

# UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Walton Westphalia Development Corporation

For the three and nine months ended September 30, 2015 and September 30, 2014

(Expressed in Canadian dollars)

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

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Condensed Interim Consolidated Statements of Financial Position

*Unaudited*

As at September 30, 2015 and December 31, 2014

(Expressed in Canadian dollars)

	September 30, 2015 \$	December 31, 2014 \$
<b>ASSETS</b>		
Land development inventory (note 4)	71,446,432	52,042,267
Interest rate cap (note 8)	489	38,527
Deferred financing and transaction costs (note 8)	1,345,676	1,396,409
Prepaid expenses	-	1,110
GST recoverable	-	242
Due from related party (note 5)	206,269	168,913
Restricted cash (note 6)	3,379,473	2,955,069
Cash	2,861,944	1,086,230
<b>TOTAL ASSETS</b>	<b>79,240,283</b>	<b>57,688,767</b>
<b>LIABILITIES</b>		
Debentures payable (note 7)	14,432,736	14,337,245
Interest debentures payable (note 7)	2,486,218	1,206,872
Project debt (note 8)	33,889,530	22,329,321
Derivative financial liability (note 8)	119,536	102,092
Deferred income tax liability (note 12)	1,434,656	362,457
Interest payable (note 7)	682,199	957,956
Provision for land development costs (note 9)	386,101	-
Deferred revenue (note 10)	1,161,869	1,015,777
Accounts payable and accrued liabilities	3,291,179	1,975,790
Due to related parties (note 5)	2,871,886	295,391
<b>TOTAL LIABILITIES</b>	<b>60,755,910</b>	<b>42,582,901</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 11)	13,988,912	13,988,912
Retained earnings (accumulated deficit)	732,031	(520,601)
Accumulated other comprehensive income	3,763,430	1,637,555
<b>TOTAL EQUITY</b>	<b>18,484,373</b>	<b>15,105,866</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>79,240,283</b>	<b>57,688,767</b>
Commitments (note 14)		

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Condensed Interim Consolidated Statements of Comprehensive Income

Unaudited

For the three and nine months ended September 30, 2015 and September 30, 2014

(Expressed in Canadian dollars)

	Three months ended		Nine months ended	
	September 30		September 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>REVENUE</b>				
Land development sales	-	-	1,183,930	-
<b>COST OF SALES</b>				
Land development	-	-	(1,023,407)	-
<b>GROSS MARGIN</b>	-	-	160,523	-
<b>OTHER INCOME/(EXPENSES)</b>				
Management fees (note 5)	(141,038)	(141,038)	(418,515)	(418,515)
Marketing expense	(35,361)	-	(118,004)	-
Servicing fees (note 5)	(35,260)	(35,260)	(104,629)	(104,629)
Professional fees	(47,641)	(25,915)	(85,155)	(56,600)
Directors' fees (note 5)	(12,500)	(12,766)	(37,802)	(38,564)
Office and other expenses	(15,961)	(8,736)	(32,563)	(31,684)
Interest income	1,219	1,205	3,909	3,478
<b>TOTAL INCOME/(EXPENSES)</b>	(286,542)	(222,510)	(792,759)	(646,514)
<b>LOSS BEFORE OTHER ITEMS</b>	(286,542)	(222,510)	(632,236)	(646,514)
Gain/(loss) on derivative financial liability revaluation	9,018	(7,666)	(1,563)	(63,073)
Gain/(loss) on interest rate cap revaluation (note 8)	(3,946)	10,989	(41,386)	(85,252)
Foreign exchange gain	1,291,455	997,791	3,000,016	1,131,828
<b>TOTAL OTHER ITEMS</b>	1,296,527	1,001,114	2,957,067	983,503
<b>NET INCOME BEFORE TAXES</b>	1,009,985	778,604	2,324,831	336,989
Deferred tax expense (note 12)	(476,313)	(344,394)	(1,072,199)	(24,563)
<b>NET INCOME AFTER TAX</b>	533,672	434,210	1,252,632	312,426
<b>OTHER COMPREHENSIVE INCOME</b>				
Cumulative translation gain	1,164,876	556,737	2,125,875	598,072
<b>COMPREHENSIVE INCOME</b>	1,698,548	990,947	3,378,507	910,498
Basic net income per share (note 11)	0.24	0.14	0.42	0.10
Diluted net income per share (note 11)	0.08	0.07	0.19	0.05

