

# UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Walton Westphalia Development Corporation

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian dollars)

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

Section 4.3(3) of *National Instrument 51-102, Continuous Disclosure Obligations*, provides that if an auditor has not performed a review of the interim consolidated financial statements, the interim consolidated financial statements must be accompanied by a notice indicating that the interim 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 Statements of Financial Position

*Unaudited*

As at September 30, 2013 and December 31, 2012

(Expressed in Canadian Dollars)

	September 30, 2013 \$	December 31, 2012 \$
<b>ASSETS</b>		
Land development costs (note 4)	12,442,328	2,754,291
Land held for development (note 5)	23,005,278	21,390,406
Interest rate cap (note 10)	166,170	-
Accounts receivable	342	3,871
GST recoverable	8,875	6,888
Due from related party (note 6)	54,269	26,427
Prepaid expenses	248,037	157,100
Deposits (note 7)	1,634,721	-
Restricted cash (note 8)	1,717,103	-
Cash	625,318	4,126,027
<b>TOTAL ASSETS</b>	<b>39,902,441</b>	<b>28,465,010</b>
<b>LIABILITIES</b>		
Debentures payable (note 9)	14,326,083	14,250,570
Project debt (note 10)	7,286,523	-
Provision for land development costs (note 11)	3,520,339	-
Interest payable (note 9)	605,091	724,326
Accounts payable and accrued liabilities	683,502	291,078
Derivative financial liability (note 10)	9,456	-
Due to related parties (note 6)	65,213	13,733
<b>TOTAL LIABILITIES</b>	<b>26,496,207</b>	<b>15,279,707</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 12)	14,215,200	14,215,200
Accumulated deficit	(1,597,091)	(1,008,238)
Accumulated other comprehensive income/(loss)	788,125	(21,659)
<b>TOTAL EQUITY</b>	<b>13,406,234</b>	<b>13,185,303</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>39,902,441</b>	<b>28,465,010</b>

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Consolidated Statements of Comprehensive Income and Loss

*Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

	Three months ended		Period ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	\$	\$	\$	\$
<b>REVENUE</b>				
Land sales	-	2,882,119	-	2,882,119
<b>COST OF SALES</b>				
Cost of land sales	-	(2,882,119)	-	(2,882,119)
<b>GROSS MARGIN</b>	-	-	-	-
<b>OTHER INCOME/(EXPENSES)</b>				
Management fees (note 6)	(141,038)	(113,703)	(418,515)	(201,528)
Servicing fees (note 6)	(35,260)	(28,426)	(104,629)	(50,382)
Directors' fees (note 6)	(13,032)	(13,032)	(39,096)	(39,096)
Professional fees	(12,892)	(8,750)	(37,304)	(34,572)
Office and other expenses	(8,052)	(6,408)	(48,920)	(17,614)
Organizational costs	-	(41,978)	-	(394,111)
Interest income	1,580	8,373	19,498	24,158
<b>TOTAL EXPENSES</b>	(208,694)	(203,924)	(628,966)	(713,145)
<b>LOSS BEFORE OTHER ITEMS</b>	(208,694)	(203,924)	(628,966)	(713,145)
Unrealized foreign exchange (loss)/gain	(76,308)	(20,808)	58,650	(45,528)
Loss on interest rate cap revaluation (note 10)	(75,091)	-	(18,532)	-
Realized foreign exchange gain/(loss)	-	(1,650)	(5)	10,461
<b>TOTAL OTHER ITEMS</b>	(151,399)	(22,458)	40,113	(35,067)
<b>NET LOSS</b>	(360,093)	(226,382)	(588,853)	(748,212)
<b>OTHER COMPREHENSIVE INCOME</b>				
Exchange differences on translating foreign operations	(535,611)	-	809,784	-
<b>COMPREHENSIVE INCOME/(LOSS)</b>	(895,704)	(226,382)	220,931	(748,212)
Basic and diluted net loss per share (note 12)	(0.12)	(2.56)	(0.20)	(0.51)

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Consolidated Statements of Changes in Shareholder's Equity

