

Unaudited Interim Condensed Consolidated Financial Statements

Walton Westphalia Development Corporation

For the three months ended June 30, 2012 and the period January 4, 2012 to June 30, 2012

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Walton Westphalia Development Corporation

Consolidated Statement of Financial Position

UNAUDITED

AS AT JUNE 30, 2012

(expressed in Canadian dollars)

	June 30, 2012 \$
ASSETS	
Land development costs (note 4)	331,398
Land held for development (note 5)	25,692,656
Accounts receivable	4,580
GST recoverable	437
Due from related party (note 8)	130
Cash	4,751,162
TOTAL ASSETS	30,780,363
LIABILITIES	
Debentures payable (note 6)	11,080,800
Debenture interest payable (note 6)	191,228
Loan payable to related parties (note 8)	8,842,066
Loan interest payable to related parties (note 8)	2,657
Accounts payable and accrued liabilities	26,237
Other liabilities (note 9)	81,000
Due to related party (note 8)	1,825
TOTAL LIABILITIES	20,225,813
SHAREHOLDERS' EQUITY	
Share capital (note 10)	11,076,380
Accumulated deficit	(521,830)
TOTAL EQUITY	10,554,550
TOTAL LIABILITIES & EQUITY	30,780,363

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

Walton Westphalia Development Corporation
Consolidated Statements of Comprehensive Loss

UNAUDITED

FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND THE PERIOD OF JANUARY 4, 2012 TO JUNE 30, 2012

(expressed in Canadian dollars)

	Three months ended June 30, 2012 \$	For the period January 4, 2012 to June 30, 2012 \$
REVENUE		
Interest Income	13,199	15,785
EXPENSES		
Organizational costs	135,788	352,133
Management fees (note 8)	79,741	87,825
Realized foreign exchange loss/(gain)	24,720	24,720
Professional fees	21,197	25,822
Servicing fees (note 8)	19,935	21,956
Director fees (note 8)	13,032	26,064
Office and other expenses	6,032	11,206
Unrealized foreign exchange loss/(gain)	(12,201)	(12,111)
	288,244	537,615
NET LOSS AND COMPREHENSIVE LOSS	275,045	521,830
Basic and diluted net loss per share (note 10)	0.16	0.54

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

Walton Westphalia Development Corporation
Consolidated Statement of Changes in Shareholders' Equity
 UNAUDITED
 FOR THE PERIOD JANUARY 4, 2012 TO JUNE 30, 2012

(expressed in Canadian dollars)

	Class A Voting Common Shares		Class B Non-voting Common Shares		Accumulated Deficit	Total
	# of Shares	Amount \$	# of Shares	Amount \$	Amount \$	Amount \$
Balance – January 4, 2012	100	100	-	-	-	100
Shares issued for cash	-	-	2,347,555	11,737,776	-	11,737,776
Share issuance costs	-	-	-	(661,496)	-	(661,496)
Net loss and comprehensive loss for the period	-	-	-	-	(521,830)	(521,830)
Balance – June 30, 2012	100	100	2,347,555	11,076,280	(521,830)	10,554,550

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

Walton Westphalia Development Corporation

Consolidated Statements of Cash Flows

UNAUDITED

FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND THE PERIOD OF JANUARY 4, 2012 TO JUNE 30, 2012

(expressed in Canadian dollars)

	Three months ended June 30, 2012 \$	For the period January 4, 2012 to June 30, 2012 \$
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net loss for the period	(275,045)	(521,830)
Items not affecting cash		
Unrealized foreign exchange loss/(gain)	(12,201)	(12,112)
Changes in non-cash working capital items		
Acquisition of land held for development (note 6)	-	(25,189,769)
Increase in land development costs (note 4)	(403,782)	(780,595)
Increase in trade receivables	(2,051)	(4,580)
Increase in GST recoverable	(437)	(437)
Increase in due from related party (note 8)	(130)	(130)
Increase in interest payable	173,842	191,229
Increase/(decrease) in accounts payable and accrued liabilities	3,445	26,237
Increase/(decrease) in due to related party (note 8)	(869,995)	4,482
Increase/(decrease) in loan interest payable	(96,083)	-
	<u>(1,482,437)</u>	<u>(26,287,505)</u>
INVESTING ACTIVITIES		
Contributions from investors – Units not yet issued (note 9)	<u>81,000</u>	<u>81,000</u>
FINANCING ACTIVITIES		
Issuance of Class A voting common shares	-	100
Issuance of Class B non-voting common shares, net of issuance costs (note 10)	4,243,384	11,076,279
Issuance of debentures, net of issuance costs (note 6)	4,243,383	11,076,279
(Decrease)/Increase in loan payable	<u>(6,534,092)</u>	<u>8,842,066</u>
	<u>1,952,675</u>	<u>30,994,724</u>
Effect of exchange rate on cash	30,119	(37,057)
Increase in cash	581,357	4,751,162
Cash – Beginning of period	<u>4,169,805</u>	<u>-</u>
Cash – End of period	<u><u>4,751,162</u></u>	<u><u>4,751,162</u></u>
SUPPLEMENTAL INFORMATION		
Cash interest received	11,149	11,206
Excluded from the change in land development costs is capitalized non-cash interest on the debentures (note 6)		

