's proportion of the obligations if it was determined to be probable that an economic outflow of resources would be required.

## CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

#### Current Changes in Accounting Policies

The accounting policies used in the preparation of these financial statements are consistent with those which were disclosed in the Corporation's audited financial statements for the year ended December 31, 2014.

#### 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 superseded IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new models for classification and measurement of financial instruments, hedge accounting and impairments 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. The Corporation is currently in the process of evaluating the impact that IFRS 15 may have on its consolidated financial statements.

## CORPORATE GOVERNANCE

### Board of Directors

The mandate of the Board of Directors of the Corporation is to oversee the management of the business of the Corporation, with a view to maximizing the Corporation’s shareholder value, and ensuring corporate conduct in an ethical and legal manner via an appropriate system of corporate governance and internal control processes and procedures.

The Board of Directors consists of Clifford H. Fryers, Jon N. Hagan and William K. Doherty. Within the meaning of National Instrument 52-110 – Audit Committee (“**NI 52-110**”), Jon N. Hagan is independent of management of the Corporation. Mr. Fryers is not independent as a result of the aggregate remuneration that he receives from the Walton group of companies (“**Walton Group**”). In addition, Mr. Doherty is not independent of management of the Corporation as he is the Chief Executive Officer of WGI and WIGI. Mr. Fryers is the Chairman of the Board of Directors.

The Board of Directors facilitates its exercise of supervision over management of the Corporation through, among other things, the adoption by the Board of specific written mandates for the Board, the chair of the Board, the president and chief executive officer, the audit committee of the Board and the chair of the audit committee setting out certain rules of operation for, and responsibilities of, those groups or persons.

The only standing committee of the Board of Directors is the audit committee (the “**Audit Committee**”), which consists of Mr. Fryers and Mr. Hagan, with Mr. Hagan as Chairman.

### Personal Profiles

**Clifford H. Fryers** – Mr. Fryers is the Chairman and Chief Executive Officer of White Iron Inc. and Stampede Entertainment Inc., both entertainment companies. He recently retired as the Chair of the Board of the Manning Centre for Building Democracy and the Manning Foundation for Democratic Education. He is also former Chairman of the Board of Directors for ENMAX Corporation.

Mr. Fryers is on the board of directors of several companies in the Walton Group, including the following reporting issuers: Walton Ontario Land 1 Corporation, being the general partner of Walton Ontario Land L.P. 1; Walton Edgemont Development Corporation; and Walton Westphalia Development Corporation. He was on the Board of Advisors of WGI for eight years, retiring as Vice Chairman in November of 2011.

From 1997 until 2000, Mr. Fryers was Chief of Staff to the Leader of Her Majesty's Official Opposition in the House of Commons. Prior to that, he was a Senior Tax Partner and Managing Partner with the law firm of Milner Fenerty (now Dentons LLP) which he joined in 1980. He worked in the Tax Litigation Section of the Department of Justice, Ottawa from 1971 to 1977 and then as General Tax Counsel for Mobil Oil Canada, Ltd. until 1980. Mr. Fryers holds the ICD.D certification granted by the Institute of Corporate Directors.

**Jon N. Hagan** – Mr. Hagan has been the principal of JN Hagan Consulting since December 2000. He provides assistance to major corporations regarding real estate capital markets, and acquisition and disposition transactions covering situations in Canada, the United States of America, Mexico and China.

Mr. Hagan is also a director and member of the audit and executive committees of the board of directors of First Capital Realty Inc., which is a reporting issuer in Canada. He is Chair of the board and the Compensation, Nomination, and Governance Committee, and on the Audit Committee of Regal Lifestyle Communities Inc., which is a reporting issuer in Canada. He was formerly a director and member of the audit, human resources, corporate governance and investment committees of Bentall Kennedy Group from 2001 to 2011. He was a trustee of Sunrise Senior Living Real Estate Investment Trust from 2004 to 2007, and was the chair of the audit committee thereof. He was the Chairman of Teranet Income Fund from 2006 to 2008. He was a director and on the audit committee of the board of directors of The Mills Corporation for the first three months of 2007 to assist in the sale of The Mills Corporation. Mr. Hagan is also on the board of directors and Chair of the Audit Committee of the following reporting issuers within the Walton Group: Walton Ontario Land 1 Corporation, being the general partner of Walton Ontario Land L.P. 1; Walton Edgemont Development Corporation, and Walton Westphalia Development Corporation.

