

# MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months ended March 31, 2014

May 27, 2014

The following management's discussion and analysis ("**MD&A**") is a review of the consolidated financial condition and consolidated results of operations of Walton Westphalia Development Corporation (the "**Corporation**") for the three months ended March 31, 2014. The MD&A should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2014 and the Corporation's audited consolidated financial statements for the year ended December 31, 2013 and the period January 4, 2012 to December 31, 2012.

All financial information is reported in Canadian dollars and has been prepared in accordance with International Accounting Standard ("**IAS**") 34 – 'Interim Financial Reporting' and uses accounting policies that are consistent 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).

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and equity at the date of the financial statements, and the reported amount of revenues and expenses during the period. The estimates and assumptions that have the most significant affect on the amounts recognized in the Corporation's consolidated financial statements are 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 capital. 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) 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 project will be active throughout the period of capitalization and will take a substantial period of time to prepare the property for its intended use or sale. The Corporation considers a substantial period of time to be a period that is greater than one year.

#### Revenue recognition

In assessing when to recognise 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 the deposit required prior to recognising revenues, which would impact the timing of revenue recognition.

#### Recognition of joint and several arrangements

The Corporation has a joint and several liability with WWE. The Corporation is required to record its proportion of the obligation in accordance with the agreement. 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.

## FORWARD-LOOKING STATEMENTS

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

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

## RESPONSIBILITY OF MANAGEMENT

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

## APPROVAL BY THE BOARD OF DIRECTORS

The MD&A was authorized for issue by the Board of Directors on May 27, 2014.

## 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 ("**U.S. Subsidiary**"), Walton Westphalia Development (USA), LLC., is a limited liability company organized under the laws of the state of Maryland on January 6, 2012. The Corporation and the 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, 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 at \$10 per Unit, for gross proceeds of \$14,423,000. The completion of the IPO was followed by a private placement offering (the "**Private Placement**") which was completed in multiple closings under the offering memorandum ("**Offering Memorandum**") dated March 26, 2012. The final closing of the Private Placement was completed on October 31, 2012. The Private Placement resulted in the issuance of 1,574,870 Units of the Corporation at \$10 per Unit, for gross proceeds of \$15,748,700. Each unit issued by the Corporation ("**Unit**") 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 interest at a rate of 8% ("**Debenture**") and one class B non-voting common share ("**Class B share**") having a price of \$5.00 per share.

The Offerings raised gross proceeds of \$30,171,700, of which \$15,085,850 was received for the Debentures and \$15,085,850 was received for the Class B shares. The total costs incurred with respect to the Offerings was \$2,194,076, which consisted of commissions paid to agents, work fees and costs associated with the preparation of the offering documents. 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 investment objectives are to:

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

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

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

Although management expects that the execution of the investment strategy will allow the Corporation to pay distributions on the Units, distributions by the Corporation are neither guaranteed nor will they be paid in a steady or stable stream. The amount and timing of any distributions will be at the sole discretion of the Corporation and only after the Corporation has paid or reserved funds for its expenses, liabilities and commitments (other than with respect to the Debentures), including (i) the fees payable to WAM and WDM (including the performance fee), and (ii) any amounts outstanding, on a phase by phase basis, under the construction loans required to develop the Property. The performance fee is only payable provided that the investors of Units in the Corporation have received cash payments on the Debentures or cash distributions on the Class B shares equal to \$10.00 per Unit, plus a cumulative compounded priority return thereon, equal to 8% per annum.

On February 6, 2012, the Corporation entered into an Assignment Option Agreement with Walton Maryland, LLC ("**Walton Maryland**"), whereby Walton Maryland assigned their right related to 310 acres of real property, located in Prince George's County, Maryland, to the Corporation under a Purchase and Sale Agreement to the Corporation.

On February 14, 2012, the Corporation exercised its rights under the Assignment Option Agreement for the 310 acres of the Property.

On August 20, 2012, the U.S. Subsidiary sold an 11.3% interest in the Property to Walton Westphalia Europe, LP ("**WWE**"), a company related by virtue of the fact that they are controlled by Walton Global Investments Ltd. ("**WGIL**"). On October 31, 2012 the U.S. Subsidiary sold an additional 3.1% interest in the Property to WWE bringing the aggregate sale of interests to WWE to 14.4%. As a co-owner of the Property, WWE will co-develop the Property with the Corporation, all revenues and expenses incurred for the development of the Property will be allocated proportionately based on each party's ownership interest in the Property, which is not expected to impact the Corporation's ability to achieve its investment objective.

On May 6, 2013, 1.7 acres of additional land in Prince George's County was purchased for \$860,931 (USD \$847,474).

On May 16, 2013, the U.S. Subsidiary entered into a demand loan agreement with Walton International Group (USA), Inc., a related party by virtue of common management, for an amount up to USD \$3,500,000. The funds were used to cover pre-development costs incurred prior to obtaining arm's length construction loans.

On May 31, 2013 and June 6, 2013, the Corporation secured a Senior Loan ("**Senior Loan**") and a Mezzanine Loan ("**Mezzanine Loan**") for USD \$40.95 million and USD \$7.3 million, respectively. These loans were acquired to fund the first phase of construction on the Property.

On January 14, 2014, the Corporation entered into arrangements with its current senior credit lender to increase the financing available under the Senior Loan. The Senior Loan has been increased from USD \$40.95 million to USD \$43.012 million.