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

Walton Westphalia Development Corporation

Notes to Consolidated Financial Statements

UNAUDITED

FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND THE PERIOD JANUARY 4, 2012 TO JUNE 30, 2012

(expressed in Canadian dollars)

1. Nature of Business

Walton Westphalia Development Corporation (the “**Corporation**”) was incorporated under the laws of the province of Alberta on January 4, 2012. The wholly-owned subsidiary of the Corporation, Walton Westphalia Development Corporation (USA), LLC (“**U.S. Subsidiary**”) was incorporated under the laws of the state of Maryland on January 6, 2012.

The Corporation and the U.S. Subsidiary were formed to provide subscribers with the opportunity to participate in the development of the approximately 310 acre “Westphalia” property located in Prince George’s County, Maryland, U.S.A. (the “**Property**”) through the purchase of units in the Corporation. Each unit issued by the Corporation (“**Unit**”) through its initial public offering (“**IPO**”) and private placements (“**Private Placements**”) was comprised of a \$5.00 principal amount of offering debenture (“**Debenture**”) and one Class B non-voting share (“**Class B Shares**”) at a price of \$5.00 per share.

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

- a) acquire the Property;
- b) 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;
- c) construct municipal services infrastructure on the Property in phases to provide a controlled supply of serviced lots to the marketplace; and
- d) use the revenue from the sale of the serviced lots and parcels to repay construction loans and other obligations of the Corporation and the U.S. Subsidiary and then pay the remainder to the holders of the Debentures and Class B Shares by paying the interest and principal on the Debentures and by declaring a dividend or dividends on the Class B Shares and/or winding up the Corporation and distributing its assets to the holders of the Class B Shares.

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

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

These consolidated financial statements were authorized for issue by the board of directors on August 22, 2012. The board of directors have the power to amend and reissue the consolidated financial statements.

Walton Westphalia Development Corporation

Notes to Consolidated Financial Statements

UNAUDITED

FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND THE PERIOD JANUARY 4, 2012 TO JUNE 30, 2012

(expressed in Canadian dollars)

2. Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34: *Interim Financial Reporting* and using accounting policies that are consistent with IFRS as issued by the International Accounting Standards Board. As this is the first year of operations of the Corporation, these interim financial statements have also been prepared in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's audited financial statements as at and for the period ended January 4, 2012, which are included in the Prospectus ("**Prospectus**") of the Corporation dated February 27, 2012.

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

The statement of financial position has been prepared using a liquidity based presentation because the operating cycle of the Corporation revolves around the sale of land, the timing of which is uncertain. As a result, presentation based on liquidity is considered by management to provide information that is more reliable and relevant to the users of the consolidated financial statements. With the exception of land development costs (note 4), land held for development (note 5) and debentures payable (note 6), all assets and liabilities are current in nature and are expected to be settled in less than twelve months.

3. Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, equity and contingencies at the date of the financial statements, and the reported amounts of revenue 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 costs and land held for development

In assessing the recoverability of the land development costs and land held for development, 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 recovery of land development costs and land held for development to differ materially from the carrying amount of those assets.

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FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND THE PERIOD JANUARY 4, 2012 TO JUNE 30, 2012

(expressed in Canadian dollars)

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.