*Unaudited*

For the nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

	Class A Voting Common Shares (note 12)		Class B Non-voting Common Shares (note 12)		Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total
	# of Shares	\$	# of Shares	\$	\$	\$	\$
<b>JANUARY 4, 2012</b>	100	100	-	-	-	-	100
Shares issued for cash	-	-	2,627,407	13,137,035	-	-	13,137,035
Share issuance costs	-	-	-	(748,950)	-	-	(748,950)
Net loss	-	-	-	-	(748,212)	-	(748,212)
Other comprehensive loss	-	-	-	-	-	-	-
<b>SEPTEMBER 30, 2012</b>	100	100	2,627,407	12,388,085	(748,212)	-	11,639,973
Shares issued for cash	-	-	389,763	1,948,815	-	-	1,948,815
Share issuance costs	-	-	-	(121,800)	-	-	(121,800)
Net loss	-	-	-	-	(260,026)	-	(260,026)
Other comprehensive loss	-	-	-	-	-	(21,659)	(21,659)
<b>DECEMBER 31, 2012</b>	100	100	3,017,170	14,215,100	(1,008,238)	(21,659)	13,185,303
Net loss	-	-	-	-	(588,853)	-	(588,853)
Other comprehensive income	-	-	-	-	-	809,784	809,784
<b>SEPTEMBER 30, 2013</b>	100	100	3,017,170	14,215,100	(1,597,091)	788,125	13,406,234

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 and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

	Three months ended		Period ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	\$	\$	\$	\$
<b>CASH PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	(360,093)	(226,382)	(588,853)	(748,212)
Items not affecting cash				
Loss on interest rate cap revaluation	75,514	-	18,532	-
Unrealized foreign exchange loss	76,308	(33,417)	(58,650)	(45,528)
Changes in non-cash working capital items				
Acquisition of land held for development	(4,498)	-	(888,123)	(25,189,769)
Sale of land held for development	-	2,882,119	-	2,882,119
Increase in land development costs	(1,803,660)	(1,169,377)	(9,575,823)	(2,003,709)
Recovery of land improvement costs	-	101,824	-	101,824
Decrease/(increase) in interest rate cap	30,958	-	(183,893)	-
Decrease in accounts receivable	856	-	3,529	-
Increase in GST recoverable	(2,220)	(5,267)	(1,987)	(5,704)
Increase in due from related party	(31,501)	(73,780)	(26,818)	(78,360)
Increase in prepaid expenses	(240,749)	-	(85,215)	-
Increase in deposits	-	-	(1,626,758)	-
Increase/(decrease) in interest payable	321,193	256,193	(43,722)	451,943
(Decrease)/increase in provision for land development costs	(570,273)	-	3,503,191	-
Increase in accounts payable and accrued liabilities	346,035	10,671	382,195	36,908
Increase in derivative financial liability	9,410	-	9,410	-
Increase in due to related parties	25,024	64,611	51,083	66,561
Increase/(decrease) in loan interest payable	-	(874)	-	1,781
	<u>(2,127,696)</u>	<u>1,806,321</u>	<u>(9,111,902)</u>	<u>(24,530,146)</u>
<b>INVESTING ACTIVITIES</b>				
Contributions from investors – Units not yet issued	-	269,000	-	350,000
<b>FINANCING ACTIVITIES</b>				
Issuance of Class B non-voting common shares, net of issuance costs	-	1,311,806	-	12,388,085
Issuance of debentures, net of issuance costs	-	1,311,806	-	12,388,085
Increase in project debt	790,009	-	7,251,028	-
Proceeds from demand loan	-	-	2,845,393	-
Payment of demand loan	-	-	(2,845,393)	-
Increase in restricted cash	(431)	-	(1,708,739)	-
(Decrease)/increase in loan payable	-	(4,891,313)	-	3,950,754
	<u>789,578</u>	<u>(2,267,701)</u>	<u>5,542,289</u>	<u>28,726,924</u>
Effect of exchange rate on cash	(20,677)	74,430	68,904	86,336
(Decrease)/increase in cash	(1,358,795)	(117,950)	(3,500,709)	4,633,114
Cash – Beginning of period	1,984,113	4,751,164	4,126,027	100
Cash – End of period	<u>625,318</u>	<u>4,633,214</u>	<u>625,318</u>	<u>4,633,214</u>

## SUPPLEMENTAL INFORMATION

Cash interest received 2,004 8,327 22,483 19,530

Excluded from the change in land development costs is capitalized non-cash interest on the Debentures (note 9) and non-cash interest rate cap revaluation

Included in interest payable is non-cash interest on the Debenture

Included in land development costs is non-cash provision for land development costs (note 4)

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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## Notes to Consolidated Financial Statements

### *Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 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 investors 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 placement ("**Private Placement**") was comprised of a \$5.00 principal amount of offering debentures ("**Debentures**") and one Class B non-voting share ("**Class B Shares**") at a price of \$5.00 per share.

