

# MANAGEMENT'S DISCUSSION & ANALYSIS

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

April 12, 2016

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

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

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

## FORWARD-LOOKING STATEMENTS

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

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

## RESPONSIBILITY OF MANAGEMENT

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

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

## APPROVAL BY THE BOARD OF DIRECTORS

This MD&A was authorized for issue by the Board of Directors ("**Board**") on April 12, 2016.

## BUSINESS OVERVIEW

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

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

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

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

The Corporation's original investment objectives were to:

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

While management has had to adjust such objectives for those reasons discussed below, the Corporation still intends to preserve the capital investment of the purchasers of Units in the Corporation and provide cash distributions on the Units by executing the following three-step investment strategy:

- i) obtain letters of intent or expressions of interest from vertical developers and other end users to purchase lots and parcels to be serviced in each of the three planned phases of the development of the Property before construction commences on that phase;
- ii) construct municipal services infrastructure on the Property in phases to provide a controlled supply of serviced lots and parcels to the marketplace; and
- iii) use the revenue from the sale of the serviced lots and parcels to repay construction loans and other obligations of the Corporation and the U.S. Subsidiary and then pay the remainder to the holders of the

Debentures and Class B shares by paying the interest and principal on the Debentures and by declaring a dividend or dividends on the Class B shares and/or winding up the Corporation and distributing its assets to the holders of the Class B shares.

Although management expects that the execution of the investment strategy will allow the Corporation to pay such distributions, distributions by the Corporation are neither guaranteed nor will they be paid in a steady or stable stream, as evidenced by the past issuance of further debentures of the Corporation (“**Interest Debentures**”) in lieu of cash interest payments on the Debentures. The amount and timing of any distributions will be at the sole discretion of the Corporation and only after the Corporation has paid or reserved funds for its expenses, liabilities and commitments (other than with respect to the Debentures and Interest Debentures), including (i) the fees payable to WAM and Walton Development and Management (USA), Inc. (“**WDM**”) (including the performance fee as defined below), 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 if the investors of Units in the Corporation have received cash payments on the Debentures or cash distributions on the Class B shares equal to \$10.00 per Unit, plus a cumulative compounded priority return thereon, on a declining basis, equal to 8% per annum.

At a special meeting (the “**special meeting**”) of the holders of Class B shares (the “**Shareholders**”) held on July 31, 2015, the Shareholders of the Corporation voted in favour of a resolution that the Corporation may undertake at the sole discretion of the Board of Directors and, without further approval from the shareholders of the Corporation, vertical development on all or any portions of the Property. This vertical development and profit participation is part of a larger proposed three step investment strategy that includes less expensive immigrant investor visa program (EB-5) debt and financing through the sale of tax increment financing bonds, both discussed in more detail below.

## REVIEW OF OPERATIONS

### Summary

During the year ended December 31 2015, the primary focus of the Corporation was to continue construction, prepare additional submittals necessary to achieve remaining regulatory and construction approvals and meet with county officials to properly coordinate and discuss plans for the project. In addition, the following key activities were undertaken by the Corporation during the year:

- the Corporation received USD \$1.2 million from the State Highway Administration for 4.4 acres of condemned land that will be used for the construction of the Suitland Parkway interchange;
- the Corporation received the following development permits with USD \$2.8 million in bonds provided to the related agencies to be used as construction guarantees for the associated permits:
  - The street construction permit for the extension of Woodyard Road;
  - The temporary road construction permit connecting Woodyard Road extended to Melwood Road; and
  - State Highway Administration access permit for storm drain work along Pennsylvania Avenue.
- the State Highway Administration approved the Traffic Impact Study for the redesigned Woodyard Road interchange;
- NVR, Inc. (Ryan Homes) and HWR LLC (Haverford Homes) closed on their model home lots for a total of USD \$1,120,000 which was used to pay down amounts owing under both the senior and mezzanine loans;
- Ryan Homes and Haverford Homes continued construction on their model showhomes- which were completed in December;
- the Corporation's U.S. Subsidiary completed initial paving of the main access road to the model showhomes;
- site grading and utilities installation in Phase 1 continued.

The U.S. Subsidiary's conditions precedent that contractually trigger the builder to start their takedown schedule include: completion of its improvements to the lots being acquired at each settlement including, but not limited to, base paving, building, and other permits required for construction by the builders of homes on the lots. Additionally, each builder, in their lot purchase contract, has slightly different conditions precedent. Conditions precedent were met

in early-January 2016 for Haverford. We anticipate that the conditions precedent will be met for NVR in early Q2 2016. At the closings of lots by builders, 100% of the proceeds are collected by the U.S. Subsidiary.

Management believes that by pursuing vertical development joint ventures and less expensive financing strategies as discussed herein, the Corporation can potentially achieve a higher IRR. These IRRs are based on, among other things, achieving certain revenue targets, maintaining construction schedules and costs, the timely receipt of recoveries, third-party sales and commitments for additional lots from the builders. Further material changes to IRR projections and the projected hold period could occur due to changes in the aforementioned and other factors.

