# Management's Discussion & Analysis

## For the period from January 4, 2012 to March 31, 2012

May 22, 2012

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 period from January 4, 2012 to March 31, 2012. The MD&A should be read in conjunction with the Corporation's condensed interim consolidated financial statements for the period from January 4, 2012 to March 31, 2012, and the prospectus ("**Prospectus**") of the Corporation dated February 27, 2012, which includes the Corporation's audited financial statements as at and for the period ended January 4, 2012.

All financial information is reported in Canadian dollars and has been prepared in accordance with 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**"). As this is the first year of operations of the Corporation, the condensed consolidated financial statements have also been prepared in accordance with IFRS 1: *First-time Adoption of International Financial Reporting Standards*. 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 these do 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**.

## 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 period. The estimates and assumptions that have the most significant affect on the amounts recognized in the Corporation's consolidated financial statements are related to the recoverability of land held for development and land development costs, and the recognition of future tax assets. In assessing the recoverability of land held for development and land development costs,  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 capital. In assessing the amount of deferred tax assets that can be recognized, management is required to make estimates and assumptions regarding the likelihood, timing and level of future taxable profits. Changes in these estimates and assumptions could cause actual results to differ materially from those reported.

## Forward-looking Statements

Certain information set forth in this material, 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.

## Responsibility of Management

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

## Approval by the Board of Directors

The MD&A was authorized for issue by the board of directors on May 22, 2012.

# 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 ("**US Subsidiary**"), Walton Westphalia Development (USA), LLC., is a limited liability company organized under the laws of the state of Maryland on January 6, 2012. The Corporation and the US 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, 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.

The preliminary development plan that has been prepared by Walton Development and Management (USA), Inc. ("**WDM**"), the manager of the project, includes three phases over an estimated seven-year time horizon. When completed, it is anticipated that the project will provide approximately 66 single family homes, 779 townhomes, 884 rental apartments, 533,759 square feet of retail space, 2,240,000 square feet of office space and 600 hotel rooms.

In order to raise sufficient capital for the acquisition and development of the Properties, the Corporation completed an initial public offering ("**IPO**") during March of 2012. This was followed by a private placement ("**Private Placement**") which commenced in April of 2012. Each unit issued by the Corporation ("**Unit**") through the IPO, or that have been and will be issued through the Private Placement, is comprised of a $5.00 principal amount of unsecured, subordinated, convertible, extendable debenture bearing simple interest at a rate of 8% ("**Debenture**") and one class B non-voting common share ("**Class B share**") having a price of $5.00.

The Corporation's investment objectives are 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 is anticipated to be in March of 2019; and
iii.) achieve a net internal rate of return of 15.0% on the $10.00 purchase price of the Units.

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 investment strategy:

i.) acquire the Westphalia Property through the US Subsidiary;
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 and parcels 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 US 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. The amounts 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 WAM and WDM (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 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, equal to 8% per annum.

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

## First Quarter Consolidated Financial Data

| | For the period from January 4, 2012 to March 31, 2012 |
|---|---:|
| Total revenues ($) | 2,586 |
| Total expenses ($) | 249,371 |
| Net loss and comprehensive loss ($) | 246,785 |
| Weighted average shares outstanding[1] | 182,360 |
| Basic and diluted net loss per share ($) | 1.35 |

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.

| | As at March 31, 2012 |
|---|---:|
| Total assets ($) | 29,799,092 |
| Total non-current liabilities ($) | 6,850,479 |
| Total liabilities ($) | 23,212,881 |
| Total Equity ($) | 6,586,211 |
| Class B shares outstanding – end of period | 1,442,300 |

## Review of Operations

### Summary

The period from January 4, 2012 to March 31, 2012, marked the first period of operations for the Corporation. Accordingly, the main priority of the Corporation was to complete the acquisition of the Property and to raise sufficient capital for the Corporation to carry out its investment strategy.

