

# CONSOLIDATED FINANCIAL STATEMENTS

Walton Westphalia Development Corporation

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)



April 12, 2016

## **Independent Auditor's Report**

### **To the Shareholders' of Walton Westphalia Development Corporation**

We have audited the accompanying consolidated financial statements of Walton Westphalia Development Corporation, which comprise the consolidated statements of financial position as at December 31, 2015 and as at December 31, 2014 and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

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

#### **Auditor's responsibility**

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

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

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

---

*PricewaterhouseCoopers LLP  
111 -5<sup>th</sup> Avenue SW, Suite 3100, Calgary, Alberta, Canada, T2P 5L3  
T: 403 509 7500, F403 781 1825, [www.pwc.com/ca](http://www.pwc.com/ca)*



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Walton Westphalia Development Corporation as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

---

*PricewaterhouseCoopers LLP*  
111 -5<sup>th</sup> Avenue SW, Suite 3100, Calgary, Alberta, Canada, T2P 5L3  
T: 403 509 7500, F403 781 1825, [www.pwc.com/ca](http://www.pwc.com/ca)

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Consolidated Statements of Financial Position

As at December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

	December 31, 2015	December 31, 2014
<b>ASSETS</b>	\$	\$
Land development inventory (note 4)	78,252,645	52,042,267
Interest rate cap (note 8)	260	38,527
Deferred financing and transaction costs (note 8)	1,271,131	1,396,409
Prepaid expenses	-	1,110
GST recoverable	-	242
Due from related party (note 5)	220,075	168,913
Restricted cash (note 6)	4,963,247	2,955,069
Cash	1,786,817	1,086,230
<b>TOTAL ASSETS</b>	<b>86,494,175</b>	<b>57,688,767</b>
<b>LIABILITIES</b>		
Debentures payable (note 7)	14,487,525	14,337,245
Interest debentures payable (note 7)	2,486,218	1,206,872
Project debt (note 8)	38,639,883	22,329,321
Derivative financial liability (note 8)	42,852	102,092
Deferred income tax liability (note 12)	1,702,614	362,457
Interest payable (note 7)	1,033,622	957,956
Provision for land development costs (note 9)	344,744	-
Deferred revenue (note 10)	1,176,697	1,015,777
Accounts payable and accrued liabilities	3,022,838	1,975,790
Due to related parties (note 5)	4,277,344	295,391
<b>TOTAL LIABILITIES</b>	<b>67,214,337</b>	<b>42,582,901</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 11)	13,988,912	13,988,912
Retained earnings (accumulated deficit)	927,899	(520,601)
Accumulated other comprehensive income	4,363,027	1,637,555
<b>TOTAL EQUITY</b>	<b>19,279,838</b>	<b>15,105,866</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>86,494,175</b>	<b>57,688,767</b>

Commitments (note 14)

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

Approved by the Board of Directors of the General Partner

(signed) "Donald Cormack" Director

(signed) "Jon Hagan" Director

Donald Cormack

Jon N. Hagan

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Consolidated Statements of Comprehensive Income For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

	December 31, 2015 \$	December 31, 2014 \$
<b>REVENUE</b>		
Land development sales	1,183,930	-
<b>COST OF SALES</b>		
Land development (note 4 and 9)	1,023,407	-
<b>GROSS MARGIN</b>	160,523	-
<b>OTHER INCOME/(EXPENSES)</b>		
Interest income	5,321	4,534
Management fees (note 5)	(559,552)	(559,552)
Marketing expense	(177,703)	(581,199)
Servicing fees (note 5)	(139,888)	(139,888)
Professional fees	(129,639)	(88,729)
Directors' fees (note 5)	(70,902)	(51,365)
Office and other expenses	(41,582)	(30,361)
<b>TOTAL INCOME/(EXPENSES)</b>	(1,113,945)	(1,446,560)
<b>LOSS BEFORE OTHER ITEMS</b>	(953,422)	(1,446,560)
Gain/(loss) on derivative financial liability revaluation	72,941	(87,898)
Gain/(loss) on interest rate cap revaluation	(42,226)	(106,952)
Foreign exchange gain	3,711,364	1,710,530
<b>TOTAL OTHER ITEMS</b>	3,742,079	1,515,680
<b>NET INCOME BEFORE TAXES</b>	2,788,657	69,120
Deferred tax (expense)/recovery (note 12)	(1,340,157)	56,550
<b>NET INCOME</b>	1,448,500	125,670
<b>OTHER COMPREHENSIVE INCOME</b>		
Cumulative translation gain	2,725,472	1,004,263
<b>COMPREHENSIVE INCOME</b>	4,173,972	1,129,933
Basic net income per share (note 11)	0.48	0.04
Diluted net income per share (note 11)	0.21	0.02

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

	Class A Voting Common Shares (note 11)		Class B Non-voting Common Shares (note 11)		Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total
	# of Shares	\$	# of Shares	\$	\$	\$	\$
JANUARY 1, 2014	100	100	3,017,170	13,988,812	(646,271)	633,292	13,975,933
Net income	-	-	-	-	125,670	-	125,670
Other comprehensive income	-	-	-	-	-	1,004,263	1,004,263
DECEMBER 31, 2014	100	100	3,017,170	13,988,812	(520,601)	1,637,555	15,105,866
Net income	-	-	-	-	1,448,500	-	1,448,500
Other comprehensive income	-	-	-	-	-	2,725,472	2,725,472
DECEMBER 31, 2015	100	100	3,017,170	13,988,812	927,899	4,363,027	19,279,838