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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

*Unaudited*

For the nine months ended September 30, 2015 and September 30, 2014

(Expressed in Canadian dollars)

	Class A Voting Common Shares		Class B Non-voting Common Shares		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive (Loss)/Income	Total
	# of Shares	\$	# of Shares	\$	\$	\$	\$
<b>JANUARY 1, 2014</b>	100	100	3,017,170	13,988,812	(646,271)	633,292	13,975,933
Net income after tax	-	-	-	-	312,426	-	312,426
Other comprehensive income	-	-	-	-	-	598,072	598,072
<b>SEPTEMBER 30, 2014</b>	100	100	3,017,170	13,988,812	(333,845)	1,231,364	14,886,431
Net loss after tax	-	-	-	-	(186,756)	-	(186,756)
Other comprehensive income	-	-	-	-	-	406,191	406,191
<b>DECEMBER 31, 2014</b>	100	100	3,017,170	13,988,812	(520,601)	1,637,555	15,105,866
Net income after tax	-	-	-	-	1,252,632	-	1,252,632
Other comprehensive income	-	-	-	-	-	2,125,875	2,125,875
<b>SEPTEMBER 30, 2015</b>	100	100	3,017,170	13,988,812	732,031	3,763,430	18,484,373

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Condensed Interim Consolidated Statements of Cash Flows

Unaudited

For the three and nine months ended September 30, 2015 and September 30, 2014

(Expressed in Canadian dollars)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>CASH PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net income for the period	533,672	434,210	1,252,632	312,426
Adjustments for:				
Unrealized foreign exchange gain	(1,515,227)	(997,791)	(3,035,626)	(1,131,828)
Deferred income tax expense	476,313	344,394	1,072,199	24,563
Loss/(gain) on interest rate cap revaluation	3,946	(10,989)	41,386	85,252
Loss/(gain) on derivative financial liability revaluation	(9,018)	7,666	1,563	63,073
Interest income	(1,219)	(1,205)	(3,909)	(3,478)
Changes in non-cash operating items				
Decrease in GST recoverable	1,431	641	242	310
Increase in due from related party	(1,625)	(11,134)	(11,930)	(50,183)
Decrease/(increase) in prepaid expenses	-	(346)	1,110	174,088
Increase in accounts payable and accrued liabilities	1,498,579	2,882,341	961,245	3,551,857
Increase/(decrease) in provision for land development costs	(58,076)	-	367,437	-
(Decrease)/increase in deferred revenue	(634)	-	(31,979)	377,425
Increase in due to related parties	43,157	59,033	334,389	37,774
Increase in land development inventory	(3,452,352)	(6,106,780)	(6,813,955)	(10,283,604)
Increase/(decrease) in restricted cash	82	(447)	30,404	(378,842)
Increase in deposits	-	-	-	1,739,152
Interest paid	(335,670)	-	(975,753)	-
Interest received	127	838	2,065	2,911
	<u>(2,816,514)</u>	<u>(3,399,569)</u>	<u>(6,808,480)</u>	<u>(5,479,104)</u>
<b>FINANCING ACTIVITIES</b>				
Advances from project debt	2,388,660	2,746,660	7,422,200	4,897,388
Project debt repayment	-	-	(984,294)	-
Advances from related parties	-	-	1,999,842	-
	<u>2,388,660</u>	<u>2,746,660</u>	<u>8,437,748</u>	<u>4,897,388</u>
Effect of exchange rate on cash	(21,754)	115,165	146,446	277,256
Increase/(decrease) in cash	(449,608)	(537,744)	1,775,714	(304,460)
Cash – Beginning of period	3,311,552	1,504,063	1,086,230	1,270,779
Cash – End of period	<u>2,861,944</u>	<u>966,319</u>	<u>2,861,944</u>	<u>966,319</u>
<b>SUPPLEMENTAL INFORMATION</b>				
Accretion related to Debentures payable capitalized to land development inventory	22,114	34,596	95,491	101,401
Deferred financing and transaction costs transferred to project debt	97,615	-	254,295	348,868
Non-cash interest capitalized to land development inventory	553,692	861,943	1,197,230	2,520,085
Interest paid capitalized to land development inventory	335,670	-	975,753	-
Non-cash issuance of interest debentures	-	-	1,279,346	1,206,872
Accretion on project debt	203,610	62,122	472,982	117,664