Mr. Hagan has held a number of executive finance positions in the real estate industry, beginning with Oxford in the 1970s. His career took him to Cambridge Shopping Centres in 1980, where he eventually became Senior Vice-President, Corporate Group and Chief Financial Officer. He then joined the Empire Company Limited where he was Executive Vice-President, Finance and Corporate Development. From 1996 through 2000, he was Executive Vice President and Chief Financial Officer of Cadillac Fairview Corporation. Mr. Hagan's experience spans corporate strategy, corporate and real estate finance, real estate acquisition and disposition, compensation programs, computer systems, financial reporting, forecasting and budgeting.

Mr. Hagan is a chartered accountant. He holds a BSc in Mechanical Engineering from the University of Saskatchewan and attended the Executive MBA program at the University of Alberta.

**William K. Doherty** – Mr. Doherty leads the Walton Group of Companies as Chief Executive Officer of WGI, and as an actively-involved director and executive with several Walton Group affiliates.

Mr. Doherty has been central to the Walton Group's strategic direction, and expansion since the early 1990s, when he moved from the Walton Group's original Calgary base to Hong Kong to launch the Walton Group's Asian operations. He successively opened offices in Hong Kong, Singapore, Japan and Malaysia, which evolved into key factors in the Walton Group's growing success in land-based real estate projects.

Upon returning to Canada in the late 1990s, Mr. Doherty led the recruitment of a growing team of knowledgeable professionals and expanded and diversified Walton's land portfolio. During the ensuing decade, in addition to its leading role in the Calgary market, the Walton Group established significant positions in strategic growth regions around Edmonton, Ottawa, County of Simcoe, Niagara, County of Brant, Phoenix, Dallas, Austin, Atlanta, Washington D.C., Charlotte, Southern California, Chicago, Nashville and Central Florida.

Mr. Doherty has directed the ongoing expansion of the Walton Group's investment operations, launching USA and European operations and opening offices throughout North America. He is involved in developing the Walton Group's business relationships with leading international investment banks, broker-dealers, financial advisors and institutional investors.

Mr. Doherty oversees the Walton Group's involvement in land-use planning and development having formed WDM, and recruiting experienced development industry leaders to key executive positions and launching major real estate development projects.

Mr. Doherty directs an enterprise that has grown into a leading North American real estate investment and development group. The Walton Group administers assets over \$4.6 billion CAD and nearly 97,000 acres of land, with a global presence and serves more than 92,000 investors and clients.

#### Compensation

The Corporation has agreed to pay to each of the directors who are not members of management an annual retainer of \$50,000 per year, paid quarterly in advance. This amount was determined by the Corporation and the directors.

The executive officers of the Corporation do not receive any compensation from the Corporation.

#### Orientation and Continuing Education

New directors will attend a briefing with existing directors on all aspects of the nature and operation of the Corporation's business from the existing directors and the senior management of the Corporation.

Directors will be afforded the opportunity to attend and participate in seminars and continuing education programs and are encouraged to identify their continuing education needs through a variety of means, including discussions with senior management of the Corporation and at meetings of the directors. Outside experts may be retained, as appropriate, to provide directors with ongoing education on specific subject matters.

#### Nomination of Directors

The original members of the board of directors were appointed by the Class A shareholder of the Corporation. If and when a director resigns, the remaining directors will participate in the identification of a new director with a view to ensuring overall diversity of experience and skill. The new director may be appointed by the remaining directors or by the Class A shareholder of the Corporation.