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

	December 31, 2015 \$	December 31, 2014 \$
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Net income for the year	1,448,500	125,670
Adjustments for:		
Unrealized foreign exchange loss	(3,711,364)	(1,710,530)
Deferred income tax expense/(recovery)	1,340,157	(56,550)
Loss on interest rate cap revaluation	42,226	106,952
(Gain)/loss on derivative financial liability revaluation	(72,941)	87,898
Interest income	(5,321)	(4,534)
Changes in non-cash operating items		
Decrease in GST recoverable	242	318
Increase/(decrease) in due from related party	(18,516)	(61,826)
Decrease in prepaid expenses	1,110	175,732
(Decrease)/increase in deferred revenue	(32,454)	380,965
(Decrease)/increase in accounts payable and accrued liabilities	631,222	983,888
Increase in provision for land development costs	322,734	-
Increase in due to related parties	530,807	236,678
Increase in land development inventory	(9,553,676)	(10,706,178)
Decrease in deposits	-	1,755,463
Interest paid	(1,363,310)	(405,508)
Interest received	2,065	4,657
	<u>(10,438,519)</u>	<u>(9,086,905)</u>
<b>INVESTING ACTIVITIES</b>		
Increase in restricted cash	(1,328,463)	(382,861)
	<u>(1,328,463)</u>	<u>(382,861)</u>
<b>FINANCING ACTIVITIES</b>		
Advances from project debt	10,381,191	9,198,820
Project debt repayment	(984,294)	-
Advances from related parties	2,959,883	-
	<u>12,356,780</u>	<u>9,198,820</u>
Effect of exchange rate on cash	110,789	86,397
Increase/(decrease) in cash	<u>700,587</u>	<u>(184,549)</u>
Cash – Beginning of year	<u>1,086,230</u>	<u>1,270,779</u>
Cash – End of year	<u><u>1,786,817</u></u>	<u><u>1,086,230</u></u>
<b>SUPPLEMENTAL INFORMATION</b>		
Accretion related to Debentures payable capitalized to land development inventory	150,280	382,840
Deferred financing and transaction costs	394,786	348,868
Non-cash interest capitalized to land development inventory	3,199,810	2,488,274
Non-cash issuance of interest debentures	1,279,346	1,206,872
Accretion on project debt	666,702	-

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 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 (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 common share (“**Class B share**”) 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 – note 5), 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.

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

These consolidated financial statements were authorized for issue by the Board of Directors on April 12, 2016.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

## 2. BASIS OF PREPARATION

### Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared in full compliance with International Financial Reporting Standard (“**IFRS**”) and using accounting policies that are consistent with IFRS as issued by the International Accounting Standard Board (“**IASB**”). The accounting policies used in preparation of these financial statements are consistent with those which are disclosed in the Corporation’s audited financial statements for the year ended December 31, 2014.

### Basis of Presentation

The Corporation’s 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 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

### Use of Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and equity at the date of the consolidated financial statements, and the reported amounts of revenue 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 net recoverable value of land development inventory to differ materially from the carrying amount.

Deferred tax asset - In assessing the amount of deferred tax asset to recognize, significant judgment is required in determining 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 asset to be recovered to differ materially from the carrying amount.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

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**") rates.

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 recognized 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. The Westphalia development project ("**Project**") will be active throughout the period of capitalization and will take 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.

Provision for land development costs - In estimating the amount of the provision to be recognized for land development costs, significant judgment is required in estimating the costs required to complete the development of lots for which revenue has been recognized. These estimates are based on internal 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 of completed lot sales, significant judgment is required in estimating each lot's proportionate share of land development inventory, as well as any remaining costs to complete the development of the lots sold. Changes in these estimates and assumptions could cause the actual cost of each lot sold to differ materially from the cost of sales recognized at the time that revenue was recognized.

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 recognize an additional provision for WWE's proportion of the obligation if it was determined to be probable that an economic outflow of resources would be required.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

### Consolidation

The consolidated financial statements include the financial statements of the Corporation and the U.S. Subsidiary. The U.S. Subsidiary is controlled by the Corporation. Control exists as the Corporation has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns, to an extent generally accompanying a shareholding that confers more than half of the voting rights. The U.S. Subsidiary was included in the consolidated financial statements of the Corporation from the date control of the U.S. Subsidiary commenced and will continue until the date that control ceases. Intercompany transactions and balances are eliminated on consolidation.

### Investment in Joint Operations

Where the Corporation undertakes its activities as a joint operation through a direct interest in the joint operation's assets and a direct obligation for the joint operation's liabilities, rather than through the establishment of a separate entity, the Corporation's proportionate share of the joint operation's assets, liabilities, revenues, expenses and cash flow are recognized in the consolidated financial statements and classified according to their nature.

### Foreign Currency Translation

The Corporation accounts for foreign exchange translation in accordance with International Accounting Standards ("**IAS**") 21: The Effects of Changes in Foreign Exchange Rates. Items included in the consolidated financial statements of the Corporation and its U.S. Subsidiary are measured using the currency of the primary economic environment in which the individual entity operates (the "**Functional Currency**"). The Corporation's Functional Currency is the Canadian dollar while the U.S. Subsidiary's Functional Currency is the U.S. dollar. These consolidated financial statements are presented in Canadian dollars, the Corporation's Functional Currency.

#### (a) Foreign Currency Transactions

Transactions completed in a currency other the Functional Currency are translated into the Functional Currency using the foreign currency exchange rate prevailing at the time of the transaction. Each reporting period, monetary assets and liabilities denominated in foreign currencies are translated in the statement of financial position at the foreign currency exchange rates prevailing at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the historical foreign currency exchange rate at the date of the transaction.