On January 23, 2014, the Corporation received a revision to its previously issued rough grading permit to include additional clearing and grading, as well as storm drain installation on the property in connection with Phase 1. The Corporation provided Prince George's County with two letters of credit totaling USD \$6,143,250 for the revised rough grade permit. These bonds are used as construction guarantees and will be terminated once Prince George's County is satisfied with the work requirements. These bonds will allow the release of the previously approved performance bonds totaling USD \$1,589,407.

On January 23, 2014, the Corporation received its storm water pond permit which allows for the construction of the two required ponds that control storm water for the drainage area from Phase 1 of the Property. The Corporation provided Prince George's County with a bond totaling USD \$2,189,550 for the storm water pond permit. This bond is used as a construction guarantee and will be terminated once Prince George's County is satisfied with the work requirements.

On January 23, 2014, the Corporation received its culvert crossing permit which allows for the construction of the box culvert and its associated grading within the public right of way at the crossing of Back Branch dividing the commercial and residential portions of Phase 1 of the Property. The Corporation provided Prince George's County with two bonds totaling USD \$1,018,100 for the culvert crossing permit. These bonds are used as construction guarantees and will be terminated once Prince George's County is satisfied with the work requirements.

On April 1, 2014, the Corporation received its water and sewer permit for the construction of onsite water and sewer lines, as well as the construction of an offsite sewer outfall. The Corporation provided Washington Suburban Sanitary Commission ("**WSSC**") with two bonds totaling USD \$7,583,558 which will be used as construction guarantees and will be replaced by a maintenance bond once WSSC is satisfied with the work requirements.

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.

## SUMMARY OF CONSOLIDATED FINANCIAL DATA

	Three months ended March 31, 2014	Three months ended March 31, 2013
Total revenue (\$)	947	10,871
Total cost of sales (\$)	-	-
Gross margin (\$)	-	-
Total expenses (\$)	211,136	263,131
Other items gain/(loss) (\$)	683,390	319,422
Net income before tax(\$)	473,201	67,162
Comprehensive income (\$)	898,971	256,081
Weighted average shares outstanding <sup>1</sup>	3,017,170	3,017,170
Basic net income per share (\$)	0.16	0.02
Diluted net income per share (\$) <sup>2</sup>	0.08	0.01

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.

2 - If all of the debentures were converted to non-voting common shares, an additional 3,304,811 (March 31, 2013 - 3,477,512) shares would be issued.

	March 31, 2014	December 31, 2013
Total assets (\$)	44,563,352	41,514,733
Total non-current liabilities (\$)	27,807,732	25,708,530
Total other liabilities (\$)	1,880,716	1,830,270
Total liabilities (\$)	29,688,448	27,538,800
Total equity (\$)	14,874,904	13,975,933
Class B shares outstanding - end of period	3,017,170	3,017,170

## REVIEW OF OPERATIONS

### Summary

During the first quarter of 2014, the main priority of the Corporation was to continue construction, prepare additional submittals necessary to achieve the remaining approvals as described in the Prospectus issued February 27, 2012 (the "**Prospectus**") and meet with county officials to properly coordinate and discuss plans for the project.

The Corporation also undertook certain planning activities during the three months ended March 31, 2014. The following activities were undertaken by the Corporation during the period:

- On March 4, 2014, the Haverford agreement became binding upon receipt of security for their deposit. Mid-Atlantic Builders' agreement became binding April 21, 2014;
- The real estate company representing the Corporation in the sale of the multi-family apartment site in Phase 1 continues to actively market the site;
- The Umbrella Architecture Detailed Site Plan was approved by the Planning Board in September 2013, and was subsequently approved by the District Council, subject to some conditions, in February 2014. The Plan allows builders to directly apply for building permits without the need for a further detailed site plan for their specific building architecture. The Corporation anticipates receiving final approval in May 2014;
- During the fourth quarter, a Conceptual Site Plan Reconsideration to revise a condition to allow up to 10% of the townhouse units to be front-lane garage units was approved by the Planning Board in October 2013. The Plan was subsequently approved by the District Council in February 2014; and

- The Detailed Site Plan for the Townhouse Area in Phase 1 was approved by the Planning Board in October 2013. This plan was subsequently approved by the District Council in February 2014 and received Certificate Approval from the Maryland-National Capital Park and Planning in April 2014.

Management continues to actively market the Property, but anticipates office revenue to be delayed for two years due to market conditions. As a result, management will also delay off-site improvements that are required for the commercial space. Furthermore, the project's net rentable area for retail tenants will be reduced, due to a number of factors, including parking requirements for a major grocer and anchor tenant.

As a result of construction delays caused by the wettest winter in a decade, downward revenue revisions for the retail and hotel sites, the extension of the estimated sale dates for the office sites, high office vacancy rates and the impact of the U.S. Government's budget sequestration on the market, the time frame for completing the project is anticipated to exceed the seven-year time horizon and the projected internal rate of return is expected to be revised downwards, from that disclosed in the Prospectus. However, management has determined that there has not been a significant impact on the net realizable value of the Property and no provision is required.

Management is exploring strategies to maximize the financial returns. In this regard, management will report to investors no later than the release of the Q3 2014 financial results once the strategies have been implemented and their impacts, if any, are quantified.