Consolidation

The consolidated interim financial statements include the accounts of the Corporation and its U.S. Subsidiary from the date of acquisition of January 6, 2012. The date of acquisition is the date on which the Corporation obtained control of U.S. Subsidiary through the Corporation's acquisition of all outstanding voting rights. Control exists on this date as the Corporation has the ongoing ability to directly control the operating, investing and financing activities of U.S. Subsidiary. The consolidation is accounted for in accordance with IAS 27: *Consolidated and Separate Financial Statements* and IFRS 3: *Business Combinations*. All inter-company transactions and balances have been eliminated.

Foreign Currency Translation

The Corporation accounts for foreign exchange translation in accordance with IFRS 21: *Effects of Changes in Foreign Exchange Rates*. Items included in the consolidated financial statements of the Corporation and its U.S. Subsidiary are measured using the currency of the primary economic environment in which the individual entity operates (the "**Functional Currency**"). The Corporation's Functional Currency is the Canadian dollar while the U.S. Subsidiary's Functional Currency is the U.S. dollar. Significant judgment was used by management in determining the Functional Currency of the Corporation. Management's selection of a Canadian dollar Functional Currency was based on the currency which influences the costs of the Corporation, the currency of the Corporation's financing and the currency in which dividends are received from the U.S. subsidiary. The Corporation has selected a presentation currency of Canadian dollars for the consolidated financial statements.

(a) Foreign Currency Transactions

Transactions completed in a currency other the Functional Currency are translated into the Functional Currency using the foreign currency exchange rate prevailing at the time of the transaction. Each reporting period, monetary assets and liabilities denominated in foreign currencies are translated in the statement of financial position at the foreign currency exchange rates prevailing at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the historical foreign currency exchange rate at the date of the transaction. Foreign exchange gains and losses on the translation of monetary assets and liabilities are included in net income as unrealized gains and losses until the item has been settled, at which point the Corporation records them as realized gains and losses.

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FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND THE PERIOD JANUARY 4, 2012 TO JUNE 30, 2012

(expressed in Canadian dollars)

(b) Translation to the Presentation Currency

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

- (i) revenues and expenses for each statement of comprehensive income is translated using the average foreign currency exchange rate for the period;
- (ii) assets and liabilities for each statement of financial position is translated using the foreign currency exchange rate prevailing at the reporting date; and
- (iii) all resulting exchange differences are recognized in other comprehensive income.

Land Development Costs

Land development costs are allocated to the land to which they relate. The Corporation capitalizes all direct costs related to land development. These costs include borrowing (financing) costs such as interest on debt specifically related to the development and property taxes, but exclude general and administrative overhead expenses. At the time sales are recognized, the Corporation will also capitalize the estimated unexpended portion of costs relating to the lots that are sold. Land development costs are then relieved through cost of land sold on a per acre basis.

Land development costs are assessed for indicators of impairment quarterly. When indicators of impairment exist, the aggregate of the carrying value of land development costs and land held for development is compared against the net realizable value. Where the carrying amount exceeds the net realizable value, the difference is recognized as an impairment loss. If the impairment to the land development costs subsequently decreases, the recovery is capitalized to land held for development to the extent of the improvement.

Land Held for Development

Land held for development has been designated by management as inventory property because it is the intention of the Corporation to service the Property, and to construct municipal services infrastructure on the Property, for eventual sale in the ordinary course of business. As inventory property, land held for development is carried at acquisition cost, which is based on the price paid by the Corporation for the Property plus other direct purchase expenses. Land held for development is relieved through cost of land sold on a per acre basis as sales are recognized.

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FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND THE PERIOD JANUARY 4, 2012 TO JUNE 30, 2012

(expressed in Canadian dollars)

Land held for development is assessed for indicators of impairment quarterly. When indicators of impairment exist, the aggregate of the carrying value of land development costs and land held for development is compared against the net realizable value. Where the carrying amount exceeds the net realizable value, the difference is recognized as an impairment loss. If the impairment to the land held for development subsequently decreases, the recovery is capitalized to land held for development to the extent of the improvement.

Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The Corporation considers land development costs and land held for development to be qualifying assets. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Financial Instruments

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

Financial instruments are recognized initially at fair value, which is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties. Subsequent measurement depends on how the financial instrument has been classified. Accounts receivable, due from related party and cash have been classified as loans and receivables, and are carried at amortized cost using the effective interest rate method. Debentures payable, debenture interest payable, loan payable, loan interest payable, accounts payable and accrued liabilities, and due to related parties have been classified as other financial liabilities, and are carried at amortized cost using the effective interest rate method. All forward contracts entered into by the Corporation are classified as fair value through profit or loss and are carried at fair value. Changes in fair value flow through the statement of comprehensive income unless the hedge relates to a qualifying asset of the Corporation.