#### (b) Translation to the Presentation Currency

The U.S. Subsidiary's Functional Currency is the U.S. dollar, however the presentation currency for the consolidated financial statements is the Canadian dollar. As a result, the financial statements of the U.S. Subsidiary are required to be translated into the Canadian dollar presentation currency before they can be consolidated with the Corporation's Canadian dollar financial statements. The financial statements of the U.S. Subsidiary are translated into the Canadian dollar using the following procedures:

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

- (i) revenues and expenses for each statement of comprehensive income and loss are translated using the average foreign currency exchange rate for the year;
- (ii) assets and liabilities for each statement of financial position are translated using the foreign currency exchange rate prevailing at the reporting date;
- (iii) exchange difference resulting from the Corporation's net investment in U.S. Subsidiary is recognized within Other Comprehensive Income/ (Loss) ("OCI") and accumulated in Accumulated Other Comprehensive Income/ (Loss) ("AOCI"). Exchange difference on intercompany loans which does not form part of the net investment in the U.S. Subsidiary is recognized in earnings; and
- iv) all amounts previously recognized in AOCI are recognized in net earnings when there is a reduction in the net investment as a result of a disposal, partial disposal or loss of control.

### Land Development Inventory

Land development inventory consists of land held for development and land development costs. Land development inventory is acquired or constructed for sale in the ordinary course of business and is held as inventory and measured at the lower of cost and net realizable value. The land is recorded at the acquisition cost, which is based on the price paid by the Corporation for the Property. All direct costs related to land development are capitalized to land development inventory. These costs include, but are not limited to, construction costs, consultant costs, project management fees, property taxes and borrowing (financing) costs such as interest on debt specifically related to the land development inventory, but excludes marketing and general and administrative overhead expenses. Land development inventory is then relieved through cost of sales proportionately, based on the discounted sale price of each lot.

Where the carrying amount exceeds the net realizable value, the difference is recognized as an impairment loss. If in a future period, the net realizable value of the land development inventory increases, the impairment is reversed up to the original cost of the inventory.

### Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The Corporation considers land development inventory to be a qualifying asset.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Borrowing costs on debt not directly attributable to the acquisition, construction or production of qualifying assets are expensed.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

### Financing and Transaction Costs

Issuance costs of project debt obligations are capitalized against the associated debt and amortized using the effective interest method. Issuance costs incurred on debt that is fully expected to be utilized and that has not been drawn upon are deferred until draws are made, at which point a pro rata share of the deferred costs are capitalized against the associated debt and amortized using the effective interest method. Issuance costs incurred on the portion of facilities not expected to be drawn are amortized over the related life of the facility.

### Financial Instruments

Financial instruments are any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged.

Financial instruments are recognized initially at fair value, which 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.

At each reporting period, the Corporation will assess whether there is any objective evidence that a financial asset, other than those classified as fair value through profit or loss, is impaired. Impairment, if any, is recorded in net income.

Financial assets and liabilities designated upon initial recognition at fair value through profit or loss are initially measured at fair value with subsequent changes in fair value recorded in net income.

The following table lists the Corporation's financial instruments and the method of measurement subsequent to initial recognition:

Financial Instrument	Category	Measurement Method
Interest rate cap	At fair value through profit or loss	Fair value
Due from related party	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Debentures payable	Other financial liabilities	Amortized cost
Interest Debentures payable	Other financial liabilities	Amortized cost
Project debt	Other financial liabilities	Amortized cost
Derivative financial liability	At fair value through profit or loss	Fair value
Interest payable	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

### Cash

Cash consists of amounts in demand deposits at financial institutions.

### 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 majority of the costs are expected to be utilized within one year.

### Debentures Payable

Debentures payable consist of the Corporation's Debentures. As the Debentures are convertible at the option of the Corporation, the full amount of the Debentures are recorded as a financial liability and are initially recorded at fair value and subsequently at amortized cost using the effective interest rate method.

The Debentures issued by the Corporation are extendable at the option of the Corporation for a period of two years. This extension feature is a loan commitment under International Accounting Standard 39: Recognition and Measurement ("**IAS 39**"), and as a result, no asset or liability has been recognized in respect of this option.

### Share Capital

Class A voting common shares ("**Class A shares**") have been classified as equity because they represent residual assets of the Corporation after the deduction of all its liabilities, and do not provide the holder of the shares with the right to put the shares back to the Corporation.

Class B shares issued by the Corporation have been classified as equity because the shares represent a residual interest in the Corporation after the payment of all its liabilities, and do not provide the holder of the shares with the right to put the shares back to the Corporation. Costs directly attributable to the issuance of such shares are recognized as a deduction from equity, net of tax.

### Earnings Per Share

The earnings per share are based on the weighted average number of Class B shares outstanding during the year. Diluted earnings per share are calculated to reflect the dilutive effect, if any, of the Debentures and Interest Debentures being converted into Class B shares of the Corporation.

### 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

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

Customer deposits received for purchases 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 when 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 estimated phase specific costs being allocated proportionately based on the net yield of each lot in that phase, estimated general costs being allocated proportionately based on the net yield of each lot that will benefit from the general costs, and 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 the costs incurred to date and the related provision for land development costs for costs to complete the development of lots for which revenue is recognized.

### Current and Deferred Income Tax

Income tax expense for the year comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

The deferred income tax method is used to account for income taxes. Under this method, deferred income taxes are recognized for the deferred income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis. Deferred income tax assets and liabilities are measured using tax rates that have been enacted, or substantively enacted, by the date of the financial statements and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The effect on deferred income tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment date. Deferred income tax assets are recognized to the extent they are more likely than not of being realized.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

### Future Changes in Accounting Policies

#### Financial instruments

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

#### Revenue from contracts with customers

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

## 4. LAND DEVELOPMENT INVENTORY

	December 31, 2015 \$	December 31, 2014 \$
BALANCE – BEGINNING OF YEAR	52,042,267	34,192,040
Development costs	13,806,331	11,516,829
Cost of sales	(597,894)	-
Effect of change in foreign exchange rates	13,001,941	6,333,398
BALANCE – END OF YEAR	<u>78,252,645</u>	<u>52,042,267</u>

During the year ended December 31, 2015, \$5,259,118 (December 31, 2014 - \$3,298,989) of interest was capitalized to development costs.