During the three months ended March 31, 2014, the Corporation recognized interest income of \$947 (March 31, 2013 - \$10,871), other expenses of \$211,136 (March 31, 2013 - \$263,131), other items of \$683,390 (March 31, 2013 - \$319,422), for a net income before tax of \$473,201 (March 31, 2013 - \$67,162), and comprehensive income of \$898,971 (March 31, 2013 - \$256,081). Comprehensive income increased due to the strengthening of the U.S. dollar in comparison to the Canadian dollar. This resulted in a translation gain recognized in other comprehensive income.

## ANALYSIS OF FINANCIAL CONDITION

As at March 31, 2014, the Corporation had total assets of \$44,563,352 (December 31, 2013 - \$41,514,733), total liabilities of \$29,688,448 (December 31, 2013 - \$27,538,800) and total shareholders' equity of \$14,874,904 (December 31, 2013 - \$13,975,933). The most significant assets of the Corporation as at March 31, 2014, were land development inventory of \$37,547,132 (December 31, 2013 - \$34,192,040). The most significant liabilities of the Corporation as at March 31, 2014, were Debentures payable of \$14,233,437 (December 31, 2013 - \$14,200,426) and project debt of \$12,500,165 (December 31, 2013 - \$10,515,731).

The balance of the Corporation's liabilities as at March 31, 2014, was significant relative to its cash and receivables. The Corporation plans to fund its liabilities as follows:

Debentures payable and interest payable – Management has the ability to settle the interest on the Debentures payable through the issuance of interest debentures. The 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 intends to repay the Debentures through future lot sale revenues generated by the Corporation.

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

## LAND DEVELOPMENT INVENTORY

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

The following table provides a breakdown of the amounts capitalized to land development inventory.

	Three months ended March 31, 2014 (\$)	Year ended December 31, 2012 (\$)
Balance – Beginning of period	34,192,040	24,196,279
Acquisition of land	-	881,623
Development costs	1,855,452	7,149,359
Effect of change in foreign exchange rates	1,499,640	1,964,779
Balance – End of period	37,547,132	34,192,040

The total development costs incurred during the three months ended March 31, 2014, were consistent with the amounts anticipated by management for the work completed during that period.

## INTEREST ON DEBENTURES

As at March 31, 2014, the Corporation has issued a total of 3,017,170 (December 31, 2013 – 3,017,170) Debentures with a face value of \$15,085,850. The Debentures are unsecured and bear interest at a rate of 8%.

As at March 31, 2014, Walton International Group Inc. (“WIGI”), a related party of the Corporation by virtue of common management, owned approximately 6.3% of the Units of the Corporation. As a result, approximately 6.3% of the Debentures payable and interest payable at March 31, 2014, is payable to WIGI.

## MANAGEMENT FEES

On February 27, 2012, the Corporation and WAM entered into a Management Services Agreement whereunder WAM will provide certain management related services to the Corporation in return for an annual management fee equal to:

- i) from March 20, 2012, until the earlier of the date of termination of the Management Services Agreement and March 31, 2019, an amount equal to 2% annually of the aggregate of the net proceeds raised from the Offerings, paid quarterly at the end of each fiscal calendar quarter; and
- ii) for each calendar quarter after April 1, 2019, until the date of the termination of the Management Services Agreement, an amount to be paid on the last day of the quarter equal to 0.5% of the book value of the Property at the end of the previous fiscal quarter.

## SERVICING FEES

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

## TRANSACTIONS WITH RELATED PARTIES

Walton Maryland LLC, WAM, WIGI, WDM, WWE, Walton International Group (USA), Inc., 1389211 Alberta Ltd. and WUSF 1 Westphalia, LLC, are all related to the Corporation by virtue of the fact that they are all controlled by WGIL. All transactions entered into between the related parties during the three months ended March 31, 2014 were under terms and conditions agreed upon between the parties. With the exception of the loans due to WIGI and Walton International Group (USA), Inc. the amounts payable to WAM for the management and servicing fee and the amounts payable to WDM for the development fee, all amounts receivable from related parties and payable to related parties are unsecured, due on demand, bear no interest and have no fixed terms of repayment.

The balance due from the related parties as at March 31, 2014 and December 31, 2013 is outlined in the table below.

	March 31, 2014 (\$)	December 31, 2013 (\$)
WUSF 1 Westphalia, LLC	111,135	95,325
Total – Due from related parties	111,135	95,325

The balance due to related parties as at March 31, 2014 and December 31, 2013, is outlined in the table below.

	March 31, 2014 (\$)	December 31, 2013 (\$)
Walton Development and Management (USA), Inc.	18,827	50,410
Walton International Group Inc.	-	969
Walton International Group (USA), Inc.	22,819	-
Total – Due to related parties	41,646	51,379

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

### Walton Westphalia Europe, LP

On August 20, 2012, U.S. Subsidiary and WWE entered into a co-ownership agreement for the purpose of setting forth their respective rights and obligations in connection with certain matters related to the Property. In accordance with this agreement, U.S. Subsidiary and WWE will (a) hold the Property as an investment, develop the property and sell the property in lots or parcels; (b) own and sell their respective participating interest; (c) provide for the management of the Property and utilize funds for the benefit of the Owners for the purposes of operating, managing, developing and maintaining the property; and (d) perform other activities as may be incidental or ancillary to or arise from the foregoing purposes as may be reasonably determined by U.S. Subsidiary. Under this agreement, all benefits, advantages, losses and liabilities derived from or incurred in respect of the Property from time to time shall be borne by U.S. Subsidiary and WWE in proportion to their respective participating interests as at the time they were derived or incurred.