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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## Notes to the Condensed Interim Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2015 and September 30, 2014

(Expressed in Canadian dollars)

### 1. NATURE OF BUSINESS

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

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

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

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

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

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

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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## Notes to the Condensed Interim Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2015 and September 30, 2014

(Expressed in Canadian dollars)

## 2. BASIS OF PRESENTATION

### Statement of Compliance

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

### Basis of Presentation

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

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

## 3. ACCOUNTING POLICIES

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

### Provision for Land Development Costs

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

### Revenue Recognition

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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## Notes to the Condensed Interim Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2015 and September 30, 2014

(Expressed in Canadian dollars)

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

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

### Cost of Sales

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

### Use of Estimates and Judgments

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

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

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

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



# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to the Condensed Interim Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2015 and September 30, 2014

(Expressed in Canadian dollars)

cause the actual cost of each lot sold to differ from the cost of sales recognized at the time that revenue was recognized.

### Future Changes in Accounting Policies

#### Financial instruments

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

#### Revenue from contracts with customers

IFRS 15, Revenue from Contracts with Customers ("**IFRS 15**"), was issued in May 2014 by the IASB and supersedes IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied retrospectively or through the recognition of the cumulative effect to opening retained earnings and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. We are currently in the process of evaluating the impact that IFRS 15 may have on our consolidated financial statements.

## 4. LAND DEVELOPMENT INVENTORY

	Nine months ended September 30, 2015	Year ended December 31, 2014
	\$	\$
BALANCE – BEGINNING OF PERIOD	52,042,267	34,192,040
Development costs	10,834,934	11,516,829
Cost of goods sold	(1,023,407)	-
Effect of change in foreign exchange rates	9,592,638	6,333,398
BALANCE – END OF PERIOD	<u>71,446,432</u>	<u>52,042,267</u>

During the nine months ended September 30, 2015, \$3,745,172 (December 31, 2014 - \$3,298,989) of interest was capitalized to development costs.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to the Condensed Interim Consolidated Financial Statements

Unaudited

For the three and nine months ended September 30, 2015 and September 30, 2014

(Expressed in Canadian dollars)

### 5. RELATED PARTY TRANSACTIONS

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

	September 30, 2015 \$	December 31, 2014 \$
WUSF 1 Westphalia, LLC (“WUSF”)	206,269	168,913
TOTAL DUE FROM RELATED PARTY	<u>206,269</u>	<u>168,913</u>

WUSF 1 Westphalia, LLC.

During the nine months period ended September 30, 2015, the Corporation incurred \$9,468 (December 31, 2014 – \$15,810) in costs under the cost sharing agreement with WUSF. The Corporation received \$nil (December 31, 2014 - \$125,205) payments from WUSF in relation to these costs during the nine month period.

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

	September 30, 2015 \$	December 31, 2014 \$
Walton International Group (USA) Inc (“WUSA”)	2,280,799	-
Walton Asset Management	523,143	176,297
Walton Development & Management (USA), Inc	48,980	112,594
Walton International Group Inc. (“WIGI”)	18,964	6,500
TOTAL DUE TO RELATED PARTY	<u>2,871,886</u>	<u>295,391</u>

Walton International Group (USA) Inc.

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

For the nine month period ending, interest of \$125,164 has been charged to the Corporation. As at September 30, 2015, \$2,226,937 was outstanding on the subordinate loan, which consisted of \$2,101,773 (December 31, 2014 - \$nil) of principal and \$125,164 (December 31, 2014- \$nil) of interest. No payments have been made in the nine month period ended September 30, 2015.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to the Condensed Interim Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2015 and September 30, 2014

(Expressed in Canadian dollars)

During the three and nine months ended September 30, 2015 the amount paid by WUSA on behalf of the Corporation was \$53,862 (September 30, 2014 - \$nil) and \$53,862 (September 30, 2014 - \$nil).

### Walton Asset Management L.P.

During the three and nine months ended September 30, 2015 the total management fees and servicing fees charged to the Corporation by WAM were \$141,038 (September 30, 2014 - \$141,038) and \$418,515 (September 30, 2014 - \$418,515) and \$35,260 (September 30, 2014 - \$35,260) and \$104,629 (September 30, 2014 - \$104,629) respectively in relation to servicing fees.