Debentures Payable

Debentures payable are financial liabilities of the Corporation and are carried at amortized cost using the effective interest rate method. Since the debentures payable were initially recognized at a discount, the effective interest rate on the debentures payable exceeds the stated interest rate on the debentures. Interest is calculated on the carrying amount of the debentures using the effective interest rate and is allocated to interest payable based on the stated interest rate, with the balance being allocated to debentures payable.

Walton Westphalia Development Corporation

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UNAUDITED

FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND THE PERIOD JANUARY 4, 2012 TO JUNE 30, 2012

(expressed in Canadian dollars)

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

Cash

Cash consists of amounts on deposit with banks.

Share Capital

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

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

Revenue Recognition

Land is sold by way of an agreement of purchase and sale. Revenue is recognized on these sales once the agreement is duly executed and delivered, the collection of sales proceeds is reasonably assured, the purchaser can commence construction, and all other material conditions are met.

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

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

Organizational costs

Organizational costs represent legal, accounting, audit, printing, filing, transfer agent and other costs incurred by the Corporation associated with the preparation of the IPO and Private Placements (collectively, the "Offerings"). These costs are expensed as incurred.

Current and Deferred Income Tax

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

Walton Westphalia Development Corporation

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FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND THE PERIOD JANUARY 4, 2012 TO JUNE 30, 2012

(expressed in Canadian dollars)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period.

Deferred income tax is recognized using the liability method, recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates that have been enacted, or substantially enacted, by the date of the financial statements and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences and unused tax losses can be utilized.

Comprehensive Loss

Comprehensive loss consists of net loss and other comprehensive loss (“**OCL**”). OCL represents changes in shareholders’ equity during a period arising from transactions and other events with non-owner sources, and includes, but is not limited to, exchange differences on the translation of financial statements into the presentation currency, and changes in the fair value of the effective portion of the cash flow hedging instruments.

Future Changes in Accounting Policy

Financial instruments

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

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

Consolidated financial statements

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

Walton Westphalia Development Corporation

Notes to Consolidated Financial Statements

UNAUDITED

FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND THE PERIOD JANUARY 4, 2012 TO JUNE 30, 2012

(expressed in Canadian dollars)

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

Joint Arrangements

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

IFRS 11 is effective for annual periods beginning after January 1, 2013, with early adoption permitted. The Corporation will adopt IFRS 11 for the annual year beginning on January 1, 2013. Although the Corporation had not entered into any joint arrangements as at June 30, 2012, the Corporation may enter into such arrangements during the 2012 year. Management will evaluate the implications of IFRS 11 on the financial statements of the Corporation if circumstances change.

Disclosure of interests in other entities

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

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

Fair value measurement

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

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

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FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND THE PERIOD JANUARY 4, 2012 TO JUNE 30, 2012

(expressed in Canadian dollars)

Presentation of other comprehensive income

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

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

4. Land Development Costs

The following table provides a breakdown of costs capitalized to land development costs by nature as at June 30, 2012:

	January 4, 2012 to June 30, 2012 \$
BALANCE – BEGINNING OF PERIOD	-
Financing	612,201
Planning	171,375
Effect of changes in foreign exchange rates	(452,178)
BALANCE – END OF PERIOD	331,398

Land development costs are relieved through cost of goods sold at the time that revenue from lot sales is recognized. The timing of revenue recognition from the sale of lots is uncertain because it is dictated by the timing of cash receipts by the Corporation, which is influenced by factors that are beyond the control of management, such as market demand and the timing of cash flows of our customers. As a result, while a portion of land development costs could be current in nature, it is not possible for management to reasonably estimate the portion that will be realized within the next twelve months.