#### WUSF 1 Westphalia, LLC.

On February 27, 2012, WUSF 1 Westphalia, LLC entered into a cost sharing agreement with the U.S. Subsidiary for costs incurred for roadway improvements in accordance with pre-approved plans on both the Property owned by Corporation and property owned by WUSF 1 Westphalia, LLC. Either, WUSF1 Westphalia, LLC or the U.S. Subsidiary may elect to construct any of the required improvements by providing notice to the other party of its intent to do so, and each non-constructing party shall acknowledge receipt of any such commencement notice. Each non-constructing party shall reimburse the constructing party for any costs and expenses related to the non-constructing party's property via an invoice delivered to the non-constructing party. The constructing party shall deliver an invoice to each non-constructing party on a quarterly basis. The proportion of costs for each party to this agreement is determined pro rata in proportion to that party's property interest in accordance with an allocation of property interest schedule within the cost-sharing agreement. Within 30 days of the receipt of the invoice, the non-constructing party shall provide notice to the constructing party of its approval or disapproval of the invoice. If the non-constructing party fails to deliver notice of approval or disapproval within 30 days, the invoice shall be deemed to have been approved. The non-constructing party's obligation to reimburse the constructing party for the portion of costs identified in all of the invoices then-delivered and allocated to a particular parcel shall arise solely after the earlier to occur of (i) the commencement by the non-constructing party of development of such parcel, and (ii) the closing of construction financing with respect to any planned development of such parcel.

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

On February 14, 2012, U.S. Subsidiary, WDM, Walton Maryland and the Corporation entered into a Project Management Agreement. In accordance with the terms of the Project Management Agreement, the fees and costs for services provided by WDM are divided into the following two categories:

- i. WDM will receive a development fee, plus applicable taxes, equal to 2% of certain development costs incurred in the calendar quarter, payable within 60-days of the end of such quarter; and
- ii. WDM will receive a performance fee, plus applicable taxes, equal to 25% of cash distributions after all investors of Units in the Corporation have received cash payments or distributions equal to \$10.00 per Unit, plus an 8% priority return. The priority return is calculated on the \$10.00 amount per unit, reduced by any cash payments or distributions by the Corporation.

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

During the three months ended March 31, 2014, and March 31, 2013, the Corporation incurred \$36,693 and \$3,505, respectively, in relation to the development fees. The development fees are capitalized to land development inventory as incurred. Total development fees paid by the Corporation was \$68,276 (March 31, 2013 - \$3,185).

No performance fee was incurred by the Corporation during the three months ended March 31, 2014 and the three months ended March 31, 2013 because the \$10 per unit amount and the cumulative priority return have not been received by the investors of the units in the Corporation.

#### Walton International Group Inc.

During the three months ended March 31, 2014, the Corporation incurred \$nil in costs initially funded by WIGI (March 31, 2013 - \$2,793). The total costs paid to WIGI for amounts funded on the Corporation's behalf was \$969 (March 31, 2013 - \$nil).

## Walton Asset Management L.P.

During the three months ended March 31, 2014 and March 31, 2013, the Corporation incurred \$137,972 and \$137,972, respectively, in management fees.

Also in accordance with the Management Services Agreement, commencing on September 30, 2012, and continuing until the earlier of the dissolution of the Corporation and December 31, 2018, the Corporation will pay to WAM a servicing fee equal to 0.50% annually of the net proceeds for each Unit sold under the Offerings. WAM is then responsible for paying the servicing fee to the Corporation's agents in accordance with the Agency Agreements between WAM, WDM and the Corporation. The servicing fee is calculated from the date of the applicable closing, calculated semi-annually and paid as soon as practicable after that date. During the three months ended March 31, 2014 and March 31, 2013, the total servicing fees charged to the Corporation was \$34,493 and \$34,493, respectively, and this was expensed within servicing fees in the statement of comprehensive income/(loss).

In accordance with the Management Services Agreement, WAM is subject to the following covenants. It shall: (a) perform all services at all times in compliance with applicable laws; (b) manage, administer and operate the Corporation and the Subsidiary in an efficient manner with the objective of maximizing the profitability of the Corporation and the Subsidiary; (c) comply with all reasonable instructions of the Corporation in relation to the performance of its services; and (d) observe and perform, or cause to be observed and performed, on behalf of the Corporation and the Subsidiary in every material respect the provisions of (i) the agreements from time to time entered into in connection with the activities of the Corporation and the Subsidiary, and (ii) all applicable laws. Walton International Group (USA) Inc.

During the three months ended March 31, 2014, the Corporation incurred \$22,819 in costs initially funded by Walton International Group (USA) Inc. (March 31, 2013 - \$nil). The total costs paid to WIGI for amounts funded on the Corporation's behalf was \$nil (March 31, 2013 - \$nil).