The following steps were taken by the Corporation during the period:

- On January 6, 2012, the Corporation formed the US Subsidiary.
- On February 14, 2012, the Corporation, through the US Subsidiary, acquired the Property for a purchase price of U.S. $23,714,149 ($23,692,806 CDN), plus acquisition costs of U.S. $1,157,876 USD ($1,156,834 CDN). Since the Corporation had not yet completed the IPO, the acquisition of the Property was financed through the following transactions:
    - i.) the Corporation entered into the following U.S. dollar forward contracts:
        - a. to acquire U.S. $13,400,000 on February 14, 2012 for CDN $13,558,940 (the "**February Forwards**"), and;
        - b. to acquire U.S. $11,900,000 on or after March 15, 2012 and on or before April 13, 2012 for CDN $12,084,450 (the "**March Forwards**");
    - ii.) on February 14, 2012 the Corporation borrowed CDN $13,588,940 from Walton International Group Inc. ("**WIGI**") under the terms of the Walton Loan ("**Walton Loan**"). The proceeds from the Walton Loan, were used to purchase $13,400,000 U.S. dollar through the February Forwards; and
    - iii.) on February 14, 2012, the Corporation borrowed U.S. $11,850,000 from Walton Maryland, LLC ("**Walton Maryland**") a related party of the Corporation, through the WM Loan ("**WM Loan**"). The loan was fully repaid on March 23, 2012 out of the gross proceeds raised through the IPO and additional funds borrowed under the Walton Loan.
- On February 27, 2012, the Corporation commenced an IPO, offering a minimum of 750,000 Units and maximum of 3,450,000 Units, priced at $10.00 per Unit. The IPO was successfully completed on March 20, 2012, and resulted in the issuance of 1,442,300 Units for gross proceeds of $14,423,000.
- On March 26, 2012, the Corporation commenced a Private Placement, offering a maximum of up to 2,007,700 Units priced at $10 per Unit for total consideration of up to $20,077,000. There was no minimum for the Private Placement because the minimum number of Units to be raised was met through the IPO.

From a timing perspective, the project is proceeding as anticipated and management expects that the project will be completed within the approximate seven-year time frame disclosed in the Prospectus.

During the period, the Corporation generated total revenues of $2,586, total expenses of $306,328, a net loss of $303,742 and a comprehensive loss of $304,043. These revenues were comprised of interest earned on the Corporation's cash on hand. The total expenses during the period primarily consisted of $216,345 in costs incurred for the preparation of the Prospectus, an unrealized foreign exchange loss of $57,047, and director fees of $13,032. This difference between comprehensive loss and net loss was a result of foreign currency translation adjustments on the translation of the US Subsidiary's financial statements into the Canadian dollar presentation currency of the consolidated financial statements. The nature and amount of the expenses incurred by the Corporation during the period was consistent with management's expectations. The overall net loss incurred by the Corporation during the period was also consistent with management's expectations because the Corporation is not expected to generate significant revenue, except during periods when the sale of lots is completed.

Given that the project remains on track both financially and from a timing perspective, management believes that the project remains on track for achieving its investment objectives.

## Analysis of Financial Condition

As at March 31, 2012, the Corporation had total assets of $29,741,834, total liabilities of $23,212,881 and total shareholders' equity of $6,528,953. The most significant assets of the Corporation as at March 31, 2012 were land held for development of $25,188,434, and cash of $4,169,803. The most significant liabilities of the Corporation as at March 31, 2012 were a loan due to a related party of $15,376,158 and debentures payable of $6,833,092.

As at March 31, 2012, the Corporation was highly leveraged with a debt to equity ratio of 3.56:1. Although the Corporation was and is expected by management to be highly leveraged, the Corporation expects to increase the amount of equity of the Corporation and make repayments on the related party loan through the funds raised through the Private Placement. Once repaid, the amount of debt outstanding is expected to gradually increase as the Corporation draws on construction loans to fund the ongoing administrative and operating expenses, management fees, development fees, pre-development costs, construction costs and other expenses of the Corporation. As the development of the Property proceeds, the Corporation will use the proceeds from the sale of serviced lots to make interest and principal repayments on both the construction loan and the debentures payable, which will decrease the debt to equity ratio of the Corporation.