Land development inventory is relieved through cost of sales at the time that revenue from lot sales is recognized. It is not possible for management to reasonably estimate the portion of land development inventory that will be realized within the next twelve months, as the timing of lot sales is subject to uncertainty based on market demand.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

### 5. RELATED PARTY TRANSACTIONS

See notes 1, 7, 8, 11, 13, 14, and 15 for additional disclosures relating to certain related parties and other related party transactions.

WAM, Walton International Group Inc. (“WIGI”), WDM, WWE, Walton International Group (USA), Inc. (“WUSA”) and WUSF 1 Westphalia, LLC (“WUSF”) are all related to the Corporation by virtue of the fact that they are all controlled by WGI. With the exception of the loans due to WIGI and WUSA, the amounts payable to WAM for the management and servicing fee and the amounts payable to WDM for the development fee, all amounts receivable from related parties and payable to related parties are unsecured, due on demand, bear no interest and have no fixed terms of repayment.

The balance due from a related party as at December 31, 2015, is outlined in the table below:

	December 31, 2015 \$	December 31, 2014 \$
WUSF 1 Westphalia, LLC	220,075	168,913
TOTAL DUE FROM RELATED PARTY	<u>220,075</u>	<u>168,913</u>

#### WUSF 1 Westphalia, LLC.

On February 27, 2012, WUSF entered into a cost sharing agreement with the U.S. Subsidiary for costs incurred for roadway improvements in accordance with pre-approved plans on both the Property owned by Corporation and property owned by WUSF. Either WUSF or the U.S. Subsidiary may elect to construct any of the required improvements by providing notice to the other party of its intent to do so, and each non-constructing party shall acknowledge receipt of any such commencement notice. Each non-constructing party shall reimburse the constructing party for any costs and expenses related to the non-constructing party’s property via an invoice delivered to the non-constructing party. The proportion of costs for each party to this agreement is determined pro rata in proportion to that party’s property interest in accordance with an allocation of property interest schedule within the cost-sharing agreement.

During the year ended December 31, 2015, the Corporation incurred \$52,402 (December 31, 2014 – \$219,394) in costs under the cost sharing agreement with WUSF. During the year ended December 31, 2015, the Corporation received \$nil (December 31, 2014 - \$145,806) from WUSF in relation to these costs.

#### Walton Westphalia Europe, LP

On August 20, 2012, U.S. Subsidiary and WWE entered into a co-ownership agreement for the purpose of setting forth their respective rights and obligations in connection with certain matters related to the Property. In accordance with this agreement, U.S. Subsidiary and WWE (a) hold the Property as an investment, develop the Property and sell the Property in lots or parcels; (b) own and sell their respective participating interest; (c) provide for the management

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

of the Property and utilize funds for the benefit of the owners for the purposes of operating, managing, developing and maintaining the Property; and (d) perform other activities as may be incidental or ancillary to or arise from the foregoing purposes as may be reasonably determined by U.S. Subsidiary. Under this agreement, all benefits, advantages, losses and liabilities derived from or incurred in respect of the Property from time to time shall be borne by U.S. Subsidiary and WWE in proportion to their respective participating interests as at the time they were derived or incurred. There were no transactions under this agreement that occurred during the year ended December 31, 2015 and 2014.

The balances due to related parties as at December 31, 2015, are outlined in the table below:

	December 31, 2015 \$	December 31, 2014 \$
Walton International Group (USA), Inc.	3,487,612	-
Walton Asset Management L.P.	699,440	176,297
Walton Development & Management (USA), Inc.	71,328	112,594
Walton International Group Inc.	18,964	6,500
<b>TOTAL DUE TO RELATED PARTY</b>	<u><u>4,277,344</u></u>	<u><u>295,391</u></u>

### Walton International Group (USA), Inc.

The Corporation has a USD\$4.1 million subordinate loan facility with WUSA, 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 Loan and Mezzanine Loan described in note 8.

	December 31, 2015 \$	December 31, 2014 \$
BALANCE – BEGINNING OF YEAR	-	-
Advances	2,959,883	-
Interest incurred	199,786	-
Effect of change in foreign exchange rates	272,343	-
<b>BALANCE – END OF YEAR</b>	<u><u>3,432,012</u></u>	<u><u>-</u></u>

During the year ended December 31, 2015, WUSA incurred \$55,600 (December 31, 2014 - \$nil) in costs initially funded by WUSA on the Corporation's behalf.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

### Walton Asset Management L.P.

On February 27, 2012, the Corporation and WAM entered into a Management Services Agreement where WAM will provide certain management related 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, an amount equal to 2% annually of the aggregate of the net proceeds raised from the IPO and Private Placement offerings, paid quarterly at the end of each fiscal calendar quarter; and
- ii. for each calendar quarter after April 1, 2019, until the date of the termination of the Management Services Agreement, an amount to be paid on the last day of the quarter equal to 0.5% of the book value of the Property at the end of the previous fiscal quarter.

Management fees of \$559,552 (December 31, 2014 - \$559,552) were incurred during the year ended December 31, 2015. Total management fees paid to WAM were \$141,037 (December 31, 2014 - \$418,514).