These development strategies include accelerating the development of Phase 1A, re-planning of Phases 2 and 3, including a town centre re-design to realize on current market opportunities such as a senior living component and/or flex industrial within Phases 2 and 3, and potentially undertaking vertical development joint venture participation with development partners. The financing strategies include pursuing programs such as the EB-5 Immigrant Investor Program (“**EB-5 Program**”) (which has to be done in conjunction with vertical development) that could allow for lower cost financing with better flexibility and working to secure Tax Increment Financing (“**TIF**”) from the County. We anticipate that our EB-5 immigrant investor visa program partner (Maryland Center for Foreign Investment, LLC. or MCFI) will provide us with an option for up to \$58 million in immigrant investor debt in 2016. MCFI is pre-marketing this project in Asia this spring for the purpose of attracting agencies and investors. Currently, the blended interest rate on our phase 1 construction debt is above 8%. If we are successful with the EB-5 program, we anticipate that blended interest rate will be lowered to 5.25%. We also propose to submit an application to Prince George’s County, Maryland officials for approximately \$65 million in tax increment financing (TIF) bonds based on the advice of our consultants. These two alternative financing mechanisms, if successfully implemented, have the potential to decrease costs and increase the project’s IRR from the current 5.7% to the low teens. This however, cannot be assured. See above for certain factors that may impact IRRs on this project.

The EB-5 program is administered by the U.S. Citizenship and Immigration Service (“**USCIS**”). Under this program, non-US citizen entrepreneurs and certain members of their family are eligible to apply for a U.S. green card (permanent residence) if they meet specific investment criteria set by the USCIS. The main benefit of the EB-5 program to the Corporation is that the funds these investors could provide are relatively inexpensive debt capital that could enhance the financial viability of the Westphalia project to the benefit of its investors.

A TIF is a public financing method used for financing public infrastructure improvement projects as a part of a larger development project. A municipality, through a TIF, leverages potential future gains in municipal taxes by offering sale of bonds to the public, the proceeds of which are used to pay for the proposed infrastructure. The bonds are then paid off in the future with the increased municipal tax revenues resulting from increased development in the municipality.

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

- Securing a grocery anchor for the retail site in conjunction with the establishment of a joint venture with a large, experienced retail developer, which can increase the attractiveness for other future retail tenants to locate in the project, and positively impact retail values, lease rates, and project absorptions. The securing of a grocery anchor tenant by the retail developer partner should also positively impact the sales momentum for other components of the project, including the townhome product and other future residential development by providing an important retail based service and community amenity.
- Engaging in discussions with commercial and residential developers to broaden the awareness of the project and explore sales and/or partnering opportunities to realize the highest and best use and associated values for the project.
- Evaluating project positioning and retail product opportunities to maximize usable retail space and project amenities to accelerate market demand.
- Continuing efforts to attract a major hotel chain to enter into a vertical joint venture to develop, construct, and manage the 110-key hotel site in Phase 1.

- Continuing efforts to attract a major multifamily developer to enter into a vertical joint venture to develop, construct, and manage the 400-unit multifamily site in Phase 1.
- Partnering with the Prince George’s County Economic Development Corporation to assist with marketing the office site, and with a strategic focus related to locating future government office buildings in Westphalia.

## NON-FINANCIAL INDICATORS

As the operations are project based and are reliant on the completion of milestones, the financial statements alone are not a good indicator of the progress of the Corporation toward its investment objectives. The following are some of the key non-financial indicators which are also used by management in evaluating the performance of the Corporation.

### Key Milestones

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

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

\* We will not have a “grand opening” but we will have a series of events throughout the spring and summer 2016.

These milestones for Phase 1 were behind the timelines initially anticipated by management for the reasons noted under “review of operations”.

### Lot Activity Report

The table below provides an update on lot activity for Phase 1 of the Project:

	December 31, 2015	December 31, 2014
Total Phase 1 lots	345	345
Lots committed to by homebuilders <sup>1</sup>	345	345
Lots sold for accounting purposes	13	-
Lot closings <sup>3</sup>	13	-
Third-party sales <sup>2</sup>	-	-

Notes:

(1) Lots committed to by home builders refer to the number of lots that the homebuilders have committed to purchasing and for which first deposits have been received.

(2) Third-party sales refer to the number of single-family home sales achieved by the homebuilders.

(3) Lot closings refer to the number of lots for which full payment has been received.

For accounting purposes, revenue is recognized from the sale of lots once the agreement for the sale of the lot 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% of the purchase price.

## SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION

	Year Ended December 31		
	2015	2014	2013
Total revenues (\$)	1,183,930	-	-
<b>Cost of sales (\$)</b>	1,023,407	-	-
<b>Gross margin (\$)</b>	160,523	-	-
<b>Total income/(expenses) (\$)</b>	(1,113,945)	(1,446,560)	(838,733)
Total other items (\$)	3,742,079	1,515,680	1,167,131
Net income before tax(\$)	2,788,657	69,120	328,398
<b>Net income/(loss) (\$)</b>	1,448,500	125,670	(90,609)
Comprehensive income (\$)	4,173,972	1,129,933	564,342
Weighted average shares outstanding <sup>1</sup>	3,017,170	3,017,170	3,017,170
Basic net (loss)/income per share (\$)	0.48	0.04	(0.03)
Diluted net (loss)/income per share (\$)	0.21	0.02	(0.03)

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

	December 31, 2015	December 31, 2014	December 31, 2013
Total assets (\$)	86,494,175	57,688,767	41,514,733
Total non-current liabilities (\$)	55,613,625	37,873,438	25,708,530
Total other liabilities (\$)	11,600,711	4,709,463	1,830,270
Total liabilities (\$)	67,214,337	42,582,901	27,538,800
Total equity (\$)	19,279,838	15,105,866	13,975,933
Class B shares outstanding – end of year	3,017,170	3,017,170	3,017,170

## ANALYSIS OF FINANCIAL PERFORMANCE

During the year ended December 31, 2015, the Corporation recognized revenue of \$1,183,930 (December 31, 2014 - \$nil) from single family lot sales in Phase 1. The cost of sales relating to the lot sales was \$1,023,407 (December 31, 2014 - \$nil), resulting in a gross margin of \$160,523 (December 31, 2014 - \$nil).