Walton Westphalia Development Corporation

Notes to Consolidated Financial Statements

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(expressed in Canadian dollars)

5. Land Held for Development

Land held for development consists of the U.S. Subsidiary's 100% interest in the Property which was acquired on February 14, 2012. The carrying amount of land held for development as at June 30, 2012 was comprised of the following:

	January 4, 2012 to June 30, 2012 \$
BALANCE – BEGINNING OF PERIOD	-
Purchase of land	23,692,806
Closing costs	1,496,963
Effect of changes in foreign exchange rates	502,887
BALANCE – END OF PERIOD	<u>25,692,656</u>

Land held for development is relieved through cost of goods sold at the time that revenue from lot sales is recognized. The timing of revenue recognition from the sale of lots is uncertain because it is dictated by the timing of cash receipts by the Corporation, which is influenced by factors that are beyond the control of management, such as market demand and the timing of cash flows of our customers. As a result, while a portion of land held for development could be current in nature, it is not possible for management to reasonably estimate the portion that will be realized within the next twelve months.

6. Debentures Payable and Interest Payable

As of June 30, 2012, the Corporation has issued a total of 2,347,555 debentures as part of the Offerings. The debentures are unsecured and bear interest at a rate of 8%. Interest on the debentures is calculated based on the face value of the debentures on March 31, and is payable annually on June 30, commencing in the year 2013. The debentures mature on March 31, 2019 at a face value of \$5.00, although the maturity date can be extended by the Corporation at its sole discretion until March 31, 2021. The Corporation may also, in its sole discretion, (i) repay all or any portion of the principal amount of, or interest under, the debentures payable through the issuance of Class B shares, (ii) evidence its obligation to pay all or any portion of the interest under the debentures through the issuance of Interest debentures, and/or (iii) convert all or any principal amount of the offering debentures into Class B shares.

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(expressed in Canadian dollars)

The following table reconciles the change in debentures payable during the period:

	January 4, 2012 to June 30, 2012 \$
BALANCE – BEGINNING OF PERIOD	-
Debentures issued through the IPO & Private Placements	11,737,775
Debenture issue costs	(661,496)
Non-cash interest on the debentures	4,521
BALANCE – END OF PERIOD	11,080,800

The debentures payable that were issued by the Corporation bear interest at a rate of 8% per annum. Interest is calculated based on the face value of the debentures payable as at March 31 of each year, and is payable on June 30. The following table reconciles the change in interest payable during the period:

	January 4, 2012 to June 30, 2012 \$
BALANCE – BEGINNING OF PERIOD	-
Accrued interest on the debentures payable	191,228
BALANCE – END OF PERIOD	191,228

As at June 30, 2012, WIGI owned 172,500 of the outstanding Units of the Corporation. As a Unitholder, the balance of debenture payable and interest on debentures payable which was related to WIGI at June 30, 2012 was \$817,654 and \$19,418 respectively.

7. Financial Instruments

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

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(expressed in Canadian dollars)

a.) Risk – overview

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

	RISK			
	CREDIT	LIQUIDITY	INTEREST RATE	CURRENCY
MEASURED AT COST OR AMORTIZED COST				
Cash	X		X	X
Accounts receivable	X			
Due from related party	X			
Debentures payable		X	X	
Debenture interest payable		X		
Accounts payable and accrued liabilities		X		
Other liabilities		X		
Due to related party		X		
Loan payable		X	X	
Loan interest payable		X		

b.) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash held with banks, accounts receivable and due from related party. While the maximum exposure to credit risk is equal to the carrying value of these financial instruments, management believes the Corporation's exposure to credit risk is minimal for the following reasons:

Cash, due from related party and accounts receivable - Cash is on deposit with a major financial institution which substantially minimizes the exposure of cash to credit risk. The balance of other receivable is comprised of interest receivable from cash on deposit with the bank. The interest is received within a week after the quarter end which reduces the credit risk significantly. The balance of due from related party is typically not material and is settled in accordance with the terms of the contract with the related party, and as a result, the Corporation's exposure to credit risk from due from related party is also not significant.

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c.) 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 adequacy of its capital resources (see note 12) and by managing cash receipts and payments. The liabilities which expose the Corporation to liquidity risk are as follows:

Accounts payable and accrued liabilities, other liabilities and due to related party - These liabilities are a result of the normal operations of the Corporation and are current in nature. Management considers exposure to liquidity risk from these financial instruments to be minimal because the balances owing at June 30, 2012 will be funded by cash held by the Corporation. The obligations relating to such future commitments will be funded through a combination of future revenues generated by the Corporation, and the capital resources available to the Corporation, as disclosed in note 12.