During the three and nine months ended September 30, 2015 \$176,297 (September 30, 2014 - \$176,298) and \$176,297 (September 30, 2014 - \$523,144) respectively, was paid to WAM in relation to the management and service fees.

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

During the three and nine months ended September 30, 2015, the total development fee charged to the Corporation was \$48,062 (September 30, 2014 - \$60,091) and \$238,280 (September 30, 2014 - \$129,656). The development fees paid by the Corporation was \$67,312 (September 30, 2014 - \$58,488) and \$203,047 (September 30, 2014 - \$157,440). The development fees are capitalized to land development inventory as incurred.

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

### Walton International Group Inc.

During the three and nine months ended September 30, 2015, the Corporation incurred \$12,464 (September 30, 2014 - \$919) and \$12,464 (September 30, 2014 - \$7,459), respectively, in costs initially funded by WIGI. The total costs paid to WIGI for amounts funded on the Corporation's behalf during the three and nine months ended September 30, 2015 was \$nil (September 30, 2014 - \$920) and \$nil (September 30, 2014 - \$1,888), respectively.

### Key Management Compensation

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

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
Directors' fees	12,500	12,766	37,802	38,564

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to the Condensed Interim Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2015 and September 30, 2014

(Expressed in Canadian dollars)

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

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

### 6. RESTRICTED CASH

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

	September 30, 2015 \$	December 31, 2014 \$
Funds pledged as security for the senior loan	2,240,696	1,939,292
Customer deposits	1,138,777	1,015,777
	<u>3,379,473</u>	<u>2,955,069</u>

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

### 7. DEBENTURES PAYABLE, INTEREST DEBENTURES PAYABLE AND INTEREST PAYABLE

Interest Debentures in the amount of \$1,279,346 were issued to the holders of the Debentures and Interest Debentures for the nine months ended September 30, 2015. The 2015 Interest Debentures have the same terms as the Offering Debentures.

The following table reconciles the change in debentures payable:

	Nine months ended September 30, 2015 \$	Year ended December 31, 2014 \$
BALANCE – BEGINNING OF PERIOD	14,337,245	14,200,426
Accretion on debentures	95,491	136,819
BALANCE – END OF PERIOD	<u>14,432,736</u>	<u>14,337,245</u>

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to the Condensed Interim Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2015 and September 30, 2014

(Expressed in Canadian dollars)

The following table reconciles the change in interest debentures payable:

	Nine months ended September 30, 2015 \$	Year ended December 31, 2014 \$
BALANCE – BEGINNING OF PERIOD	1,206,872	-
Interest Debentures issued	1,279,346	1,206,872
BALANCE – END OF PERIOD	<u>2,486,218</u>	<u>1,206,872</u>

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 face value 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 on both the Debentures and Interest Debentures can be extended by the Corporation at its sole discretion until March 31, 2021.

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

	Nine months ended September 30, 2015 \$	Year ended December 31, 2014 \$
BALANCE – BEGINNING OF PERIOD	957,956	909,288
Accrued interest on the debentures	1,003,589	1,255,540
Settlement of interest through the issuance of interest debentures	(1,279,346)	(1,206,872)
BALANCE – END OF PERIOD	<u>682,199</u>	<u>957,956</u>

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to the Condensed Interim Consolidated Financial Statements

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### 8. PROJECT DEBT

The table below reconciles the change in the Project debt balance:

	Senior Loan	Mezzanine Loan	Total
	\$	\$	\$
BALANCE – JANUARY 1, 2014	3,656,282	6,859,449	10,515,731
Advances, net of transaction costs	9,032,392	-	9,032,392
Interest incurred	427,875	1,232,734	1,660,609
Interest paid	(427,875)	-	(427,875)
Accretion	89,155	156,866	246,021
Effect of changes in foreign exchange rates	615,256	687,187	1,302,443
BALANCE – DECEMBER 31, 2014	13,393,085	8,936,236	22,329,321
Advances, net of transaction costs	7,167,905	-	7,167,905
Repayments	(876,116)	(108,178)	(984,294)
Interest incurred	854,769	1,193,049	2,047,818
Interest paid	(854,769)	(120,984)	(975,753)
Accretion	341,419	131,563	472,982
Effect of changes in foreign exchange rates	2,407,937	1,423,614	3,831,551
BALANCE – SEPTEMBER 30, 2015	22,434,230	11,455,300	33,889,530