Total expenses decreased by \$332,615 from \$1,446,560 for the year ended December 31, 2014 to \$1,113,945 for the year ended December 31, 2015. The decrease in other expenses was primarily due to a decrease in marketing expenses of \$403,496. Marketing expenses in 2014 were higher than 2015, as 2014 marketing costs related to commencing marketing initiatives to launch the community and create builder interest. Offsetting the marketing expenses is an increase of \$40,910 in professional fees due to increase in audit fees for the 2015 audit, and an increase of \$19,537 in director's fees.

Total other items increased by \$2,226,399 from \$1,515,680 for the year ended December 31, 2014 to \$3,742,079 for the year ended December 31, 2015. The increase is primarily due to increases in foreign exchange gains of \$2,000,834, which is a result of translation in the U.S. Subsidiary associated with intercompany debentures and debt the U.S. Subsidiary has with the Corporation. The intercompany debentures and debt are eliminated on consolidation. The Canadian dollar has weakened more significantly in 2015 compared to 2014 resulting in a significant unrealized gain being recorded within the U.S. Subsidiary that is not eliminated upon consolidation.

Deferred tax expense has increased by \$1,396,707 primarily due to the movement in the unrealized foreign exchange gains which results in deferred tax expense.

Comprehensive income increased by \$3,044,039 from \$1,129,933 for the year ended December 31, 2014 to \$4,173,972 for the year ended December 31, 2015. The increase due to cumulative translation gains recorded on the translation of the U.S. Subsidiary accounts from a functional currency of U.S. dollars to Canadian dollars for reporting purposes.

## ANALYSIS OF FINANCIAL CONDITION

The Corporation's total assets increased by \$28,805,408 from \$57,688,767 at December 31, 2014 to \$86,494,175 at December 31, 2015. The increase of \$28,805,408 was primarily due to a net increase in development costs on the Property of \$26,210,378 and the remainder of the increase was mainly due to a \$2,008,178 increase in restricted cash intended to cover cost overruns.

During 2015, land development inventory increased by \$13,806,331 in relation to Phase 1 paving, the construction of utilities, culvert and stormwater management ponds and permit approvals, including \$5,259,118 of capitalized interest, and an increase of \$13,001,941 associated with the translation of USD balances to Canadian dollars on consolidation. This has been offset by the recognition of cost of sales relating to the lot sales of \$597,894.

Total liabilities increased by \$24,631,436 from \$42,582,901 at December 31, 2014 to \$67,214,337 at December 31, 2015. Liabilities primarily increased due to an increase in the project debt of \$16,310,562, an increase in amount due to related parties of \$3,981,953, accounts payable and accrued liabilities of \$1,047,048, Interest Debentures payable of \$1,279,346 and deferred income tax liability of \$1,340,157.

Project debt increased by \$16,310,562 primarily related to advances of \$10,007,542, \$5,096,584 attributed to the translation of the USD project debt balance to Canadian dollars on consolidation, and interest incurred of \$2,887,338 offset by interest paid of \$1,363,310.

The increase amounts due to related parties of \$3,981,953 is due to advances from Walton International Group (USA), Inc. ("WUSA") for \$2,959,883, effect of change in foreign exchange rates on the loan of \$272,343, accrued interest on the loan of \$199,786, and the remaining increase of \$494,341 is primarily due to an increase in the outstanding balance of management and servicing fees.

Deferred income tax liability has increased by \$1,340,157 primarily due to unrealized foreign exchange gains recognized in income and a change in the Alberta Corporate provincial tax rate from 10% to 12% which resulted in an increase from 25% to 26% to the overall statutory tax rate.

## DEBENTURES PAYABLE AND INTEREST DEBENTURES PAYABLE

The Debentures and Interest Debentures are unsecured and bear interest at a rate of 8% per annum. Interest on the Debentures and Interest Debentures is calculated annually based on the principal amount of the Debentures and Interest Debentures on March 31, and is payable annually on June 30. The Debentures and Interest Debentures mature at their principal amount on March 31, 2019, however the maturity date 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.

For the year ended December 31, 2015, there has been no change in the Debentures payable from December 31, 2014 other than amortization of \$150,280 of accretion recognized and capitalized to land development inventory. Interest payable was increased by \$1,355,012 relating to interest accrued on the Debentures and Interest Debentures payable.

On June 30, 2015, the Corporation paid its third interest payment on the Corporation's Debentures by issuing to the holders of the Debentures, on a pro rata basis, that principal amount of Interest Debentures that is equal to the amount of interest owing under the Debentures of \$1,206,872. In addition, the Corporation has paid the interest obligation owing under the Interest Debentures that were issued in June 2014 by issuing additional Interest Debentures in the amount of \$72,474 at the same time. The Interest Debentures outstanding as at December 31, 2015, have a principal amount of \$2,486,218.