On May 16, 2013, the U.S. Subsidiary entered into a demand loan agreement (the "**Demand Loan**") with Walton International Group (USA), Inc., a related party by virtue of the fact that it is controlled by WGIL, for an amount up to US\$3,500,000. The funds were used to cover pre-development costs incurred prior to obtaining arm's length project debt. The Demand Loan is unsecured, non-revolving, bears 10.5% annual interest, is payable monthly, and was fully repaid from the proceeds of subsequent construction loans. The term of the Demand Loan is 36 months expiring at the earlier of (1) May 16, 2016; (2) such earlier date as the Corporation wishes to repay the Demand Loan; or (3) the date payment is demanded by the lender. On May 31, 2013, \$2,780,089 was drawn. On June 7, 2013, this amount was repaid along with \$5,598 of interest incurred which was capitalized to land development inventory. \$719,911 of the Demand Loan facility remains available for future draws by the U.S. Subsidiary.

### Key Management Compensation

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

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
Directors' fees (\$)	13,032	13,032

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

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

## FINANCING ARRANGEMENTS

On May 16, 2013, the U.S. Subsidiary entered into a demand loan agreement (the “**Demand Loan**”) with Walton International Group (USA), Inc., a related party by virtue of the fact that it is controlled by WGIL, for an amount up to US\$3,500,000. The funds will be used to cover pre-development costs incurred prior to obtaining arm’s length construction loans. The Demand Loan is unsecured, non-revolving, bears 10.5% annual interest, is payable monthly, and is anticipated to be fully repaid from the proceeds of future construction loans. The term of the Demand Loan is 36 months expiring at the earlier of (1) May 16, 2016, (2) such earlier date as the Corporation wishes to repay the Demand Loan, or (3) the date payment is demanded by the lender. On May 31, 2013, \$2,780,089 was drawn. On June 7, 2013, this amount was repaid along with \$5,598 of interest incurred. \$719,911 of the Demand Loan facility remains available for future draws by the U.S. Subsidiary.

On May 31, 2013, the U.S. Subsidiary and WWE collectively entered into the Senior Loan. The Senior Loan is a secured loan for up to USD \$40.95 million. The Senior Loan bears an interest rate of LIBOR (3 month USD-LIBOR-BBA w/- 1 New York lookback) (“**LIBOR**”) plus 5.1% with a minimum interest rate floor of 6.2% per annum. The initial term of the Senior Loan is 36 months and may be extended in certain circumstances. The Senior Loan is secured by, among other things, a first priority trust on the Property. The Senior Loan was acquired to fund the first phase of construction on the Property. In order to mitigate the interest rate risk associated with LIBOR, the Corporation purchased an interest rate cap. In the event that LIBOR increases above 1.2% during the period June 6, 2013 to June 30, 2015, and above 1.6% during the period July 1, 2015 to July 1, 2016, the interest rate cap will be activated and any interest charged on the interest rates greater than 6.3% and 6.7% respectively, will be paid by the counterparty to the swap thereby minimizing the interest rate expense. As at March 31, 2014, the interest rate floor is in effect since LIBOR plus 5.1% was less than 6.2% per annum.

On January 14, 2014, the amount available under the Senior Loan was increased from USD \$40.95 million to USD \$43.01 million. The loan agreement has also been amended to allow 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.

On June 6, 2013, the U.S. Subsidiary and WWE collectively entered into the Mezzanine Loan (“**Mezzanine Loan**”) (subordinate financing). The Mezzanine Loan is a second priority secured loan for up to USD \$7,285,850 with interest accruing at 15% per annum, however no interest is payable on this loan until the interest reserve is fully utilized. At March 31, 2014, the interest reserve utilized was \$872,592. Repayment of the loan, for so long as the Senior Loan is outstanding, is 100% of Corporation’s proceeds from the sale of the released parcel after payment upon the Senior Loan of the senior lender partial release price and payment of reasonable, necessary and actual closing expenses incurred, excluding brokerage or other commission or compensation paid to any affiliate of the Corporation and limited to the following: (a) actual brokerage fees, not to exceed 6%; (b) actual transfer taxes levied on the sale to the extent paid; and (c) other actual, out of pocket closing costs, not to exceed 2.5%.

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.

WGIL entered into an agreement with the lender of the Senior Loan which guarantees that U.S. Subsidiary will make the payments of principal and interest due under the loan documents. WGIL also provided a guarantee that 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 WGIL has to cover cost overruns. WGIL also guarantees any losses incurred by the lender in connection with certain bad acts or particular events under the Senior Loan including, but not limited to, waste or intentional/grossly negligent damage to the property, and the misappropriation of funds. WGIL becomes fully liable for the Senior Loan if U.S. Subsidiary or WWE file bankruptcy or take advantage of other laws protecting debtors.

Bill Doherty, CEO of WGIL has also provided a personal guarantee for the Senior Loan in certain limited circumstances.

WGIL has entered into an agreement for the Mezzanine Loan with the lenders whereby WGIL guarantees that U.S. Subsidiary will complete the development of the project in accordance with the plans and on a lien-free basis. The lender will continue making advances to facilitate the completion, but WGIL has to cover cost overruns. WGIL 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. WGIL becomes fully liable for the loan if U.S. Subsidiary or WWE file bankruptcy or take advantage of other laws protecting debtors.