Also in accordance with the Management Services Agreement, commencing on September 30, 2012, and continuing until the earlier of the dissolution of the Corporation and December 31, 2018, the Corporation will pay to WAM a servicing fee equal to 0.50% annually of the net proceeds for each Unit sold under the IPO and Private Placement offerings. WAM is then responsible for paying the servicing fee to the Corporation's agents in accordance with the Agency Agreements between the agents under the IPO and Private Placement, WAM, WDM and the Corporation. The servicing fee is calculated from the date of the applicable closing, calculated semi-annually and paid as soon as practicable after that date.

During the year ended December 31, 2015, \$139,888 (December 31, 2014 - \$139,888) were incurred in relation to servicing fees. Total servicing fees paid to WAM were \$35,260 (December 31, 2014 - \$104,629).

The balance payable to WAM as at December 31, 2015 was in respect of the management fees and servicing fees. Notwithstanding the payment terms for such fees, due to cash constraints of the Corporation, management has communicated to WAM that it does not expect to make payments for the management fees and servicing fees until such time that the Corporation has sufficient capital for the payment of such amounts. WAM has indicated that it will continue to provide its services as manager of the Corporation and to fund the servicing fee on behalf of the Corporation. All amounts that exceed the regular payment terms are due on demand and bear no interest.

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

On February 27, 2012, U.S. Subsidiary, WDM, Walton Maryland LLC and the Corporation entered into a Project Management Agreement. In accordance with the terms of the Project Management Agreement, 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; and
- 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 \$10.00 per Unit,

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

plus a cumulative compound priority return of 8% per annum. The priority return is calculated on the \$10.00 amount per unit, reduced by any cash payments or distributions by the Corporation.

The term of the Project Management Agreement will continue until the latest of the date (i) that the whole of the Property has been sold by or on behalf of the owners thereof to one or more third party purchasers; and (ii) upon which the parties to the Project Management Agreement have satisfied their obligations under the development agreements with respect to the Property.

During the year ended December 31, 2015, the Corporation incurred \$267,474 (December 31, 2014 – \$223,359) in relation to the development fees. The development fees are capitalized to land development inventory as incurred. During the year ended December 31, 2015, the Corporation paid development fees of \$331,706 (December 31, 2014 - \$161,175).

No performance fee was incurred by the Corporation during the year ended December 31, 2015 and December 31, 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.

During the year ended December 31, 2015, the Corporation incurred a total amount payable to WDM of \$7,303 (December 31, 2014 - \$12,883) in costs initially incurred by WDM on the Corporation's behalf. The total amount paid to WDM for amounts incurred on the Corporation's behalf was \$5,410 (December 31, 2014 - \$12,883) during the year ended December 31, 2015.

### Walton International Group Inc.

During the year ended December 31, 2015, the Corporation incurred \$12,464 (December 31, 2014 - \$7,498) in costs initially funded by WIGI on the Corporation's behalf. The total costs paid to WIGI for amounts funded on the Corporation's behalf during the year ended December 31, 2015 was \$nil (December 31, 2014 - \$1,967).

### 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:

	December 31, 2015	December 31, 2014
	\$	\$
Directors' fees	<u>70,902</u>	<u>51,365</u>

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

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 December 31, 2015, is outlined in the table below.

	December 31, 2015 \$	December 31, 2014 \$
Funds pledged as security for the senior loan	2,315,891	1,939,292
Cost Overrun	1,470,659	-
Customer deposits (note 10)	1,176,697	1,015,777
	<u>4,963,247</u>	<u>2,955,069</u>

The cost overrun contains funds deposited by the Corporation for forecasted project cost overruns to be incurred during the 1<sup>ST</sup> quarter 2016 (Note 8). 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

Debentures payable are comprised of the Debentures which were issued by the Corporation as part of the IPO and Private Placement offerings. The total number of Debentures outstanding as at December 31, 2015 was 3,017,170 (December 31, 2014 – 3,017,170).

During 2015, \$1,279,346 (December 31, 2014 - \$1,206,872) of Interest Debentures were issued to holders of Debentures and Interest Debentures to settle the interest payable due as at March 31 of the current year.

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 on both Debentures and Interest Debentures 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, or interest under, the Debentures or Interest Debentures into Class B shares.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

The Debentures and Interest Debentures may be converted by the Corporation into the number of Class B shares obtained by dividing the principal amount of the Debentures and Interest Debentures by the current fair value of Class B shares.

The following table reconciles the change in Debentures payable:

	December 31, 2015 \$	December 31, 2014 \$
BALANCE – BEGINNING OF YEAR	14,337,245	14,200,426
Accretion on Debentures	150,280	136,819
BALANCE – END OF YEAR	<u>14,487,525</u>	<u>14,337,245</u>

The following table reconciles the change in Interest Debentures payable:

	December 31, 2015 \$	December 31, 2014 \$
BALANCE – BEGINNING OF YEAR	1,206,872	-
Interest Debentures issued	1,279,346	1,206,872
BALANCE – END OF YEAR	<u>2,486,218</u>	<u>1,206,872</u>

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

	December 31, 2015 \$	December 31, 2014 \$
BALANCE – BEGINNING OF YEAR	957,956	909,288
Accrued interest on the Debentures	1,206,868	1,206,868
Accrued interest on the Interest Debentures	148,144	48,672
Settlement of interest through issuance of Interest Debentures	(1,279,346)	(1,206,872)
BALANCE – END OF YEAR	<u>1,033,622</u>	<u>957,956</u>

As at December 31, 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 Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

### 8. PROJECT DEBT

The following table provides a continuity of the project debt:

	Senior Loan	Mezzanine Loan	Total
	\$	\$	\$
BALANCE – JANUARY 1, 2014	3,656,282	6,859,449	10,515,731
Advances, net of transaction costs	9,032,392	-	9,032,392
Interest incurred	427,875	1,232,734	1,660,609
Interest paid	(427,875)	-	(427,875)
Accretion on debt	89,155	156,866	246,021
Effect of changes in foreign exchange rates	615,256	687,187	1,302,443
BALANCE – DECEMBER 31, 2014	13,393,085	8,936,236	22,329,321
Advances, net of transaction costs	10,007,542	-	10,007,542
Payment on loan	(876,116)	(108,178)	(984,294)
Interest incurred	1,242,326	1,645,012	2,887,338
Interest paid	(1,242,326)	(120,984)	(1,363,310)
Accretion on debt	479,232	187,470	666,702
Effect of changes in foreign exchange rates	3,277,479	1,819,105	5,096,584
BALANCE – DECEMBER 31, 2015	26,281,222	12,358,661	38,639,883

The following table provides a summary of the project debt balances outstanding as at December 31, 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	26,281,222	8,315,524	34,596,746
Interest payable	-	4,043,137	4,043,137
BALANCE – DECEMBER 31, 2015	26,281,222	12,358,661	38,639,883

#### Senior Loan

The senior loan facility ("**Senior Loan**") 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 WWE. Interest incurred is capitalized to land development inventory.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

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 December 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. During 2015, the U.S. Subsidiary and WWE collectively amended the Senior Loan to address project cost over runs. A cost over run bank account was established with the Senior lender in which \$500,000 USD was deposited as a reserve. Subsequently, at the end of each following quarter, the U.S. Subsidiary and WWE collectively deposit funds in the amount of projected cost over runs to be incurred during the next 3 month period. 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, 2015, the interest rate floor is in effect since LIBOR plus 5.1% was less than 6.2% per annum.

On June 6, 2013, an interest rate cap was purchased to mitigate the interest rate risk on the Senior Loan. The interest rate cap, caps the LIBOR on the notional amount of \$39,000,000 USD as follows:

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

The balance on the interest rate cap as at December 31, 2015 is outlined in the table below.

	December 31, 2015	December 31, 2014
	\$	\$
Interest rate cap purchase price	182,527	182,527
Interest rate cap revaluation	(199,620)	(157,661)
Effect of change in foreign exchange rates	17,353	13,661
<b>FAIR VALUE OF INTEREST RATE CAP</b>	<b>260</b>	<b>38,527</b>

The Senior Loan contains an interest rate floor of 6.2%. At the time that the first draw was made on the Senior Loan, the floor rate of 6.2% exceeded the Senior loan's rate of LIBOR plus 5.1%. Therefore, an embedded derivative resulted which requires that the value of the interest rate floor be separated from the carrying value of project debt. The interest rate floor is accounted for as a separate derivative financial liability measured at fair value with gains and losses on re-measurement included in profit and loss in the period in which they arise. As of December 31, 2015, the fair value of the interest rate floor has been recorded at \$42,852 (December 31, 2014 - \$102,092).

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

The balance on the derivative financial liability as at December 31, 2015 is outlined in the table below.

	December 31, 2015 \$	December 31, 2014 \$
Derivative financial liability initial measurement	147,746	101,002
Derivative financial liability revaluation	(129,034)	5,582
Effect of change in foreign exchange rates	24,140	(4,492)
<b>FAIR VALUE OF INTEREST RATE FLOOR</b>	<b>42,852</b>	<b>102,092</b>

WGI entered into an agreement with the lender of the Senior Loan which guarantees that WWE and 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 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 files for bankruptcy or takes advantage of other laws protecting debtors. The CEO of WGI has also provided a personal guarantee for the Senior Loan in certain limited circumstances.

During 2015, certain conditions concerning deadlines for the delivery of the guarantor 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. The Corporation was in breach of the terms of the loan agreement as at December 31, 2015, due to the guarantor being in breach of the financial covenant requiring a minimum cash balance of \$25 million. This would constitute a potential event of default, which would allow the lenders to demand immediate repayment of amounts owing from the Corporation if an event of default was called. The Corporation has not been issued with any notice of default under the loan facility. The Corporation was in compliance with all other conditions under the Senior Loan at December 31, 2015.

### Mezzanine Loan

On June 6, 2013, the U.S. Subsidiary and WWE collectively entered into a 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. Interest is capitalized to land development inventory. 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.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

The Corporation was in compliance with all conditions under the Mezzanine Loan as at December 31, 2015. All these conditions are non-financial in nature.

WGI has provided a guarantee with the lenders of the Mezzanine Loan that the U.S. Subsidiary will complete the development of the Project and fund all 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 for bankruptcy or take advantage of other laws protecting debtors.

During the year ended December 31, 2013, the Corporation incurred financing and transaction costs of \$388,031 on the origination of the Mezzanine Loan and \$1,771,917 on the origination of the Senior Loan. As the Mezzanine Loan is fully drawn, all financing and transaction costs have been netted against the principal and are amortized using the effective interest rate into land development inventory. As only 44.87% (December 31, 2014 – 27.75%) of the Senior Loan has been drawn upon at December 31, 2015, the Corporation has netted a pro rata share of the financing and transaction costs incurred against the loan and has deferred the remaining portion as an asset on the statement of financial position to be netted against future draws.