As at December 31, 2015 and December 31, 2014, Walton International Group Inc. ("**WIGI**"), owned approximately 6.3% of the outstanding Units of the Corporation. As a result, approximately 6.3% of the balance of Debentures payable, Interest Debentures payable and interest payable was payable to WIGI.

## PROJECT DEBT

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

### 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 Walton Westphalia Europe LLP ("**WWE**"). For the year ended December 31, 2015, the Corporation incurred and paid interest of \$1,242,326 (December 31, 2014 - \$427,875) which was capitalized to land development inventory.

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

During the year ended December 31, 2015, the Corporation was advanced \$10,381,191 from the facility. The funds advanced were used for the continued construction of the project including paving, sanitary sewer construction, design and engineering costs, inspection fees and asset management and development fees. Associated with the advances for the year ended December 31, 2015, deferred transaction costs of \$394,786 was recorded. Accretion of \$479,232 was recognized during the period and capitalized to land development inventory. During the year ended December 31, 2015, lot proceeds were used to repay \$876,116 of the senior loan.

WGI entered into an agreement with the lender of the Senior Loan which guarantees that the WWE and the U.S. Subsidiary, collectively, will make the payments of principal and interest due under the Senior Loan. WGI also

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

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. For the year ended December 31, 2015, the Corporation incurred interest of \$1,645,012 (December 31, 2014 - \$1,232,734). Interest is capitalized to land development inventory. Accretion of \$187,470 was recognized during the year ended December 31, 2015 and 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.

During the year-ended, December 31, 2015, lot proceeds of \$229,162 were used to repay \$108,178 of the principal and \$120,984 to settle the interest payable on the Mezzanine Loan.

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

WGI has entered into an agreement with the lenders of the Mezzanine Loan whereby WGI guarantees that 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 bankruptcy or take advantage of other laws protecting debtors.

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

#### WORKING CAPITAL

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

Debentures payable, Interest Debentures payable and interest payable – Management has the ability to settle the interest on the Debentures and Interest Debentures through the issuance of Interest Debentures or the

conversion of the amount owing to Class B shares. The Debentures and Interest Debentures have a maturity date of March 31, 2019; however, the maturity date can be extended to March 31, 2021 at the sole discretion of the Corporation. The Corporation is assessing all options with respect to repayment of the Debentures and Interest Debentures including, but not limited to: (i) future lot sale revenues generated by the Corporation and/or (ii) conversion of all or any principal amount of the Debentures or Interest Debentures into Class B shares.

Accounts payable, accrued liabilities and provision for land development costs – The majority of accounts payable, accrued liabilities and provision for land development costs of the Corporation are for development related expenses. These expenses will be funded by cash on hand, further draws on the project debt and loans from related parties.

Due to related parties – The payment of outstanding development fees will be paid through construction loans on future phases, which will result in an increase in the balance of project debt. Asset management and servicing fees due to related parties will be paid out of working capital, proceeds from the sale of lots, collection of recoverable costs receivable and future construction loans. Management has communicated to WAM that it does not expect to make payments for the outstanding asset management and servicing fees until such time that the Corporation has sufficient capital for the payment of these amounts. WAM has indicated that they will continue to provide services to the Corporation.

Project debt – The balance of project debt will be repaid from the proceeds from future lot sales or future financing

## TRANSACTIONS WITH RELATED PARTIES

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

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

- During the year ended December 31, 2015, the Corporation has entered into a subordinated loan agreement with WUSA for \$4.1 USD million, bearing interest at 11% per annum, payable semi-annually. The Corporation can elect to defer the payment of interest and add to the principal balance of the loan. The subordinate loan has a 60 month term with a maturity date of February 1, 2020. The Corporation has the right and option to extend the term of the loan for up to two additional one-year terms. The loan is unsecured and subordinate to the Senior Loan and Mezzanine Loan described in note 8 of the financial statements. Funds of \$2,959,883 were advanced by WUSA to the Corporation. Interest of \$199,786 has been incurred for the year ended December 31, 2015 and capitalized to land development inventory. The loan replaces a previous demand loan with WUSA.
- Development fees of \$267,474 (December 31, 2014 – \$223,359) were charged by WDM to the Corporation which are paid in accordance with the Project Management Agreement between the Corporation and WDM. The development fees are based on 2% of certain development costs incurred during the year.
- In addition, WDM will receive a performance fee equal to 25% of cash distributions after all investors received cash payments of \$10.00 per Unit plus a cumulative compounded priority return of 8% per annum on a declining basis (the “**Performance Fee**”). No performance fee was incurred by the Corporation during the years 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 in the Units of the Corporation.
- The Corporation previously entered into Agency Agreements with various agents, whereby the Corporation will pay the agents a servicing fee equal to 0.50% or \$139,888 annually, or \$35,260 per quarter, of the net proceeds for each Unit sold under the IPO. The servicing fee is payable to WAM, which is responsible for the distribution of the fees to the agents in accordance with the Management Services Agreement. The Servicing fee is payable until the earlier of the dissolution of the Corporation and December 31, 2018.

- Management fees of \$559,552 (December 31, 2014 - \$559,552) were charged to the Corporation from WAM, for providing management and administrative services in accordance with the terms of the Management Services Agreement. Administrative services provided by WAM include, but are not limited to, the overseeing of the Offerings, responding to investor inquiries, assisting in the delivery of quarterly and annual reports to the investors and monitoring the daily activities of the Corporation.
- The Corporation has paid \$70,902 (December 31, 2014 - \$51,365) to independent directors of the Corporation.