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

	Senior Loan	Mezzanine Loan	Total
	\$	\$	\$
Principal, net of transaction costs	13,393,085	6,417,127	19,810,212
Interest payable	-	2,519,109	2,519,109
BALANCE – DECEMBER 31, 2014	13,393,085	8,936,236	22,329,321
Principal, net of transaction costs	22,434,230	7,864,125	30,298,355
Interest payable	-	3,591,175	3,591,175
BALANCE – SEPTEMBER 30, 2015	22,434,230	11,455,300	33,889,530

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

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

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

	September 30, 2015 \$	December 31, 2014 \$
Interest rate cap purchase price	182,527	182,527
Interest rate cap revaluation	(199,375)	(157,661)
Effect of changes in foreign exchange rates	17,337	13,661
	<u>489</u>	<u>38,527</u>

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

	September 30, 2015 \$	December 31, 2014 \$
Derivative financial liability initial measurement	142,803	101,002
Derivative financial liability revaluation	(43,427)	5,582
Effect of changes in foreign exchange rates	20,160	(4,492)
	<u>119,536</u>	<u>102,092</u>

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

	September 30, 2015 \$	December 31, 2014 \$
BALANCE – BEGINNING OF PERIOD	1,396,409	1,616,216
Transfer to Senior loan	(254,295)	(348,868)
Transfer to Mezzanine loan	-	
Effect of changes in foreign exchange rates	203,562	129,061
BALANCE – END OF PERIOD	<u>1,345,676</u>	<u>1,396,409</u>

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### 9. PROVISION FOR LAND DEVELOPMENT COSTS

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

	Nine months ended September 30, 2015 \$	Year ended December 31, 2014 \$
BALANCE – BEGINNING OF PERIOD	-	-
Additional provisions	413,403	-
Less amounts utilized during the period	(64,056)	-
Effect of changes in foreign exchange rates	36,754	-
BALANCE – END OF PERIOD	<u>386,101</u>	<u>-</u>

The provision for land development costs includes accrued costs based on the estimated cost to complete for the land development projects for which revenue has been recognized. These amounts have not been discounted as the majority are expected to be utilized within one year.

### 10. DEFERRED REVENUE

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

### 11. SHARE CAPITAL

#### Per Share Amount

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

As the Corporation has the right to convert any portion of the Debentures payable and Interest Debentures payable into Class B shares, this conversion feature could result in potentially dilutive shares in the determination of the weighted average diluted shares outstanding. For the period ended September 30, 2015, the potentially dilutive shares were 3,650,853 and December 31, 2014 was 3,450,136.



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The dilutive impact of the convertible debentures has been determined using a fair value of the Class B shares of \$5.00 per share. To effect a + 0.01 change in diluted earnings per share, the fair value of the Class B shares would have to change by 107% or \$0.37 per Class B Share. To effect a -0.01 change in diluted earnings per share, the fair value of the Class B shares would have to change by 93% or \$0.35 per Class B Share.

### Share Issuance Price

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

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

## 12. INCOME TAXES

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2015 \$	2014 \$	2015 \$	2014 \$
Consolidated net income before tax	1,009,985	778,604	2,324,831	336,989
Applicable tax rate	26%	25%	26%	25%
Expected tax expense	262,596	194,651	604,456	84,247
Increase/(decrease) in income taxes resulting from:				
Adjustments for other comprehensive income	-	-	-	8,663
Effect of rate change	-	-	(21,941)	-
Impact of tax rate in foreign jurisdiction	164,899	32,520	349,995	(74,309)
Change in deferred tax asset not recognized	48,818	117,223	139,689	5,962
DEFERRED TAX RECOVERY	476,313	344,394	1,072,199	24,563

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

	September 30, 2015 \$	December 31, 2014 \$
Share issuance costs	74,819	110,303
Non-capital loss carry forward	779,512	551,666
Timing difference on interest expense	484,080	393,070
Timing difference on accretion of debentures	116,835	84,308
Unrealized gain on foreign exchange	(2,353,090)	(1,125,309)
Debenture issuance costs	(221,381)	(163,956)
Other	370,004	333,207
Unrecognized deferred tax asset	(685,435)	(545,746)
<b>NET DEFERRED TAX LIABILITY</b>	<b>(1,434,656)</b>	<b>(362,457)</b>

Deferred income tax assets and liabilities are a result of temporary differences between the carrying amount of assets and liabilities in the financial statements and their carrying amount for income tax purposes, as well as recognition of tax losses. Deferred income tax expense is mainly a result of a foreign exchange gain in the US \$3,000,016 (December 31, 2014 - \$545,746) which has not been recognized.