#### NON-FINANCIAL INDICATORS

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

## Key Milestones

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

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

The completion date of the Record Plat of Subdivision was October 2013. The recordation of this plat is no longer a pre-requisite to receiving a grading permit, and is not anticipated to impact other scheduled items. In addition to the activities above, technical plans have been approved for storm water, storm drain and fine grading erosion and sediment control and are under review for water, sewer and offsite construction at the MD 4 Woodyard Road interchange. The Special Purpose Detailed Site Plan, which includes descriptions of project amenities, transit circulation, conceptual landscaping, signage and other overarching details for the entire project was submitted and approved by the Planning Board on May 2, 2013. Based on construction to date, the Corporation did not achieve paving in order to deliver lots for the anticipated timeline of January 2014. The cumulative effects of starting construction much later in 2013 than planned, an extremely wet summer and a colder and wetter than normal winter all contributed to amending delivery of the finished lots to July 2014.

## SUMMARY OF QUARTERLY RESULTS

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

	Three months ended							
	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 30, 2012	September 30, 2012	June 30, 2012
Total assets (\$)	44,563,352	41,514,733	39,375,514	39,572,796	29,187,322	28,516,592	28,901,738	30,800,220
Total liabilities (\$)	29,688,448	27,538,800	25,969,280	25,270,859	15,745,938	15,105,001	17,240,776	20,177,776
Total equity (\$)	14,874,904	13,975,933	13,406,234	14,301,937	13,441,384	13,411,591	11,660,962	10,622,444
Total revenue (\$)	947	970	1,580	7,047	10,871	906,116	2,890,492	13,199
Total cost of sales (\$)	-	-	-	-	-	888,999	2,882,119	-
Gross margin (\$)	-	-	-	-	-	17,117	8,373	-
Expenses (\$)	(211,136)	(155,338)	(210,274)	(230,458)	(263,131)	(222,832)	(170,319)	(139,937)
Other items gain/(loss) \$	683,390	622,888	(452,464)	677,285	319,422	4,154	(22,458)	(12,519)
Net income/(loss) before tax (\$)	473,201	468,520	(661,158)	453,874	67,162	(201,561)	(184,404)	(139,257)
Deferred tax expense/(recovery)	(4,995)	419,007	-	-	-	-	-	-
Net income/(loss) after tax (\$)	478,196	49,513	(661,158)	453,874	67,162	(201,561)	(184,404)	(139,257)
Cumulative translation gain (\$)	420,775	349,297	(234,546)	351,281	188,919	(21,659)	-	-
Other comprehensive income / (loss) (\$)	898,971	398,810	(895,704)	805,155	256,081	(223,220)	(184,404)	(139,257)
Weighted average shares outstanding <sup>1</sup>	3,017,170	3,017,170	3,017,170	3,017,170	3,017,170	2,896,887	2,436,074	1,722,655
Basic net income/(loss) per share (\$)	0.16	0.02	(0.22)	0.15	0.02	(0.07)	(0.08)	(0.08)
Diluted net income/(loss) per share (\$)	0.08	0.01	(0.22)	0.07	0.01	(0.07)	(0.08)	(0.08)
Class B shares issued during the period	-	-	-	-	-	389,763	279,852	905,255
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	2,627,407	2,347,555

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

2 - The Corporation was formed on January 4, 2012. As a result, the period ended March 31, 2012 was from January 4, 2012 – March 31, 2012

The revenue and related cost of sales incurred in the third and 4th quarters of 2012 relate to the sale of 11.3% and 3.1% of the Property to WWE on August 20, 2013, and October 31, 2013, respectively. In the second quarter of 2013, there was significant increase in the assets and liabilities of the U.S. Subsidiary as a result of obtaining the project debt, incurring the development costs and capitalizing these costs into the land development inventory. At this time, financing was also used for the required pledged amounts as security for the Senior Loan. In the fourth quarter of 2013, the Corporation recognized a deferred tax expense relating to a deferred tax liability as a result of the significant increase in an unrealized foreign exchange gain against which no deferred tax asset could be fully offset.

## SUPPLEMENTAL INFORMATION

### Liquidity and Capital Resources

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

The Corporation's objectives when managing capital are to:

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

The Corporation manages the capital structure by using short and long term cash flow projections to determine that the amount of cash available to meet on-going obligations is either retained by the Corporation, available through construction loan facilities or is available through agreements with related parties. The Corporation may elect to use interest debentures to settle Debentures payable interest payments and has the ability to convert debentures payable to share capital 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 WGIL 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 other expenses of the Corporation. As at March 31, 2014, the Corporation has cash on hand of \$2,676,639 (December 31, 2013 - \$1,270,779).

The Corporation has a USD \$43 million secured Senior Loan with a US-based financial institution to be used to finance Phase 1 of the project. The construction loan consists of \$43.1 million loan facility, of which \$6.2 million can be used for issuance of letter of credits. The loan is guaranteed by WGIL, which is required to maintain a minimum level of net worth stated in the guarantee agreement. On January 14, 2014, the Corporation, provided \$6.1 million in letters of credit under the Senior Loan to Prince George's County, Maryland for purposes of providing required credit assurances with respect to the Corporation's performance bond facility agreement. It is anticipated that further construction loans will be required to fund the costs of development for Phase 2 and 3 of the Project.

On June 6, 2013, the U.S. Subsidiary and WWE collectively entered into the Mezzanine Loan. The Mezzanine Loan is a second priority secured loan for up to USD \$7,285,850 with interest accruing at 15% per annum and payable from cash flow of asset sales. 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 fully utilized to fund the first phase of purchase and construction on the Property.