#### Assessments

The directors will regularly assess themselves with respect to their effectiveness and contribution.

#### Audit Committee

The primary function of the Audit Committee is to assist the board of directors in fulfilling their responsibility of oversight and supervision of the Corporation's accounting and financial reporting practices and procedures, the adequacy of internal controls and procedures, and the quality and integrity of its financial statements. In addition, the Audit Committee will be responsible for directing the auditors' examination of specific areas, for the selection of the Corporation's independent auditors and for the approval of all non-audit services for which its auditors may be engaged, including the fees for such services.

The Audit committee currently consists of Clifford H. Fryers and Jon N. Hagan. Mr. Hagan is “independent” as contemplated by NI 52-110, while Mr. Fryers is not. Both Mr. Hagan and Mr. Fryers are financially literate, meaning that each has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the financial statements of the Corporation.

#### Ethical Business Conduct

Directors who have, or may be reasonably perceived to have, a personal interest in a transaction or agreement being contemplated by the Corporation are required to declare such interest at any meeting at which the matter is being considered and, where appropriate, leave the meeting during the discussion and abstain from voting on such matter. The directors encourage and promote a culture of ethical business conduct by expecting each director, as well as the officers of the Corporation, to act in a manner that exemplifies ethical business conduct.

#### Whistleblower Policy

The Corporation has established a Whistleblower Policy to ensure the integrity of the accounting records and financial statements of the Corporation and its compliance with applicable laws. Under the whistleblower policy, any employee who becomes aware of any questionable accounting, internal accounting controls, auditing matters or potential violations of law are encouraged to contact their immediate supervisor, their immediate supervisor’s manager or the President . Employees also have the option of reporting such matters directly to the chair of the Audit Committee or the chair of the board of directors. Appropriate procedures are then undertaken to ensure that the report is promptly and thoroughly investigated.

## RISK FACTORS

#### Risks of Real Property Ownership and Development

Real estate investments are generally subject to varying degrees of risk depending on the nature of the property. Such risks include the highly competitive nature of the real estate industry, changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as the supply of and demand for office, industrial, retail space or warehousing or residential real estate in the area and thereby the prices at which serviced acreage may be sold), government regulation and changes therein (such as planning, zoning, taxation of property and environmental legislation), changes in governments and the political environment in the applicable jurisdictions, competition from other available properties and the attractiveness of the property to potential purchasers, including builders. In addition, each segment in the real estate development industry is capital intensive and is typically sensitive to interest rates and general economic conditions. The income generated by real estate properties, if any, is dependent upon general economic conditions and, accordingly, the return on investment may be affected by changes in those conditions. There is also no assurance that the Property can be expected to be developed profitably. Economic conditions also may affect the municipalities and their ability and willingness to fund infrastructure projects necessary to support development. The market for real property can be affected adversely by economic factors, which may be regional, national or international in scope.

There is potential for significant variation in soil quality across a development property. Such variation may require significant remedial work including soil removal and fill which increases the costs associated with development and the provision of lots.

Throughout the U.S., the real estate market has been experiencing increased weakness and volatility. The recent recession in the United States and the increased default rates on sub-prime mortgages in the U.S. and the effect of these increased default rates on the mortgage backed securities market in the U.S. has significantly reduced the amount of debt financing available for real estate projects in the U.S. Some experts believe that as a consequence of

significant drops in prices in the real estate sector, the current value of real estate investments could considerably decrease. This could mean that the development of the Property may not be completed in accordance with the existing plan, on time or on budget, or that the Property may decrease in value. These factors may have a negative impact on the value of the Corporation's interest in the Property, on the length of time the Corporation will be required to hold the Property, on the purchase price of the acreage from the Property when eventually sold and on the value of the Debentures, Interest Debentures and Class B shares.