The Corporation expects that the cash on hand as at March 31, 2012 will be sufficient to finance Phase 1 of the project and the ongoing expenses of the Corporation, until such time that the Corporation enters into a construction loan to finance Phase 1 of the project. As long as the project continues as anticipated, the Corporation does not foresee any significant challenges in financing or completing the remaining phases of the project.

## Initial Public Offering and Private Placement

On February 27, 2012, the Corporation filed the Prospectus for the IPO of 3,450,000 Units of the Corporation at a price of $10 per Unit. The IPO of the Corporation was completed on March 20, 2012 and resulted in the issuance of 1,442,300 Units of the Corporation for gross proceeds of $14,423,000. The closing of the IPO was followed by the commencement of the Private Placement on March 26, 2012, which offered a maximum of 2,007,700 Units for a maximum of $20,077,000. As of the date of this MD&A, the Corporation has issued 181,300 Units for gross proceeds of $1,813,300.

Each Unit issued through the IPO and issued and to be issued through the Private Placement (collectively, the "**Offerings**") was comprised of one Debenture and one Class B share. Of the $14,423,000 gross proceeds raised from the IPO, $7,211,500 was paid as consideration for the debenture payable and $7,211,500 was paid as consideration for the Class B shares. The total costs associated with the IPO were comprised of commissions payable to the agents of $757,208 and costs incurred for the preparation of the IPO of $216,345. The commissions were allocated equally to the debenture component and share component because their proportionate share of the gross proceeds raised was the same. The costs incurred for the preparation of the IPO has been recognized as an expense. The net proceeds raised from the IPO of $13,449,447 were consistent with the net proceeds anticipated by management and as disclosed in the Prospectus.

## Acquisition of the Property

On October 26, 2011, Walton Maryland entered into a Purchase and Sale Agreement for an aggregate of 479 acres of real property, located in Prince George's County, Maryland. The purchase price payable under the Agreement of Purchase and sale was denominated in U.S. dollars. On February 6, 2012, the Corporation entered into an Assignment Option Agreement with Walton Maryland, for the assignment of Walton Maryland's rights under the Purchase and Sale Agreement to the Corporation. In order to fix the cost of the Property in Canadian dollars, the Corporation entered into two forward contracts to exchange an aggregate of CDN $25,643,390 in return for U.S. $25,300,000.

On February 14, 2012, the Corporation exercised its rights under the Assignment Option Agreement for 310 of the 479 acres of Property, leaving the remaining 169 acres unexercised. The purchase price of the Property was U.S. $23,714,149 ($23,692,806 CDN), plus closing costs of U.S. $1,496,975 ($1,496,963 CDN).

The carrying amount of land held for development as at March 31, 2012 was comprised of the following:

| | As at March 31, 2012 $ |
|---|---|
| Cost of the property | 23,692,806 |
| Closing costs | 1,496,963 |
| Effect of changes in foreign exchange rates | (1,335) |
| Total – land development costs | 25,188,434 |

## Land Development Costs

The following table provides a breakdown of the amounts capitalized to land development costs by nature.

| | As at March 31, 2012 $ |
|---|---|
| Financing | 244,862 |
| Planning | 134,626 |
| Effect of changes in foreign exchange rates | 58,836 |
| Total – land development costs | 438,324 |

Land development costs can be divided into two primary categories: hard construction costs, which are the costs related to the physical improvement of the land, and soft costs, which include but are not limited to, costs associated with architectural control consultants, financing fees for establishing construction loans, interest on the construction loan and debentures payable, legal fees, municipal taxes and construction management, and appraisal fees. Planning, financing, legal and project management fees are all soft costs associated with the project, while land development costs include both hard development costs and soft costs.