On May 16, 2013, the U.S. Subsidiary entered into a demand loan agreement with Walton International Group (USA), Inc., for an amount up to US\$3,500,000. The funds will be used to cover pre-development costs incurred prior to obtaining arm's length construction loans. On May 31, 2013, \$2,780,089 was drawn. On June 7, 2013, this amount was repaid along with \$5,598 of interest incurred. \$719,911 of the Demand Loan facility remains available for future draws by the U.S. Subsidiary.

#### Cash Requirements

The table summarizes the Corporation's undiscounted contractual obligations as at March 31, 2014:

	Debentures payable	Interest payable	Project debt	Accounts payables and accrued liabilities	Due to related party	Total
	\$	\$	\$	\$	\$	\$
2014	-	1,206,868	-	632,198	41,646	1,880,712
2015	-	1,206,868	-	-	-	1,206,868
2016	-	5,207,041	11,931,616	-	-	17,138,657
2017	-	1,204,383	-	-	-	1,204,383
2018 and thereafter	15,085,850	2,413,736	-	-	-	17,499,586

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 March 31, 2014, this amount is \$2,172,298.

#### 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.

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

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

	March 31, 2014	March 31, 2013
	\$	\$
Cash flows from operating activities	(224,794)	(298,440)
Cash flows from financing activities	1,501,104	-

#### Off-Balance Sheet Arrangements

As a result of collectively entering into the Senior Loan with WWE, while each party accounts for its proportionate share of the long-term debt, management has assessed risk resulting from U.S. Subsidiary's relative size and proportion of interest in the project from the joint and several nature of the collective agreement whereby, in the unlikely event of a default on the 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 \$12,974,825, and the unrecorded portion to which the Corporation may be party to is \$2,172,298. This amount has not been recognized on the statements of financial position.

#### Financial Instruments

The Corporation's financial instruments consist of interest rate cap, accounts receivable, due from related party, deposits, restricted cash, cash, debentures payable, project debt, interest payable, accounts payable and accrued liabilities, derivative financial liability, and amounts due to related parties. Accounts receivable, due from related party, deposits, restricted cash and cash are classified as loans and receivables, and are carried at amortized cost using the effective interest rate method. Debentures payable, 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 payable and project debt are determined using the income approach, primarily making use of level 3 (unobservable) inputs. Using the income approach, the expected future cash commitments arising from these financial liabilities are discounted by the Corporation's effective interest rate.

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

## Liquidity risk

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

## Interest rate risk

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

Specifically, the LIBOR being 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 Loans' interest rate as follows:

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

## Currency risk

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

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

At March 31, 2014 if the Canadian dollar had strengthened by 10% against USD with all other variables held constant, comprehensive income for the year would have been \$1,285,624 less, mainly as a result of foreign exchange losses on translation of USD denominated project debt and accounts payable and accrued liabilities compensated by foreign exchange gains on translation of USD denominated cash and restricted cash.

Conversely, if the Canadian dollar had weakened by 10% against USD with all other variable held constant, comprehensive income for the year would have been \$1,285,624 higher.

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

As at March 14, 2014, 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

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

## Commitments

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

	Servicing fee (\$)	Management fee (\$)	Total (\$)
2014	105,395	421,580	526,975
2015	139,888	559,552	699,440
2016	139,888	559,552	699,440
2017	139,888	559,552	699,440
2018 and thereafter	139,888	697,524	837,412
Total	664,947	2,797,760	3,462,707

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.

## 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, 2012, except for the following accounting standards and interpretations that were adopted on January 1, 2014.

### Fair value measurement

The Corporation adopted IFRS 13: Fair Value Measurement ("**IFRS 13**") for the annual year beginning on January 1, 2013. IFRS 13 is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received upon the sale of an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. The standard also requires an increase in the disclosure around valuation methods and inputs used in measuring fair value in the notes financial statements. Besides the interest rate cap and the derivative financial liability, the corporation does not carry any assets, liabilities or equity at fair value. The adoption of IFRS 13 has resulted in increased disclosure around fair value.

## Offsetting Financial Assets and Liabilities

*IAS 32 Financial Instruments - Presentation* (“**IAS 32**”) was issued with amendments in December 2011. The amendments clarify certain aspects of the existing guidance on offsetting financial assets and financial liabilities. The IASB also amended *IFRS 7 Financial Instruments - Disclosure* (“**IFRS 7**”) to require information about all recognized financial instruments that are set off in accordance with IAS 32. The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

## Levies

International Financial Reporting Interpretation Committee (“**IFRIC**”) 21 is an interpretation of IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”(“**IAS 37**”). IAS 37 sets out criteria for the recognition of a liability to pay a levy imposed by government, other than income tax. The interpretation requires the recognition of a liability when the event, identified by the legislation as triggering the obligation to pay the levy occurs. This standard is required to be applied for accounting periods beginning on or after January 1, 2014. The Corporation has not yet determined the impact of IFRIC 21 on its consolidated financial statements.

## CORPORATE GOVERNANCE

### Board of Directors

The mandate of the Board of Directors 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 facilitates its exercise of independent supervision over management through, among other things:

The adoption by the Board of Directors of a written mandate requiring that a majority of the members of the board of directors be independent of management; and

The requirement, in the Board of Directors’ written mandate for its audit committee, that the audit committee be comprised solely of directors that are independent of management.