## REVIEW OF FOURTH QUARTER OPERATIONS

During the fourth quarter of 2015, the Corporation continued to take steps toward the fulfillment of its project plan. The Corporation undertook the following activities during the fourth quarter of 2015:

- Ryan Homes and Haverford Homes continued construction on their model showhomes which were completed in December;
- site grading and utilities installation in Phase 1 continued.

The Corporation did not recognize any revenue or associated cost of sales from lot sales during the fourth quarter of 2015 and during the fourth quarter of 2014.

The Corporation also incurred other expenses during the fourth quarter of 2015 of \$321,185 (December 31, 2014 - \$800,046) and other items of \$785,012 (December 31, 2014 - \$532,177) for a net income/(loss) before tax of \$463,827 (December 31, 2014 - (\$267,869)), deferred tax recovery of \$267,961 (December 31, 2014 - \$81,113), and comprehensive income of \$795,463 (December 31, 2014 - \$219,435). The amount of other expenses incurred during the fourth quarter of 2015 decreased compared to the fourth quarter of 2014 due to additional marketing expenses in preparation for product launch in 2014. The increase in other items relates to foreign exchange gains as a result of relatively stronger weakening of the Canadian Dollar in the fourth quarter of 2015 compared to the fourth quarter of 2014.

## SUMMARY OF QUARTERLY RESULTS

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

	Three months ended							
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Total assets (\$)	86,494,175	79,240,283	69,690,964	68,071,337	57,688,767	53,147,565	44,750,093	44,563,352
Total liabilities (\$)	67,214,337	60,755,910	52,905,139	50,805,832	42,582,901	38,261,134	30,854,610	29,688,448
Total equity (\$)	19,279,838	18,484,373	16,785,825	17,265,505	15,105,866	14,886,431	13,895,483	14,874,904
Total revenues (\$)	-	-	1,183,930	-	-	-	-	-
Total cost of sales (\$)	-	-	(1,023,407)	-	-	-	-	-
Gross margin (\$)	-	-	160,523	-	-	-	-	-
Other income (expenses) (\$)	(321,185)	(286,542)	(220,799)	(285,419)	(800,046)	(222,510)	(213,815)	(210,189)
Total other items (\$)	785,012	1,296,527	(247,886)	1,908,426	532,177	1,001,114	(701,001)	683,390
Net income/(loss) before tax (\$)	463,827	1,009,985	(308,162)	1,623,007	(267,869)	778,604	(914,816)	473,201
Deferred tax expense/(recovery)	(267,961)	(476,313)	76,528	(672,411)	(81,113)	344,394	(314,836)	(4,995)
Net income/(loss) after tax (\$)	195,866	533,672	(231,634)	950,596	(186,756)	434,210	(599,980)	478,196
Cumulative translation gain/(loss) (\$)	599,597	1,164,876	(248,044)	1,209,043	406,191	556,737	(379,440)	420,775
Comprehensive income / (loss) (\$)	795,463	1,698,548	(479,678)	2,159,639	219,435	990,947	(979,420)	898,971
Weighted average shares outstanding <sup>1</sup>	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170
Basic net income/(loss) per Class B share (\$)	0.06	0.18	(0.08)	0.32	(0.06)	0.14	(0.20)	0.16
Diluted net income per share (\$)	0.03	0.08	(0.08)	0.16	(0.06)	0.07	(0.20)	0.08
Class B shares issued during the period	-	-	-	-	-	-	-	-
Class B shares outstanding – end of period	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170

1 - Class A shares outstanding have not been included in the weighted average shares outstanding because the Class A shares do not participate in the profits or losses of the Corporation

During 2015, the Corporation recognized revenue in the second quarter from the sale of 13 single family lots in phase 1, which resulted in a gross margin of \$160,523 for the three months ended June 30, 2015. No other revenue was recognized over the other quarters.

The other income and expenses of the Corporation have remained fairly consistent over the last eight quarters, except for Q4, 2014 and Q4, 2015. The higher costs in the 4<sup>th</sup> quarter of 2014 relate to marketing expenses with commencement of marketing initiatives to launch the community and create builder interest. The higher costs in the 4<sup>th</sup> quarter 2015 relate to increased audit fees with commencement of revenue recognition during the year. The Corporation's other income and expenses are expected to remain fairly constant over the life of the Corporation as the expenses of the Corporation, being the management fees, servicing fees and directors' fees, are fixed over the life of their respective contracts.

The total other items and cumulative translation gain/(loss) has fluctuated from quarter to quarter due to fluctuations in the foreign currency rate between U.S. and Canada. The U.S. dollar has strengthened against the Canadian dollar in the past eight quarters with the exception of the three month periods ending June 2015 and June 2014. Within total other items, foreign exchange gains and losses are recorded in the U.S. Subsidiary on loans denominated in Canadian dollars. Changes in the cumulative translation gain/(loss) within other comprehensive income results from the translation of the U.S. entity's accounts from the functional currency of U.S. dollars to Canadian dollars for reporting purposes.

Deferred tax expense fluctuated over the last eight quarters, as a result of significant changes in the foreign exchange rates which is reflected in the foreign exchange gain or loss recorded in total other items associated with the translation of intercompany debentures and debt record in the U.S. Subsidiary.

In the first and third quarter of 2015, the increase in total assets was due to the increase in development activity related to phase 1 of the development, the corresponding increase in project debt, accounts payable and accrued liabilities can be seen in total liabilities.