During the period from January 4, 2012 to March 31, 2012, The Corporation incurred total land development costs of $438,324. The increase in land development costs were attributed to:

- Soft costs for the financing of Phase 1 - $244,862
- Other soft costs for the planning, design, development, and management of Phase 1 – $134,626
- Changes due to foreign exchange rates - $58,836

The land development costs incurred during the period from January 4, 2012 to March 31, 2012 were consistent with the amounts anticipated by management for the work completed during the period.

## Management Fees

On February 27, 2012, the Corporation and WAM entered into a Management Services Agreement. In accordance with the terms of the Management Services Agreement, WAM will provide management and administrative services to the Corporation in return for an annual management fee equal to:

- i.) from March 20, 2012 until the earlier of the date of termination of the Management Services Agreement and March 31, 2019, 2% of the aggregate of:
  - a.) the net proceeds raised from the IPO of $13,449,548, calculated as the gross proceeds raised of $14,423,101, net of selling commissions of $757,208 and organizational costs of $216,345;
  - b.) the net proceeds raised from any follow-on the Private Placement; and
  - c.) the amount of the servicing fee (see below), which will be distributed by WAM on behalf of the Corporation; and
- ii.) thereafter, from April 1, 2019 until the termination date of the Management Services Agreement, an amount equal to 2% of the book value of the Properties.

During the period, the Corporation incurred total management fees of $8,084. The amount of the management fees incurred was consistent with both the terms of the Management Services Agreement and management's expected use of funds.

## Servicing Fees

Under the terms of the Agency Agreements between the Corporation, WAM, and the Corporation's agents, the Corporation has servicing fees payable to WAM (which it will then pay to the agents on behalf of the Corporation) equal to 0.5% of the net proceeds raised from the initial public offering and any follow-on Private Placement, until the earlier of the dissolution of the Corporation and December 31, 2018.

During the period, the Corporation incurred total servicing fees of $2,021. The amount of the servicing fees incurred was consistent with both the terms of the Agency Agreements and management's expected use of funds.

## Transactions with Related Parties

WAM, WIGI, WDM, 1389211 Alberta Ltd., Walton Maryland, and WAM are all related to the Corporation by virtue of common management. All transactions entered into between the related parties during the period from January 4, 2012 to March 31, 2012 were under terms and conditions agreed upon between the parties. With the exception of the loan due to WIGI and the amounts payable to WAM for the management fee and servicing fee, these amounts are unsecured, due on demand, bear no interest and have no fixed terms of repayment.

The balance due to the related parties as at March 31, 2012 is outlined in the table below. These amounts are unsecured, due on demand, bear no interest and have no fixed terms of repayment.

| | As at March 31, 2012 $ |
|---|---|
| Walton Maryland, LLC | 640,920 |
| Walton Asset Management L.P. | 226,449 |
| Total – Due to related parties | 867,369 |

The balance of the loan payable and interest payable to related parties as at March 31, 2012 is outlined in the table below.

| | As at March 31, 2012 $ |
|---|---|
| Loan payable to Walton International Group Inc. | 15,376,158 |
| Interest on loan payable to Walton International Group Inc. | 96,083 |
| Total | 15,472,241 |

The following transactions entered into between the related parties were under terms and conditions agreed upon between the parties.

### Walton Asset Management L.P.

In accordance with the Management Services Agreement between the Corporation and WAM, the Corporation incurred total management fees of $2,021 during the period from January 4, 2012 to March 31, 2012.The servicing fees are payable to WAM, which is responsible for the distribution of the servicing fees to the agents.

The balance payable to WAM as at March 31, 2012 was a result of the transactions noted above, and costs associated with the Corporation's IPO, which were paid for by WAM on behalf of the Corporation, but are reimbursable by the Corporation.