Debentures payable and debenture interest payable - The Corporation manages the liquidity risk associated with the debentures payable by continuously monitoring its working capital to ensure it has sufficient capital to fund the annual interest payments due on the debentures payable. Such capital is derived from a combination of future revenues generated by the Corporation, and the capital resources available to the Corporation. The Corporation intends to repay the debentures payable through future revenues generated by the Corporation.

Loan payable and loan interest payable - The Corporation manages the liquidity risk connected with its loan from WIGI (note 7) through corporate planning and cash flow management. The Corporation anticipates that it will repay its note payable to WIGI by the maturity date of October 31, 2012 through the proceeds raised from the Private Placements and a partial sale of land held for development to Walton Westphalia Europe, LP (note 8).

Maturity Analysis of liabilities – As at June 30, 2012

	Less than 90 days	Between 91 days and 1 year	Greater than 1 year	Total
Debentures payable (\$)	-	-	11,080,800	11,080,800
Debenture interest payable (\$)	-	191,228	-	191,228
Loan payable (\$)	-	8,842,066	-	8,842,066
Loan interest payable (\$)	2,657	-	-	2,657
Trade payables and accrued liabilities (\$)	5,892	20,345	-	26,237
Other liabilities (\$)	81,000	-	-	81,000
Due to related party (\$)	1,825	-	-	1,825

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d.) Interest rate risk

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

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

Debentures interest payable - The debentures payable have a fixed 8% interest rate and, as a result, do not expose the Corporation to any interest rate risk.

Loan interest payable – The loan interest is calculated based on the principal amount of the loan outstanding during the year at the HSBC Bank Canada U.S. base rate plus a 1.75% fixed rate. The HSBC Bank Canada U.S. base rate is subject to change which exposes the Corporation interest risk. Assuming that the balance of the loan payable remains unchanged from June 30, 2012, and that the change in the interest rate was effective from January 4, 2012, a change in the U.S. base rate would have impacted the total interest capitalized as follows:

	Rate Analysis – January 4, 2012 to June 30, 2012			
	+ 0.5 %	+ 1.0 %	- 0.5 %	- 1.0 %
	\$	\$	\$	\$
Capitalized interest on loan	21,501	43,002	(21,501)	(43,002)

e.) Foreign Currency risk

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

The Corporation is exposed to foreign exchange risk because the operations, development expenditures and construction loans are denominated in currencies other than in the Canadian dollar, primarily being the U.S. dollar. A change in the exchange rate between the Canadian and U.S. dollar would have impacted the net asset of the Corporation as follows:

	Rate Analysis – January 4, 2012 to June 30, 2012		
	Carrying Amount of Assets	5% increase in US\$	5% decrease in US\$
	\$	\$	\$
Net assets exposed to currency risk (CDN)	26,779,446	1,338,972	(1,338,972)

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To manage this risk, the Corporation monitors changes in foreign exchange rates to determine if and when U.S. dollars should be converted to Canadian dollars. During the period of January 4, 2012 to June 30, 2012, the Corporation entered into foreign exchange forward contracts to fix the purchase price of the Property. These contracts were settled during the first quarter of 2012. As part of the Corporation's on-going risk management strategy, US construction funding will be used for US denominated expenditures to further mitigate foreign currency risk exposure.

As at June 30, 2012, the Corporation did not have any outstanding foreign currency forward contracts.

8. Related Party Transactions

WAM, Walton International Group Inc. ("**WIGI**"), WDM, 1389211 Alberta Ltd., Walton Maryland, LLC ("**Walton Maryland**"), and Walton Westphalia Europe, LP ("**WWE**") are all related to the Corporation by virtue of common management. All transactions entered into between the related parties during the period of January 4, 2012 to June 30, 2012 were under terms and conditions agreed upon between the parties. With the exception of the loan due to WIGI, 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.

Loan and Interest Payable

The Corporation entered into a loan agreement dated February 6, 2012, as amended February 27, 2012, with WIGI whereunder WIGI agreed to provide the Corporation with a loan in the maximum amount of Cdn \$23,100,000 bearing an interest rate of the U.S. "base rate" of HSBC Bank of Canada, from time to time, plus 1.75%.