The unused non-capital losses of \$2,887,082 will expire as follows:

	\$
2032	847,219
2033	647,600
2034	711,846
2035	680,417
	<u>2,887,082</u>

### 13. FINANCIAL INSTRUMENTS

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

With the exception of the interest rate cap, debentures payable, interest debentures payable, project debt, and derivative financial liability, the fair value of these financial instruments approximate their carrying value due to the short-term nature of these items. The fair value of the interest rate cap and derivative financial liability are determined

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using a third party valuator who uses a discounted future cash flow approach, making use of level 2 (other than quoted prices) inputs to arrive at a current value. The discount rate applicable to a transaction is generally LIBOR for the relevant currency, however other discount rates may be used where the valuator feels that LIBOR is not appropriate. This interest rate cap and derivative financial liability are recorded at fair value with changes being recorded through profit and loss.

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

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

SEPTEMBER 30, 2015	Fair Value		Amortized Cost		Totals	
	Through profit and loss	Derivatives	Loans and receivables	Other financial liabilities	Carrying amount	Fair Value
	\$	\$	\$	\$	\$	\$
Asset (liability):						
Interest rate cap	489	-	-	-	489	489
Due from related party	-	-	206,269	-	206,269	206,269
Restricted cash	-	-	3,379,473	-	3,379,473	3,379,473
Cash	-	-	2,861,944	-	2,861,944	2,861,944
Debentures payable	-	-	-	(14,432,736)	(14,432,736)	(14,432,736)
Interest Debentures payable	-	-	-	(2,486,218)	(2,486,218)	(2,486,218)
Project debt	-	-	-	(33,889,530)	(33,889,530)	(33,889,530)
Derivative financial liability	-	(119,536)	-	-	(119,536)	(119,536)
Interest payable	-	-	-	(682,199)	(682,199)	(682,199)
Accounts payable and accrued liabilities	-	-	-	(3,291,179)	(3,291,179)	(3,291,179)
Due to related parties	-	-	-	(2,871,886)	(2,871,886)	(2,871,886)
	489	(119,536)	6,447,686	(57,653,748)	(51,325,109)	(51,325,109)

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

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

<sup>1</sup> - Note that sensitivity table below shows that the carrying value approximates fair value

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

Change in market interest rate	Sensitivity Analysis		
	+/- 1%	+/- 3%	+/- 5%
Debentures payable (8% interest per annum)	41,160	123,086	204,491
Interest Debentures payable (8% interest per annum)	6,046	18,089	30,067
Mezzanine Loan (15% interest per annum)	10,182	30,494	50,737

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

	2015	2016	2017	2018	2019 and thereafter
	\$	\$	\$	\$	\$
Debentures payable	-	-	-	-	15,085,850
Interest debentures payable	-	-	-	-	2,486,218
Interest payable	355,792	1,422,882	1,438,013	1,447,606	356,523
Project debt	1,270,857	5,083,430	44,480,010	-	-
Accounts payable and accrued liabilities	3,291,179	-	-	-	-
Due to related parties	774,809	244,963	244,963	244,963	2,471,900
<b>Total</b>	<b>5,692,637</b>	<b>6,751,275</b>	<b>46,162,986</b>	<b>1,692,569</b>	<b>20,400,491</b>

In addition to these items in the table, based on the current loan amount outstanding and as a result of the joint and several nature of the Senior Loan and Mezzanine Loan, the U.S. Subsidiary may be liable for WWE's portion of these loans. As at September 30, 2015 this amount is \$5,780,764 (December 31, 2014 - \$3,868,240).

## 14. COMMITMENTS

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

	Servicing fee	Management fee	Total
	\$	\$	\$
2015	35,259	141,038	176,297
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
	<u>454,923</u>	<u>1,957,666</u>	<u>2,412,589</u>

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

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2014, the Corporation provided the Washington Suburban Sanitary Commission with two bonds totalling US \$7,583,558 which are used as construction guarantees.