The Corporation and the U.S. Subsidiary will be required to make certain expenditures in respect of their activities, including, but not limited to, the payment of property taxes, maintenance costs, insurance costs and related charges, regardless of whether the Property is producing sufficient income to service such expenses. If the Corporation or the US Subsidiary is unable or unwilling to meet such payment obligations, losses could be sustained as a result of the exercise by creditors of rights of foreclosure or sale.

Various factors can affect the timing and profitability of real estate development and construction. While certain plans have been made for development of the Property, there is no assurance that such plans will be met on a timely basis or at all. There is also no assurance that the Property can be developed profitably. The Corporation will be subject to risks inherent in the development of real estate including: (i) construction and other unforeseen delays; (ii) the incurring of construction and development costs in advance of securing sales revenue; (iii) cost overruns; (iv) the inability to secure the appropriate development and other necessary approvals in a timely and cost effective manner; (v) the inability to sell acreage from the Property; and (vi) fluctuations in demand and supply for developed properties. Occasionally municipalities throughout the U.S. require developers to front-end significant off site infrastructure. The costs associated with such can be significant and may materially impact the financial results of developers.

#### Currency Fluctuations

All of the operations of the U.S. Subsidiary in connection with the development of the Property, including, without limitation, the costs it incurs in connection therewith, the construction loans that it obtains and the related interest expenses, the revenues that it receives from the sales of serviced lots and parcels and the fees that it pays to WDM, will be denominated in U.S. dollars. When the U.S. Subsidiary distributes any amounts to the Corporation for the purpose of funding its costs and paying interest and principal on the Debentures and Interest Debentures and dividends and other distribution on the Class B shares, those amounts will have to be converted into Canadian dollars at the Canadian/U.S. dollar exchange rate prevailing at those times.

#### Required Loans May Not Be Provided, May Terminate or May Not Be Sufficient

It is anticipated that further construction loans will be required to fund the costs of the development beyond the Senior Loan and the Mezzanine Loan and the WUSA subordinated loan. There can be no guarantee that such construction loans can or will be obtained on similar terms as the Senior Loan, the Mezzanine Loan or the WUSA subordinated loan or at all.

The Corporation and the U.S. Subsidiary have the authority to negotiate and obtain other loans or loan facilities for the purposes of carrying out their operations and to grant security against their assets, including the Property, without obtaining the approval of the holders of the Debentures, Interest Debentures and the Class B shares. The Corporation and the U.S. Subsidiary may exercise this power in a number of circumstances including (i) if they wish to replace the Senior Loan or the Mezzanine Loan or the WUSA subordinated loan for any reason, (iii) if the Senior Loan or the Mezzanine Loan or the WUSA subordinated loan is terminated for any reason, or (iv) when other credit facilities, loans or borrowings are required to be entered into by them to pay for the development of the Property, or to pay for other of their costs. Any such borrowing and the granting of security, which may be from arm's length third parties and/or, subject to compliance with all applicable laws and receipt of all required regulatory approvals (if any), from affiliates of WAM or from affiliates of holders of Debentures and Interest Debentures or Class B shares, will be on such terms as the Corporation and/or the U.S. Subsidiary determines to be appropriate. Any such borrowings may be evidenced by promissory notes or other evidences of indebtedness. Such borrowings may include securities

offerings by the Corporation and/or the U.S. Subsidiary of indebtedness, such as notes or debentures, which may or may not be secured by their assets, including the Property.

There can be no assurances that the Corporation and/or the US Subsidiary will be able to obtain financing when required, or, if it can obtain such financing, that such financing will be on terms that are reasonable or acceptable. The failure or inability to obtain such financing will have a material negative effect on the ability to develop the Property on a timely basis, or at all.

#### Regulatory Approvals and Third Party Approvals

Full development of the Property requires zoning, subdivision and other approvals for each phase of the Property, including Phase 1, from local government agencies and other approving authorities that have the jurisdiction over regulatory planning and development approvals in the area around the Property. The process of obtaining such approvals may take many months, and there can be no assurance that the necessary approvals will be obtained or obtained in a manner that is acceptable for the purposes of the proposed development of the Property. There is also a possibility that additional approvals to those described above may be necessary due to new legislation or for other reasons. Holding costs will accrue while regulatory approvals are being sought and delays in obtaining such approvals could render the development of the Property uneconomic. Failure to obtain acceptable approvals in a timely manner could have a significant negative effect on the value of the Property.