The Board of Directors is comprised of Clifford H. Fryers, Jon N. Hagan and Richard R. Singleton. Within the meaning of National Instrument 52-110 – Audit Committees (“**NI 52-110**”), Jon N. Hagan and Richard R. Singleton are independent of management of the Corporation, while Clifford H. Fryers is not independent as his spouse is the Corporate Secretary of the Corporation. Mr. Fryers is the Chairman of the Board of Directors.

The only standing committee of the Board of Directors is the audit committee (the “Audit Committee”), which consists of Richard R. Singleton and Jon N. Hagan. Mr. Hagan is the Chairman of the Audit Committee.

## Personal Profiles

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

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

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

**Richard R. Singleton** – Mr. Singleton was one of the lead architectural partners with Cohos Evamy Partners, Architects, Engineers, Planners (now called Dialogue Design) for 36 years. He primarily focused on larger commercial projects and planning work in Alberta and throughout Canada. Mr. Singleton has been retired since 2008, and, during that time, he has consulted and provided assistance to developers in various planning and building projects. During his career, Mr. Singleton's work included major land planning and land parcel development projects primarily in Alberta and other major commercial projects in other parts of Canada. His experience spanned land use project financial proforma analyses, budgeting for land use and development projects, concept design and approval agency policy planning initiatives. Mr. Singleton is also on the board of directors 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 Big Lake Development Corporation, being the general partner of Walton Big Lake Development L.P.; Walton Edgemont Development Corporation; and Walton Yellowhead Development Corporation.

Mr. Singleton is a past director of the National Music Centre (Cantos Foundation), a member of the Advisory Board of Thermal Systems KWC Ltd., a past member of the Calgary Arts Development Authority, Member of the board of Kahanoff Center of Charitable Activities and sits on its building committee, Member of the building Committee of the YWCA Calgary and a board member of a private real estate investment group. He was previously a member of the board of advisors of Walton Global Investments Ltd.

Mr. Singleton holds a Bachelor of Architecture from the University of Manitoba and is LEED (Leadership in Energy and Environmental Design) accredited. LEED is a set of rating systems for the design, construction and operation of high performance green buildings, homes and neighbourhoods.

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

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

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

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

## 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 \$25,000 per year, paid quarterly in advance. This amount was determined by the Corporation and the directors prior to the retention of 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 identify 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 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 Jon N. Hagan and Richard R. Singleton. Each member of the Audit Committee is "independent" as contemplated by NI 52-110 and each is financially literate, meaning that each has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the financial statements of the Corporation.

## Ethical Business Conduct

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

The Corporation has established a Code of Business Conduct and Ethics to which all directors, officers and employees of the Corporation are required to adhere. This code requires that all such individuals conduct themselves in a professional and ethical manner, and that they must not condone or encourage unethical conduct. This code also requires that any individuals who are aware of dishonest activities or conduct to report the conduct to the President and CEO.

## 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.

Throughout the U.S., the real estate market has been experiencing increased weakness and volatility. The recent recession in the United States and the increased default rates on sub-prime mortgages in the U.S. and the effect of these increased default rates on the mortgage backed securities market in the U.S. has significantly reduced the amount of debt financing available for real estate projects in the U.S. Some experts believe that as a consequence of significant drops in prices in the real estate sector, the current value of real estate investments could considerably decrease. This could mean that the development of the Property may not be completed in accordance with the existing plan, on time or on budget, or that the Property may decrease in value. These factors may have a negative impact on the value of the Corporation's interest in the Property, on the length of time the Corporation will be required to hold the Property, on the purchase price of the acreage from the Property when eventually sold and on the value of the Debentures and Class B shares.

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

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

## 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 dividends and other distribution on the Class B shares, those amounts will have to be converted into Canadian dollars at the Canadian/U.S. dollar exchange rate prevailing at those times.

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

It is anticipated that further construction loans will be required to fund the costs of the development beyond the Senior Loan and the Mezzanine Loan. There can be no guarantee that such construction loans can or will be obtained on similar terms as the Senior Loan and the Mezzanine 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 and the Class B shares. The Corporation and the U.S. Subsidiary may exercise this power in a number of circumstances including (i) if they wish to replace the Senior Loan or the Mezzanine Loan for any reason, (ii) if the Senior Loan or the Mezzanine Loan is terminated for any reason, or (iv) when other credit facilities, loans or borrowings are required to be entered into by them to pay for the development of the Property, including development of the Property, or to pay for other of their costs. Any such borrowing and the granting of security, which may be from arm's length third parties and/or, subject to compliance with all applicable laws and receipt of all required regulatory approvals (if any), from affiliates of WAM or from affiliates of holders of Debentures or Class B shares, will be on such terms as the Corporation and/or the U.S. Subsidiary determines to be appropriate. Any such borrowings may be evidenced by promissory notes or other evidences of indebtedness. Such borrowings may include securities offerings by the Corporation and/or the U.S. Subsidiary of indebtedness, such as notes or debentures, which may or may not be secured by their assets, including the Property.

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

## Regulatory Approvals and Third Party Approvals

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

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

## Environmental Matters and Other Concerns

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

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

## Political and Economic Climate

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

## Changes in Legislation and Policies

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

## Competition

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