The loan is secured by security over the assets of the Corporation and the U.S. Subsidiary, including over the Property. All available funds from the Offerings, other than amounts placed into working capital, will be utilized by the Corporation to pay down the amounts owing under the loan within ten business days of receipt of the available funds. Any outstanding principle balance and accrued interest on the loan must be repaid by the Corporation to WIGI on, or before October 31, 2012.

As at June 30, 2012, the total amount owing under this loan was \$8,842,066. For the period of January 4, 2012 to June 30, 2012, \$281,255 in interest has been accrued on the loan and \$278,598 has been paid, leaving an outstanding interest accrual in the amount of \$2,657 as of June 30, 2012. All interest incurred on the loan has been capitalized to land development costs because the proceeds of the loan were used to finance the acquisition of the Property.

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Due from/to Related Parties

The balance due from the related party as at June 30, 2012 is outlined in the table below.

	June 30, 2012 \$
WAM	130
Total	<u>130</u>

The balance due to the related party as at June 30, 2012 is outlined in the table below.

	June 30, 2012 \$
WIGI	1,825
Total	<u>1,825</u>

Walton Maryland, LLC

On February 6, 2012, Walton Maryland, the U.S. Subsidiary and the Corporation entered into a loan agreement whereunder Walton Maryland agreed to loan the amount of U.S. \$12,000,000 to the U.S. Subsidiary at an interest rate of the U.S. "base rate" of HSBC Bank Canada, from time to time, plus 1.75%. The purpose of the loan was to provide the U.S. Subsidiary with cash to acquire an interest in the Property. On March 23, 2012, the U.S. Subsidiary repaid the full amount of the loan, plus accrued interest, through the U.S. dollars provided to the U.S. Subsidiary by the Corporation. The funds were provided to the U.S. Subsidiary from the net proceeds received from the IPO. All interest incurred on this loan has been capitalized to land development costs (note 4) because the loan was entered into for the purpose of acquiring the Property.

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Walton Development and Management L.P.

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.
- 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 an cash payments or other distributions equal to \$10.00 per Unit, plus an 8% priority return. The priority return is calculated on that \$10.00 amount, reduced by any cash payments or distributions by the Corporation.

During both the three months ended June 30, 2011 and the period January 4, 2012 to June 30, 2012, the Corporation had incurred \$nil in relation to the development fees and performance fee.

Walton Asset Management L.P.

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 a management fee. The fee shall consist of the following:

- 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:

Also in accordance with the Management Services Agreement, commencing on June 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. 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 June 30, 2012, the Corporation incurred \$79,740 in management fees, and \$19,935 in servicing fees. For the period of January 4, 2012 to June 30, 2012, the Corporation incurred \$87,825 in management fees, and \$21,956 in servicing fees. These fees are paid in full as at June 30, 2012.

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Walton Westphalia Europe, LP

The U.S. Subsidiary will enter into a co-ownership agreement with WWE where it will sell up to 30.67% interest in the Property. The amount of the Property to be sold to WWE will be determined based on the amount of funds that it raises through its private placement. Funds received from the partial sale of the Property will be used to retire debt. As at June 30, 2012, there have been no transactions entered into pursuant to the co-ownership agreement (note 14).

1389211 Alberta Ltd.

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

Key Management Compensation

Key management personnel are comprised of the Corporation's directors and executive officers.

The total compensation expense incurred by the Corporation relating to its independent directors during the period was as follows:

	Three months ended June 30, 2012 \$	For the period January 4, 2012 to June 30, 2012 \$
Director fees	13,032	26,064

All services performed for the Corporation by its executive officers and its non-independent director are governed by the Management Services Agreement. The annual management fee that WAM receives under the Management Services Agreement has been disclosed above. As at June 30, 2012, the directors' fees are paid in full to the directors of the Corporation.

9. Other Liabilities

As at June 30, 2012 there was \$81,000 collected by the Corporation from investors under the Private Placement. These funds will be used to repay the WIGI loan at the next security closings.

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10. Share Capital

Authorized

Unlimited Class A voting common shares

Unlimited Class B non-voting common shares

Outstanding

	June 30, 2012	
	# of shares	Amount \$
	-	-
Class A voting common shares	100	100
Class B non-voting common shares	2,347,555	11,737,776
Share issuance costs	-	(661,496)
	<u>2,347,655</u>	<u>11,076,380</u>

During the period of January 4, 2012 to June 30, 2012, the Corporation issued 100 Class A voting common shares for gross proceeds of \$100, and 2,347,555 Class B non-voting common shares were issued for gross proceeds of \$11,737,775 less issuance costs of \$661,496.