## SUPPLEMENTAL INFORMATION

### Liquidity and Capital Resources

The Corporation defines capital as total Shareholders' Equity, Debentures payable and Interest Debentures payable, Project debt, and balances due to related parties.

The Corporation's objectives when managing capital are to:

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

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

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

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

The Corporation has a USD \$43.01 million secured Senior Loan with a U.S.-based financial institution to be used to finance Phase 1 of the project, of which \$6.15 million can be used for issuance of letter of credits. As at December 31, 2015 the balance of the senior loan facility is \$18,989,322 USD (December 31, 2014 - \$11,544,766 USD). Future construction loans will be required to fund the costs of development of Phase 1A, 2 and 3 of the Project.

The U.S. Subsidiary has a subordinated loan agreement with WUSA for USD \$4.1 Million. The purpose of this loan is to finance cost overruns related to phase 1 of the development. As at December 31, 2015, the balance of the subordinated WUSA loan is \$2,479,778 USD (December 31, 2014 - \$nil USD).

Specific costs incurred by the Corporation such as servicing fees and management fees are with related parties. In the situation of a working capital deficiency, management has the ability to negotiate and discuss with related parties different payment terms, consistent with the current year in which management has communicated to WAM and WDM that it does not expect to make payments for any amounts payable until such time that the Corporation has sufficient capital for the payment of these amounts. Both WDM and WAM have indicated that they will continue to provide services to the Corporation.

The Corporation has the ability to 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, to pay all or any portion of the interest under the Debentures or interest under the Interest Debentures through the issuance of Interest Debentures or convert all or any principal amount of, or interest under, the Debentures or Interest Debentures into Class B shares.

#### Cash Requirements

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

	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>

The Corporation's intention is to meet short-term liquidity requirements for operating expenses, project development costs and interest on Project debt through working capital reserves, the Senior Loan and the related party loan with

WUSA. In addition, the Corporation anticipates that settlement of Debentures and Interest Debentures interest payable will be made through the issuance of Interest Debentures.

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).

#### Sources and Uses of Cash

The Corporation's primary use of capital includes paying operating expenses, incurring project development costs on the land development inventory, interest payments on Debentures and Interest Debentures and principal repayments on project debt, Interest Debentures payable and Debentures payable.

The Corporation believes that internally generated cash flows from the sale of land, supplemented by borrowings through project debt facilities noted above and advances from related parties, where required, will be sufficient to cover the Corporation's normal operating expenditures.

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

	For the year ended December 31	
	2015	2014
Cash flows from operating activities (\$)	(10,438,519)	(9,086,905)
Cash flows from investing activities (\$)	(1,328,463)	(382,861)
Cash flows from financing activities (\$)	12,356,780	9,198,820

During the year ended December 31, 2015, significantly higher draws were made on the Senior Loan compared to the same period in 2014 due to increased land development costs, resulting in higher inflows of cash from financing activities. There is an increase in land development inventory showing the usage of cash for development costs. The increase in restricted cash for the year ended December 31, 2015 is related to the third modification of the Senior Loan agreement which called for a cash deposit of projected project cost overruns. There is an increase in advances from related parties showing the source of the cash. Due to the longer term nature of this project, operating cash flows may vary from year to year.

#### Off-Balance Sheet Arrangements

As a result of entering into the Senior Loan, the Mezzanine Loan and the WUSA subordinated Loan with WWE, while each party accounts for its proportionate share of the long-term debt thereunder, management has assessed the risk resulting from U.S. Subsidiary's relative size and proportion of interest in the project from the joint and several nature of these various loan agreements whereby, in the unlikely event of a default on such long-term debt, U.S. Subsidiary may have a greater than its proportionate share of exposure to any default conditions. The total amount (face value) of the Senior Loan and the Mezzanine Loan and accrued interest is \$38,639,883 and the unrecorded portion to which the Corporation may be party to is \$6,595,105. This amount has not been recognized on the statements of financial position.

#### 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. Due from related party, restricted cash and cash are classified as loans and receivables, and are carried at amortized cost using the effective interest rate method. Debentures payable, Interest Debentures payable, project debt, interest payable, accounts payable and

accrued liabilities, and amounts due to related parties have been classified as other financial liabilities, and are carried at amortized cost using the effective interest rate method.

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

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

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

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

#### Liquidity risk

Liquidity risk arises 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. 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 and maintaining project debt and related party financing facilities to cover development costs.

#### Interest rate risk

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

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

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

#### Currency risk

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

The Corporation is exposed to foreign exchange risk because the operations, development expenditures, and construction loans are denominated in U.S. dollars. The Corporation recorded a translation gain on foreign exchange related to land development costs of \$12,144,728 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.

#### Outstanding Shares

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

#### Outstanding Debentures and Interest Debentures

As of the date of this MD&A, the Corporation had Debentures payable outstanding with a principal amount outstanding of \$15.1 million, as well as Interest Debentures with a principal value of \$2,486,218 million. The Corporation may in its sole discretion, convert all or any principal amount of, or interest under, the Debentures payable and/or Interest Debentures payable into a variable number of Class B shares, based on the fair market value per Class B share on the date of the conversion.

#### Commitments

The following table presents future commitments of the Corporation under the Management Services Agreement and the Agency Agreements. It does not include WDM's Development Fees or Performance Fee under the Project Management Agreement, which is calculated based on the amount of the distributions paid by the Corporation. These commitments will be funded through future revenues generated by the Corporation and the capital resources available to the Corporation.