### Walton International Group Inc.

On February 6, 2012, the Corporation entered into a loan agreement with WIGI, which was subsequently amended on February 27, 2012. Under the terms of the amended loan agreement, WIGI will provide the Corporation with a loan to a maximum of CDN $23,100,000, bearing an interest rate of the U.S. "base rate" of HSBC Bank of Canada + 1.75%. The loan is secured by security over the assets of the Corporation and the U.S. Subsidiary, including the Property. All available funds from the IPO and Private Placement, other than amounts placed into working capital, will be utilized by the Corporation to pay down the amounts owing under the loan within ten business days of receipt of the available funds.  Any outstanding principle balance and accrued interest on the loan must be repaid by the Corporation to WIGI on, or before, October 31, 2012

As at March 31, 2012, the total amount owing under this loan was $15,376,158.  For the period of January 4, 2012 to March 31, 2012, $96,083 in interest has been accrued on the loan.  This interest has been capitalized to land development costs because the proceeds of the loan were used to finance the acquisition of the Property.

## Walton Development and Management L.P.

In accordance with the Project Management Agreement between the Corporation and WDM, the fees and costs for services provided by WDM are divided into the following two categories:

i.) WDM will receive a development fee, plus applicable taxes equal to 2% of certain development costs incurred in the calendar quarter, payable within 60 days of the end of such quarter.
ii.) WDM will receive a performance fee, plus applicable taxes, equal to 25% of cash distributions after all investors of Units in the Corporation have received cash payments or distributions equal to $10 per Unit, plus a cumulative compounded priority return of 8% per annum. The priority return is calculated on that $10 amount per Unit, reduced by any cash payments or distributions by the Corporation.

During the period from January 4, 2012 to March 31, 2012, the total development fee charged to the Corporation was $nil because the development costs incurred by the Corporation during the period were not subject to the development fee.

No performance fee was incurred by the Corporation during the period because the $10 per Unit amount and the cumulative compounded priority return has not been received by the investors of Units in the Corporation.

## 1389211 Alberta Ltd.

On January 4, 2012, the Corporation issued 100 Class A shares to 1389211 Alberta Ltd. for total consideration of $100.

## Key Management Compensation

Key management personnel are comprised of the Corporation's directors and executive officers. The directors are paid a fixed amount of compensation for the life of the Corporation, which is payable quarterly in advance. The amount of compensation expense incurred by the Corporation relating to its directors was as follows:

| | Three months ended March 31, 2012 $ |
|---|---|
| Director fees | 13,032 |

All services performed for the Corporation by its executive officers is governed by the Management Services Agreement. The annual management fee that WAM receives under the Management Services Agreement has been disclosed above.

## 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 indicator 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 as per the Prospectus | Status |
| Obtain detailed site plan approval | September 2012 | Unchanged from Prospectus |
| Negotiate final terms of bank financing for construction loan and obtain lender commitment | September 2012 | Unchanged from Prospectus |
| Recorded Plan of Subdivision | November 2012 | Unchanged from Prospectus |
| Obtain building permits | February 2013 | Unchanged from Prospectus |
| Close construction loan | February 2013 | Unchanged from Prospectus |
| Commence Phase 1 construction | February 2013 | Unchanged from Prospectus |
| Deliver finished lots to builders | January 2014 | Unchanged from Prospectus |
| Grand Opening | March 2014 | Unchanged from Prospectus |

In comparison to the anticipated completion dates included in the Prospectus, Phase 1 remains on track for completion within the approximate seven-year time frame disclosed in the Corporation's Prospectus.

### Phases 2 and 3

The steps to complete Phases 2 and 3 of the project are substantially the same as the milestones for Phase 1. The commencement dates for Phase 2 and 3 have not yet been determined, and the expected completion dates of their key milestones will be determined closer to the commencement of those phases.

# Subsequent Events

As of the date of this MD&A, the Corporation has completed three separate closes on the Private Placement. The total number of Units issued by the Corporation through the Private Placement as of May 22, 2012 was 328,300 Units for gross proceeds of $3,283,000.