The amounts of deferred financing and transaction costs as at December 31, 2015 are as follows:

	December 31, 2015 \$	December 31, 2014 \$
BALANCE – BEGINNING OF YEAR	1,396,409	1,616,216
Transfer to Senior loan	(394,786)	(348,868)
Effects of changes in foreign exchange rates	269,508	129,061
BALANCE – END OF YEAR	<u>1,271,131</u>	<u>1,396,409</u>

## 9. PROVISION FOR LAND DEVELOPMENT COSTS

The following table reconciles the change of the provision for land development costs:

	December 31, 2015 \$	December 31, 2014 \$
BALANCE – BEGINNING OF YEAR	-	-
Additional provisions	425,513	-
Less actual costs incurred during the year	(123,638)	-
Effects of change in foreign exchange rates	42,869	-
BALANCE – END OF YEAR	<u>344,744</u>	<u>-</u>

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

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 incurred within one year.

### 10. DEFERRED REVENUE

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

### 11. SHARE CAPITAL

Authorized:

- Unlimited Class A voting common Shares
- Unlimited Class B non-voting common Shares

Outstanding:

	December 31, 2015		December 31, 2014	
	Number of shares	Amount \$	Number of shares	Amount \$
Class A shares	100	100	100	100
Class B shares	3,017,170	15,085,850	3,017,170	15,085,850
Share issuance costs	-	(1,097,038)	-	(1,097,038)
	<u>3,017,270</u>	<u>13,988,912</u>	<u>3,017,270</u>	<u>13,988,912</u>

All Class A shares of the Corporation are held by 1389211 Alberta Ltd., a wholly owned subsidiary of WIGI. WIGI is a wholly owned subsidiary of WGI. All or substantially all of the shares of WGI are owned by or for the benefit of members of the Doherty family, including William K. Doherty, the Chief Executive Officer and director of WGI.

As at December 31, 2015 and December 31, 2014, WIGI owned approximately 6.3% of the outstanding Class B Shares of the Corporation.

#### Per Share Amount

Basic net income per share is calculated by dividing the Corporation's net income (prior to other comprehensive income) by the weighted average number of shares outstanding. The 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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

losses of the Corporation. The weighted average number of Class B shares outstanding for the year ended December 31, 2015 and December 31, 2014 was 3,017,170.

As the Corporation has the right to convert any portion of the Debentures and Interest Debentures 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 year ended December 31, 2015, the potentially dilutive Class B shares were 3,721,138 (December 31, 2014 – 3,450,136).

The dilutive impact of the convertible debentures has been determined using a fair value of the Class B shares of \$5.00 per share. To effect a + 0.01 change in diluted earnings per share, the fair value of the Class B shares would need to change by 109% or \$0.44 per share (December 31, 2014 – 275% or \$8.77). To effect a - 0.01 change in diluted earnings per share, the fair value of the Class B shares would need to change by 92% or \$0.41 per share (December 31, 2014 – 33% or \$3.33).

### Share Issuance Price

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

The issued and outstanding Class B shares 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:

	December 31, 2015 \$	December 31, 2014 \$
Consolidated net income before tax	2,788,657	69,120
Applicable tax rate	26%	25%
Expected tax expense	<u>725,051</u>	<u>17,280</u>
Increase/(decrease) in income taxes resulting from:		
Effect of rate change	(21,941)	-
Impact of tax rate in foreign jurisdiction	441,720	(21,207)
Change in deferred tax asset not recognized	195,327	(52,623)
DEFERRED TAX EXPENSE/(RECOVERY)	<u>1,340,157</u>	<u>(56,550)</u>

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

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

	December 31, 2015 \$	December 31, 2014 \$
Share issuance costs	59,887	110,303
Non-capital losses	853,775	551,666
Timing difference on interest expense	498,356	393,070
Timing difference on accretion of debentures	131,628	84,308
Unrealized gain on foreign exchange	(2,599,105)	(1,125,309)
Debenture issuance costs	(236,313)	(163,956)
Other	330,232	333,207
Unrecognized deferred tax asset	(741,074)	(545,746)
NET DEFERRED TAX LIABILITY	<u>(1,702,614)</u>	<u>(362,457)</u>

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 a result of a foreign exchange gain in the US \$3,711,364 (December 31, 2014 - \$1,710,530) which has not been recognized.

The unused non-capital losses of \$3,162,131 will expire as follows:

	\$
2032	847,219
2033	647,600
2034	711,846
2035	955,466
	<u>3,162,131</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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

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

The fair value of Debentures payable, Interest Debentures payable, and project debt are determined using the income approach, primarily making use of level 3 (unobservable) inputs. Using the income approach, the expected future cash commitments arising from these financial liabilities are discounted by the Corporation's market rate. As at December 31, 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 December 31, 2015 and December 31, 2014:

DECEMBER 31, 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	260	-	-	-	260	260
Due from related party	-	-	220,075	-	220,075	220,075
Restricted cash	-	-	4,963,247	-	4,963,247	4,963,247
Cash	-	-	1,786,817	-	1,786,817	1,786,817
Debentures payable	-	-	-	(14,487,525)	(14,487,525)	(14,487,525)
Interest Debentures payable	-	-	-	(2,486,218)	(2,486,218)	(2,486,218)
Project debt	-	-	-	(38,639,883)	(38,639,883)	(38,639,883)
Derivative financial liability	-	(42,852)	-	-	(42,852)	(42,852)
Interest payable	-	-	-	(1,033,622)	(1,033,622)	(1,033,622)
Accounts payable and accrued liabilities	-	-	-	(3,022,838)	(3,022,838)	(3,022,838)
Due to related parties	-	-	-	(4,277,344)	(4,277,344)	(4,277,344)
	260	(42,852)	6,970,139	(63,947,430)	(57,019,883)	(57,019,883)

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

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 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)	\$38,713	\$115,795	\$192,418
Interest Debentures payable (8% interest per annum)	\$5,668	\$16,962	\$28,199
Mezzanine Loan (15% interest per annum)	\$7,828	\$23,450	\$39,029

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

### Risk – overview

The Corporation's financial instruments and the nature of the risks to which they may be subject are as set out in the following table:

	RISK			
	CREDIT	LIQUIDITY	INTEREST RATE	CURRENCY
Interest rate cap			X	
Due from related party	X			X
Restricted cash	X		X	
Cash	X		X	X
Debentures payable		X	X	
Interest Debentures payable		X	X	
Project debt		X	X	X
Derivative financial liability			X	
Interest payable		X	X	
Accounts payable and accrued liabilities		X		
Due to related parties		X		X

#### i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash held with banks, including restricted cash and due from related party. The maximum exposure to credit risk is equal to the carrying value of these financial instruments.