All Class A shares of the Corporation are held by 1389211 Alberta Ltd., which is a related party of the Corporation by virtue of common management.

Initial Public Offering and Private Placements

On February 27, 2012, the Corporation filed the Prospectus for the IPO of its Units. The IPO was successfully completed on March 20, 2012 and resulted in the issuance of 1,442,300 Class B shares for gross proceeds of \$7,211,500, and the issuance of 1,442,300 debentures for gross proceeds of \$7,211,500.

The completion of the IPO was followed by several Private offerings which were completed under the offering memorandum dated March 26, 2012. As of June 30, 2012, the Corporation has issued 905,255 Class B shares and 905,255 debentures through the Private Placements for gross proceeds of \$9,052,550. Final closing of the Private Placements is anticipated to take place in October 2012.

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The total costs incurred to date by the Corporation in respect of the Offerings were \$1,675,125. This amount was comprised of commissions paid to agents of \$1,232,466, work fees of \$90,526 and costs associated with the preparation of the prospectus and offering memorandum (collectively, the “**Offering Documents**”) of \$352,133. The commissions and work fees have been allocated equally to the debenture and share component based on their proportionate share of the gross proceeds raised. The costs associated with the preparation the Offering Documents have been expensed by the Corporation.

Per Share Amount

Basic net loss per share is calculated by dividing the Corporation’s net loss by the weighted average number of shares outstanding. Class A shares outstanding have not been included in the weighted average shares outstanding because the Class A shares do not participate in the profits or losses of the Corporation. The weighted average number of shares outstanding during three months ended June 30, 2012 was 1,722,655. The weighted average number of shares outstanding during the period January 4, 2012 to June 30, 2012 was 969,814.

As the Corporation has the right to convert any portion of the debentures payable into Class B shares, this conversion feature could result in potentially dilutive shares in the determination of the weighted average diluted shares outstanding. During both the three month ended June 30, 2012 and the period from January 4, 2012 to June 30, 2012, the potentially dilutive shares were nil because the Corporation generated a net loss during those periods.

Share Issuance Price

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

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

11. Income Taxes

The Corporation’s temporary differences include non-capital loss carry forwards of \$62,793 and deductible temporary differences of \$1,120,533 arising from differences in debt and share issuance costs, interest and organizational costs. These temporary differences result in a future income tax asset of \$295,832 which has been fully offset by a valuation allowance. The unused non-capital losses of \$62,793 expire in the year 2031.

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12. Commitments

The following table presents future commitments of the Corporation under the Management Services Agreement (note 8). It does not include the performance fee payable to WAM under the Management Services Agreement, which is determined at the time land sales are completed.

	Servicing fee	Management fee	Total
	\$	\$	\$
2012	54,799	219,196	273,995
2013	109,002	436,009	545,011
2014	109,002	436,009	545,011
2015	109,002	436,009	545,011
2016, thereafter	327,006	1,415,534	1,742,540
	<u>708,811</u>	<u>2,942,757</u>	<u>3,651,568</u>

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

13. Capital Management

As at June 30, 2012, the Corporation's capital resources consisted of cash which the Corporation raised through the Offerings. Out of the net proceeds raised through the Offerings, \$4.7 million of cash remains. The cash on hand, as well as any additional proceeds raised through the Private Placements, will be used by the Corporation to repay a portion of the loan from WIGI, and to pay for the ongoing administrative and operating expenses, management fees, development fees, pre-development costs, grading costs, construction costs and other expenses of the Corporation.

Management regularly reviews the levels of its capital resources to determine if sufficient capital is available to fund the ongoing costs of the Corporation over the next twelve months. As at June 30, 2012, sufficient capital exists to fund the Corporation's activities for at least the next 12 months.

14. Subsequent Event

On August 20, 2012, U.S. Subsidiary received USD\$2,917,420 (CAD\$2,882,119) from WWE from the funds raised through WWE's private placement offering. This sale of the Property represents approximately 11.3% of undivided interest in the land held for development and the funds were used by the Corporation for repayment of the loan payable to related parties (note 8) and interest thereon.