	Servicing fee (\$)	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
Total	419,664	1,816,628	2,236,292

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

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

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and equity at the date of the financial statements, and the reported amount of revenues and expenses during the period. The estimates and assumptions that have the most significant effect on the amounts recognized in the Corporation's consolidated financial statements are as follows:

### Recoverability of Land Development Inventory

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

### Deferred Tax Asset

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

### Interest Rate Cap and Derivative Financial Liability

In assessing the fair value of the interest rate cap and derivative financial liability, judgment is used to determine the inputs required. Management's assumptions rely on using external data including LIBOR (3 month USD-LIBOR) ("**LIBOR**") 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 recognised in the statement of comprehensive income. The Corporation has certain intercompany loans expected to be repaid in the foreseeable future with the exchange differences being recognized in the statement of comprehensive income.

### Capitalization of Borrowing Costs

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

### Recognition of Joint and Several Arrangements

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

### 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 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 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 from the cost of sales recognized at the time that revenue was recognized.

## CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

#### Current Changes in Accounting Policies

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

#### Future Changes in Accounting Policies

##### Financial Instruments

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

##### Revenue from Contracts with Customers

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

## CORPORATE GOVERNANCE

#### Board of Directors

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

The Board of Directors currently consists of Jon N. Hagan, William K. Doherty and Mr. Cormack, with Mr. Doherty being the Chairman of the Board of Directors.

Within the meaning of National Instrument 52-110 – Audit Committees (“**NI 52-110**”), Messrs. Cormack and Hagan are independent of management of the Corporation. Mr. Doherty is not independent of management of the Corporation as he is the President and Chief Executive Officer of the Corporation and the Chief Executive Officer of WIGI.

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

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

#### Personal Profiles

**Donald Cormack** – Mr. Cormack was a Partner at PricewaterhouseCoopers (“**PwC**”) and retired from PwC after serving more than 37 years. He was the Calgary and Alberta Audit and Advisory Practice Leader at PwC and a member of the National Assurance executive of PwC. He brings to the Board of Directors extensive financial accounting and reporting experience with both private and public companies covering regulatory compliance, risk management, acquisitions, corporate restructuring, internal controls and governance in Canada and the U.S.

Mr. Cormack is a director and Audit Committee Chair at Petrus Resources, a public oil and gas company and the Calgary Police Foundation. He is a past director of The Calgary Foundation and Alberta Health Services. He is a Chartered Accountant, a graduate of the Institute of Corporate Directors Program and has a Bachelor of Commerce degree from the University of Saskatchewan.

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

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

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

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

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

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

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

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

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

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

#### Compensation

The Corporation has agreed to pay to each of the directors who are "independent" within the meaning of NI 52-110 an annual retainer of \$50,000 per year, paid quarterly in advance. This amount was determined by the Corporation and the directors.

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

#### Orientation and Continuing Education

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

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

#### Nomination of Directors

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

## Assessments

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

## Audit Committee

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

The Audit Committee currently consists of Donald Cormack, Jon N. Hagan and William K. Doherty. Each member of the Audit Committee is financially literate, meaning that each has the ability to read and understand a set of financial statements that present the breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the financial statements of the Corporation. Mr. Cormack and Mr. Hagan are "independent" as contemplated by NI 52-110, while Mr. Doherty is not.

## Ethical Business Conduct

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

## Whistleblower Policy

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

## RISK FACTORS

### Risks of Real Property Ownership and Development

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

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

Although the U.S. real estate market has rebounded somewhat from the recession, the recovery has taken longer than anticipated by many industry experts. The downturn caused increased default rates on sub-prime mortgages in the U.S. and the effect of these increased default rates persist in the debt financing environment for real estate projects in the U.S. As broader U.S. market fundamentals have strengthened, the pace of recovery has oftentimes been inconsistent. This could mean that the development of the Property may not be completed in accordance with the existing plan, on time or on budget, or that the Property may decrease in value. These factors may have a negative impact on the value of the Corporation's interest in the Property, on the length of time the Corporation will be required to hold the Property, on the purchase price of the acreage from the Property when eventually sold and on the value of the Debentures, Interest Debentures and Class B shares.

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

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

Occasionally municipalities throughout the U.S. require developers to front-end significant off site infrastructure. The costs associated with such can be significant and may materially impact the financial results of developers.

In general, vertical development of real estate is riskier than horizontal development. This is because, among other things, vertical development is more costly and requires more third party financing, there is a higher risk of loss and liability in the course of vertical development, more third party service providers are required to be engaged for vertical development and vertical development is more susceptible to changes in the economy and industry conditions. While the potential for returns may be higher with vertical development, the risk of loss and the venture being unsuccessful is also higher.