Due from related party - The balance of due from related parties are short-term in nature and are under the terms of the cost sharing agreement (note 5). As a result, the Corporation's exposure to credit risk from due from related parties is not significant.

Restricted cash and cash – Restricted cash and cash are each on deposit with financial institutions, which is intended to minimize its exposure of cash to credit risk.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

### ii) Liquidity risk

Liquidity risk arises on the land development inventory as the Property would be difficult to liquidate quickly. If the Corporation is unable to sell the Property, the Corporation may encounter difficulties in meeting its financial obligations as they become due. Financial liabilities subject to liquidity risk includes project debt, Debentures, Interest Debentures, interest payable, accounts payable and accrued liabilities and due to related parties. The Corporation manages its liquidity risk by:

- Monitoring the economic environment and lot absorption rates in nearby developments;
- Monitoring forecast and actual cash flows associated with the development;
- Maintaining project debt and related party financing facilities to cover development costs.

The future undiscounted obligations of the Corporation as at December 31, 2015 are as follows:

	2016	2017	2018	2019	2020 and thereafter
	\$	\$	\$	\$	\$
Debentures payable	-	-	-	15,085,850	-
Interest Debentures payable	-	-	-	2,486,218	-
Interest payable	1,422,882	1,438,013	1,447,606	356,523	-
Project debt	3,483,235	43,574,467	-	-	-
Accounts payable and accrued liabilities	3,022,838	-	-	-	-
Due to related parties	1,167,254	377,521	377,521	377,521	3,463,472
<b>Total</b>	<b>9,096,209</b>	<b>45,390,001</b>	<b>1,825,127</b>	<b>18,306,112</b>	<b>3,463,472</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 December 31, 2015, this amount is \$6,595,105 (December 31, 2014 - \$3,868,240).

### iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The financial instruments of the Corporation which give rise to interest rate risk are as follows:

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

Cash - Changes in market interest rates will cause fluctuations in the future interest earned on cash balances. Any resulting impact on the Corporation's financial results would not be considered material.

Debentures payable, Interest Debentures payable and interest payable - The Debentures payable, Interest Debentures payable and interest payable have a fixed 8% interest rate and as a result, do not expose the Corporation to any interest rate risk. The fair value of Debentures payable and Interest Debentures payable may fluctuate from time to time due to changes in market interest rates. Since the holders of the Debentures and Interest Debentures are also the holders of Class B Shares of the Corporation, management does not plan on taking any action to address any interest rate differential between the stated interest rate on the Debentures, the Interest Debentures and market interest rates because this has no impact on the overall investment objectives of the Corporation.

Project debt, interest rate cap and derivative financial liability – The Corporation is exposed to interest rate risk on its Senior Loan which is based on LIBOR (note 8). Within the Senior Loan is an interest rate floor which has been classified as a derivative financial liability. This ensures that a minimum interest rate is charged on the Senior Loan. In order to mitigate the maximum interest rate risk on the Senior Loan the Corporation entered into an interest rate cap (note 8).

#### iv) Currency risk

Foreign exchange 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 U.S. dollars. The Corporation recorded a translation gain on foreign exchange related to land development costs of \$13,001,941 for the year ended December 31, 2015, and \$6,333,398 for the year ended December 31, 2014.

At December 31, 2015, if the Canadian dollar had strengthened or weakened by 10% against the U.S. dollar with all other variables held constant, net income for the year would have changed by \$1,567,784 mainly as a result of foreign exchange losses on translation of U.S. dollar denominated project debt and accounts payable and accrued liabilities compensated by foreign exchange gains on translation of U.S. dollar denominated cash and restricted cash.

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 December 31, 2015, the Corporation did not have any outstanding foreign currency forward contracts.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

### 14. COMMITMENTS

The following table presents future commitments of the Corporation under the Management Services Agreement (note 5). It does not include the development fee or the performance fee payable to WDM under the Project Management Agreement, which can not be reasonably estimated at this time.

	Servicing fee	Management fee	Total
	\$	\$	\$
2016	139,888	559,552	699,440
2017	139,888	559,552	699,440
2018	139,888	559,552	699,440
2019	-	137,972	137,972
	<u>419,664</u>	<u>1,816,628</u>	<u>2,236,292</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 2014, the Corporation provided the Washington Suburban Sanitary Commission with two bonds totalling US \$7,583,558 which are used as construction guarantees.

### 15. CAPITAL MANAGEMENT

The Corporation defines capital as total Shareholders' Equity, Debentures payable, Interest Debentures payable, Project Debt and Due to Related Parties. At December 31, 2015, the total capital managed was \$79,170,808 (December 31, 2014 - \$53,274,695).

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 to the 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, available through construction loan facilities or is available through agreements with related parties. The Corporation may elect to use Interest Debentures to settle Debenture and Interest Debenture interest payments and has the ability to convert Debentures and Interest Debentures into Class B shares if needed to maintain adequate capital levels. 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.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

---

## Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

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

The Corporation was in compliance with all conditions under the Senior and Mezzanine Loans as at December 31, 2015. The conditions are all non-financial in nature.