In addition, any required easement, cost sharing or other similar agreements with neighbouring land owners required for development of the Property may not be obtained on a timely basis, if at all.

#### Environmental Matters and Other Concerns

There can be no assurances that environmental contamination will not occur as a result of the development of the Property or any other activity on, or occupation of, the Property or farming, other operations or other occupation on adjacent parcels of land. There can be no assurances that if such environmental contamination does occur that it will not be significant or will not significantly reduce the value of the Property.

Under various environmental laws, ordinances and regulations, the current or previous owners or operators of the Property, and the U.S. Subsidiary, may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in the Property. These costs could be substantial. Such laws could impose liability whether or not the Corporation knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of hazardous or toxic substances, or the failure to remove or remediate such substances, if any, or restrictions imposed by environmental laws on the manner in which the Property may be operated or developed, could adversely affect the ability to sell acreage from the Property or to borrow using the Property as collateral and also could potentially result in claims against the Corporation and/or the U.S. Subsidiary. Environmental laws provide for sanctions for non-compliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of, and exposure to, hazardous substances into the air. Third parties may seek recovery from real property owners or operators for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of complying with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims, could be substantial. The Corporation and/or the U.S. Subsidiary may be subject to liability for undetected pollution or other environmental hazards against which it cannot insure, or against which it may elect not to insure where premium costs are disproportionate to the Corporation's or WAM's or WDM's perception of relative risk.

### Political and Economic Climate

The area around the Property presents social, economic and political conditions that are reasonably stable. However, the applicable levels of government in this area and the U.S. federal government could implement legislation and policies that would have an adverse effect on the value of the Property. Examples of such policies are tax reform, zoning restrictions, land ownership restrictions, transportation policies, development moratoriums, annexation proceedings or other adverse economic and/or monetary policies. In addition, the Washington D.C. economy may not attain levels of growth that it has achieved in the past and projections regarding future growth may not be accurate.

### Changes in Legislation and Policies

There can be no assurances that federal, state, county or municipal legislation will not be implemented or policies and frameworks will not be implemented by the applicable municipal bodies or other government regulators having jurisdiction over the Property which places restrictions on the ability to develop the Property or which generally has the effect of significantly reducing the value, or the potential value, of the Property.

### Competition

The Corporation competes with other investors, developers, and owners of properties for the sale of desirable real estate properties. Some of the commercial, retail and residential properties of the competitors of the Corporation are newer, better located, better capitalized and/or more developed than the Property. Certain of these competitors have greater financial and other resources and greater operating flexibility than the Corporation. The existence of competing developers and owners could have a material adverse effect on the ability of the Corporation to market the Property, and could adversely affect the profitability of the Corporation. Affiliates of the Corporation, WAM and WDM (including WAM and WDM) administer other properties around Washington D.C. or elsewhere that may be competitive to the Property.

### Builder Contract Risk

The success of any development project is to a certain extent dependent upon the ability to attract builders with successful track records in sales and construction. In the event that any of the builders that are contracted with in connection with the Property should cease operating in connection with the Property or not comply with their obligations to the U.S. Subsidiary under the applicable agreements, the financial performance of the Corporation will depend upon WDM's ability to find a replacement builder or builders. There can be no guarantee that WDM will find suitable builders on a timely basis or on terms that are advantageous to the Corporation.

### Single Asset

The Corporation was formed solely for the purposes of the acquisition and development, through the U.S. Subsidiary, of all or a portion of the Property. The Property will represent the only significant asset of the U.S. Subsidiary, and the U.S. Subsidiary securities are the only significant asset of the Corporation. As a result, the Corporation's financial performance will be directly tied to the value of the Property.