# Supplemental Information

## Liquidity and Capital Resources

As at March 31, 2012, the Corporation's capital resources consisted of cash which the Corporation raised through the IPO. Out of the net proceeds of $13.4 million raised through the IPO, approximately $4.1 million remains. On March 26, 2012, the Corporation commenced a Private Placement, offering a maximum of 2,007,700 units for gross consideration of $20,077,000. The cash on hand, as well as any proceeds raised from the Private Placement, will be used by the Corporation to pay for its ongoing administrative and operating expenses, management fee, development fee, pre-development costs, grading costs, construction costs and other expenses of the Corporation.

Management regularly reviews the levels of its capital resources to determine if sufficient capital is available to fund the ongoing costs of the Corporation over the next twelve months. As at March 31, 2012, sufficient capital exists to fund the Corporation's activities for at least the next 12 months.

## Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as at March 31, 2012.

## Financial Instruments

The Corporation's financial instruments consist of accounts receivable, cash, debentures payable, debenture interest payable, loan payable, loan interest payable, accounts payable and accrued liabilities and amounts due to related parties. Accounts receivable and cash are classified as loans and receivables, and are carried at amortized cost using the effective interest rate method. Debentures payable, debenture interest payable, loan payable, loan interest payable, accounts payable and accrued liabilities and amounts due to related have been classified as other financial liabilities, and are carried at amortized cost using the effective interest rate method. With the exception of debentures payable and the loan payable, the fair value of these financial instruments approximate their carrying value due to the short-term nature of these items. The fair value of debentures payable and loan payable approximates the carrying amount of these liabilities because the interest rate on these liabilities approximates the interest rate on debt issued by comparable entities.

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 liquidity or credit risk, the Corporation is exposed to significant interest rate risk and currency risk.

Exposure to interest rate risk arises from the Corporation's loan outstanding with a related party, which incurs interest at the U.S base rate plus a 1.75% fixed rate. Changes in market interest rates will cause fluctuations in the interest expense incurred on any loan. Management plans to repay the loan using the proceeds from the Private Placement. Given the anticipated near-term settlement of this liability, no additional risk management activities are being undertaken by the Corporation at this time. The Corporation's exposure to interest rate risk, assuming that the balance of the loan payable remains unchanged from March 31, 2012, and that the change in the interest rate was effective from January 4, 2012, is detailed in the table below:

| | Rate Analysis – January 4, 2012 to March 31, 2012 | | | |
|---|---|---|---|---|
| | + 0.5 % | + 1.0 % | - 0.5 % | - 1.0 % |
| Capitalized interest on loan | 18,275 | 36,550 | (18,275) | (36,550) |

The Corporation is exposed to foreign exchange risk because the operations, development expenditures and loans are denominated in currencies other than in the Canadian dollar, primarily being the U.S. dollar. 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. During the period of January 4, 2012 to March 31, 2012, the Corporation entered into foreign exchange forward contracts to fix the purchase price of the land and the carrying amount of the loan from WIGI.

## Outstanding Shares

As of the date of this MD&A, the Corporation had 100 Class A shares outstanding and 1,770,600 Class B shares outstanding.

## Outstanding Debentures

As of the date of this MD&A, the Corporation had 1,770,600 debentures payable outstanding with a principal value of $8.9 million. The Corporation may in its sole discretion, convert all or any principal amount of the 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 the WDM's performance fee under the Project Management Agreement, which is calculated based on the amount of distributions paid by the Corporation. These commitments will be funded through future revenues generated by the Corporation and the capital resources available to the Corporation.

| | Servicing fee<br>$ | Management fee<br>$ | Total<br>$ |
|---|---:|---:|---:|
| 2012 | 50,527 | 202,109 | 252,636 |
| 2013 | 67,247 | 268,989 | 336,236 |
| 2014 | 67,247 | 268,989 | 336,236 |
| 2015 | 67,247 | 268,989 | 336,236 |
| 2016 and thereafter | 201,742 | 874,030 | 1,075,772 |
| Total | 454,010 | 1,883,106 | 2,337,116 |

The commitment for the management fee will extend for the length of the project, however, after March 31, 2019, it is calculated based on the book value of the Properties at the end of the previous calendar quarter. As a result, the commitments after 2016 do not include the Corporation's commitment for the management fees beyond March 31, 2019.