#### Currency Fluctuations

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

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

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

The Corporation and the U.S. Subsidiary have the authority to negotiate and obtain other loans or loan facilities for the purposes of carrying out their operations and to grant security against their assets, including the Property, without obtaining the approval of the holders of the Debentures, Interest Debentures and the Class B shares. The Corporation and the U.S. Subsidiary may exercise this power in a number of circumstances including (i) if they wish to replace any of the current loans for any reason, (ii) if any of the current loans are terminated for any reason, or (iii) when other credit facilities, loans or borrowings are required to be entered into by them to pay for the development of the Property, including development of the Property beyond the current phases in development and vertical development, or to pay for other of their costs. Any such borrowing and the granting of security, which may be from arm's length third parties and/or, subject to compliance with all applicable laws and receipt of all required regulatory approvals (if any), from affiliates of WAM or from affiliates of holders of Debentures and Interest Debentures or Class B shares, will be on such terms as the Corporation and/or the U.S. Subsidiary determines to be appropriate. In the case of borrowings for vertical development, any security required by lenders may also be placed on portions of the Property on which no vertical development is undertaken. Any such borrowings may be evidenced by promissory notes or other evidences of indebtedness. Such borrowings may include securities offerings by the Corporation and/or the U.S. Subsidiary of indebtedness, such as notes or debentures, which may or may not be secured by their assets, including the Property.

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

If any vertical development is carried out on any portion of the Property that is held through a separate entity in which the Corporation or the U.S. Subsidiary owns an interest, the Corporation and/or the U.S. Subsidiary may be required to guarantee the repayment of any financing required to fund such vertical development, which guarantee may be required to be secured by the remainder of the Property which is not being vertically developed.

#### Regulatory Approvals and Third Party Approvals

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

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

#### Environmental Matters and Other Concerns

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

Under various environmental laws, ordinances and regulations, the current or previous owners or operators of the Property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in the Property. These costs could be substantial. Such laws could impose liability whether or not the Corporation knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of hazardous or toxic substances, or the failure to remove or remediate such substances, if any, or restrictions imposed by environmental laws on the manner in which the Property may be operated or developed, could adversely affect the ability to sell

acreage from the Property or to borrow using the Property as collateral and also could potentially result in claims against the Corporation and/or the U.S. Subsidiary. Environmental laws provide for sanctions for non-compliance and may be enforced by governmental agencies or, sometimes, by private parties. Environmental laws and common law principles could be used to impose liability for release of, and exposure to, hazardous substances into the air. Third parties may seek recovery from real property owners or operators for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of complying with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims, could be substantial. The Corporation and/or the U.S. Subsidiary may be subject to liability for undetected pollution or other environmental hazards against which it cannot insure, or against which it may elect not to insure where premium costs are disproportionate to the Corporation's or WAM's or WDM's perception of relative risk.

#### Political and Economic Climate

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

#### Changes in Legislation and Policies

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

#### Competition

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

#### Builder Contract Risk

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

#### Single Asset

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

IRR from the project may be lower and the timelines for the project may be longer as a result of vertical development

While management is of the view that appropriate vertical development of one or more portions of the Property can increase the overall IRR from the Property to Shareholders than what is currently projected for the Property, there is no guarantee that the IRR from the Property will not be lower from vertical development from what is currently projected. In addition, there is no guarantee that management's current views as to the timing of the completion of the development of the Property and the sale of all of the lands, serviced lots and buildings thereon will not be incorrect and that the time that will be required for the same may not be longer than management's current views.

Agreements with third party developers may need to be negotiated

In the event that any vertical development of the Property is proposed to be undertaken with the assistance of third party vertical developers, the development and management of such vertical developments will be carried out by such third party developers and managers on behalf of the Corporation. In those circumstances, the Corporation will need to negotiate, at that time, specific project management agreements with such third parties for their management services which negotiation will need to include the fees to be paid to them, which could include, among other things, a percentage of the costs of the vertical development and potentially, further performance fees and/or share of the revenues from the sale and/or management of the vertically developed buildings and/or lots. There can be no assurances that the Corporation will be able to negotiate suitable terms with such third party developers that are acceptable to the Corporation. If reasonable terms cannot be reached with such third party developers, the Corporation may not be able to proceed with such vertical development which could lower the potential returns available to the Shareholders.

The Corporation may build buildings for sale to unidentified purchasers

While it is management's current intention to undertake vertical development projects for purchasers who are under contract prior to commencement of construction, the Corporation may undertake vertical development projects to build buildings that are built for sale to unidentified purchasers. There is no guarantee that, if the Corporation does do so, a purchaser will be identified to acquire the buildings upon their completion. It may take a material amount of time for the Corporation to find a purchaser for such buildings or a purchaser may not be found at all. Until such time as a purchaser is found, there will be a need for the maintenance and upkeep of such buildings.

The Corporation may become subject to construction defect and warranty claims

The Corporation may become subject to construction defect and warranty claims arising in the ordinary course of business. These claims are common in the homebuilding industry. Further, the Corporation may become exposed to claims for construction defects, personal injury or property damage caused by subcontractors. In the event there are unforeseen events like the bankruptcy of, or an uninsured or under-insured loss claimed against any general contractor engaged in connection with any vertical development, the Corporation may become responsible for the losses or other obligations of the general contractor. The cost of insuring against construction defect and product liability claims are high, and the amount of coverage offered by insurance companies may be limited. There can be no assurance that this coverage will not be further restricted and become more costly. If any vertical development in which the Corporation participates is unable to obtain adequate insurance against these claims, the Corporation's business and results of operations may be adversely affected.

The Walton Group has limited vertical development experience

The Walton group of companies has not undertaken any significant vertical development and therefore has limited experience in this type of business. As a result, the Walton group of companies may need to rely on third parties in connection with any vertical development. Furthermore, the vertical development business is highly competitive and, if it is decided that vertical development will occur on the Property, the Corporation and any vertical development venture in respect thereof may be competing against industry participants with more vertical development experience.