## Future Changes in Accounting Policies

*Financial instruments*

*IFRS 9: Financial Instruments* ("**IFRS 9**") was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in International Accounting Standard 39 ("**IAS 39**") for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

IFRS 9 is effective for annual periods beginning after January 1, 2015, with early adoption permitted. The Corporation will adopt IFRS 9 for the annual year beginning on January 1, 2015. The adoption of IFRS 9 will result in a change in the classification of the Corporation's financial assets from amortized cost to fair value through profit or loss, this change is not expected to result in a material change to the carrying amount of these financial assets. IFRS 9 is not expected to result in any changes to the classification or carrying amount the Corporation's financial liabilities.

*Consolidated financial statements*

IFRS 10: Consolidated Financial Statements ("**IFRS 10**"), requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12: *Consolidation - Special Purpose Entities* and parts of IAS 27: *Consolidated and Separate Financial Statements*.

IFRS 10 is effective for annual periods beginning after January 1, 2013, with early adoption permitted. The Corporation will adopt IFRS 13 for the annual year beginning on January 1, 2013. The Corporation has assessed the impact that IFRS 10 will have on the consolidated financial statements of the Corporation, and concluded that the accounting for the Corporation's 100% interest in the US Subsidiary will be unaffected by the adoption of IFRS 10.

*Joint Arrangements*

IFRS 11: *Joint Arrangements* ("**IFRS 11**"), requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31: *Interests in Joint Ventures*, and SIC-13: *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

IFRS 11 is effective for annual periods beginning after January 1, 2013, with early adoption permitted. The Corporation will adopt IFRS 11 for the annual year beginning on January 1, 2013. Although the Corporation had not entered into any joint arrangements as at March 31, 2012, the Corporation may enter into such arrangements during the 2012 year. Management will evaluate the implications of IFRS 11 on the financial statements of the Corporation if circumstances change.

*Disclosure of interests in other entities*

IFRS 12: *Disclosure of Interests in Other Entities* ("**IFRS 12**"), establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 12 is effective for annual periods beginning after January 1, 2013, with early adoption permitted. The Corporation will adopt IFRS 12 for the annual year beginning on January 1, 2013 and prepare financial statement note disclosures in full compliance with IFRS 12 beginning for the first quarter of 2013.

*Fair value measurement*

IFRS 13: *Fair Value Measurement* ("**IFRS 13**") is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

IFRS 13 is effective for annual periods beginning after January 1, 2013, with early adoption permitted. The Corporation will adopt IFRS 13 for the annual year beginning on January 1, 2013. As outlined in note 3, all financial instruments of the Corporation are initially recognized at fair value and subsequently carried at amortized cost. The Corporation also discloses the fair value of land and financial instruments in the notes to the financial statements. The adoption of IFRS 13 is not expected to result in any changes to the measurement and disclosure of the fair value of land or its financial instruments.

*Presentation of other comprehensive income*

IAS 1: Presentation of Financial Statements ("**IAS 1**"), has been amended to require entities to separate items presented in OCL into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCL items before tax will be required to show the amount of tax related to the two groups separately.

The amendment is effective for annual periods beginning after July 1, 2012, with early adoption permitted. The Corporation will adopt IAS 1 for the annual year beginning on January 1, 2013. The Corporation has assessed the impact that IAS 1 will have on the consolidated financial statements of the Corporation. The amendments to IAS 1 will result in the disclosure of other comprehensive loss generated on the foreign currency translation of the US Subsidiary as an item which may be recycled into net income in the future.