During 2012, the U.S. Subsidiary sold a 14.4% interest in the Property to Walton Westphalia Europe, LP ("**WWE**"). As a co-owner of the Property, all revenues and expenses incurred for the development of the Property will be allocated proportionately based on each party's ownership interest in the Property, which is not expected to impact the Corporation's ability to achieve its investment objective.

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.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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## Notes to Consolidated Financial Statements

### *Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

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

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 20, 2013. The Board of Directors has the power to amend and reissue the consolidated financial statements.

## 2. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34: Interim Financial Reporting and using accounting policies that are consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation’s audited annual financial statements for the year ended December 31, 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), Interest rate cap (note 10), Deposits (note 7), Restricted cash (note 8) Debentures Payable or Interest Payable (note 9) and Project debt (note 10) all assets and liabilities are current in nature and are expected to be settled in less than twelve months.

## 3. ACCOUNTING POLICIES

### Current Changes in Accounting Policy

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and equity, the disclosure of contingencies at the date of the financial statements, and the reported amounts of revenue and expenses during the period. 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 new policies noted below. In addition to the estimates, assumptions and accounting policies, the following estimates and accounting policies were used in the preparation of these statements.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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## Notes to Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

### Estimates - Provision for Land Development Costs

The provision for land development costs is comprised of the estimated future costs related to the construction, installation and servicing of municipal improvements required to satisfy the Corporation's development obligations under construction permits with Prince George's County that have not yet been incurred.

The Corporation recognizes a provision for land development costs for each phase of the project once a constructive or contractual obligation exists for the servicing of those permits, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reasonably estimated. These development obligations are created through construction permits with Prince George's County, and are deemed to exist once the Corporation has an approved permit and has delivered its performance bonds to the county. The provision for land development costs is calculated as management's best estimate of the costs required to satisfy the Corporation's development obligations that have not yet been incurred, but does not include the estimated costs of financing related to the completion of such obligations.

At the time that revenue is recognized from the sale of lots, the Corporation will recognize a provision for any remaining costs to complete the development obligations under the purchase and sale agreements, which have not already been captured by the provision relating to the construction permits.

The provision for land development costs is initially recorded as a liability with an equal amount capitalized to land development costs. As the Corporation incurs development costs to satisfy its development obligations, the provision for land development costs is reduced. Management reviews the provision monthly to determine what adjustment, if any, are required to the provision.

### Accounting Policy - Financing and transaction costs

Issuance costs of project debt obligations are capitalized to land development costs.

### Accounting Policy - Financial Instruments

Certain instruments such as the interest rate cap are classified as held-for-trading and are recorded at fair value with the changes being recorded through profit or loss.



# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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## Notes to Consolidated Financial Statements

### *Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

### Adoption of IFRS 10: Consolidated financial statements

The Corporation has adopted IFRS 10: Consolidated Financial Statements (“**IFRS 10**”) for the annual year beginning on January 1, 2013. 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 previous 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. The adoption of IFRS 10 did not have a significant impact to the financial statements.

### Adoption of IFRS 12: Disclosure of interests in other entities

The Corporation adopted IFRS 12: Disclosure of Interests in Other Entities (“**IFRS 12**”) for the annual year beginning on January 1, 2013. 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 disclosures that address the nature of, and risks associated with, an entity’s interests in other entities. The adoption of IFRS 12 did not have a significant impact to the financial statements.

### Adoption of IFRS 13: 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 contained in note 14 of these financial statements.

### Adoption of IAS 32: 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.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

### Unaudited

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. However, the new offsetting disclosure requirements are effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Corporation has adopted the offsetting disclosure requirements for the period beginning January 1, 2013. The Corporation has assessed that there is no impact of the adoption on the financial statements currently or retrospectively.

## 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 will generally be 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.

## 4. LAND DEVELOPMENT COSTS

The following table provides a breakdown of costs capitalized to land development costs by nature:

	September 30, 2013 \$	December 31, 2012 \$
Financing	4,661,337	1,284,215
Planning	4,097,019	1,428,616
Capitalized provision for land development costs (note 11)	3,605,073	-
Effect of changes in foreign exchange rates	174,117	136,678
Cost of sales	(95,218)	(95,218)
	<u>12,442,328</u>	<u>2,754,291</u>

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

### Unaudited

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

Land development costs are relieved through cost of goods sold at the time that revenue from sales is recognized. The timing of revenue recognition from the sale of lots is uncertain because it is dictated by factors that are beyond the control of management, such as market demand. 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.

## 5. LAND HELD FOR DEVELOPMENT

Land held for development consists of the U.S. Subsidiary's interest in the Property which was acquired on February 14, 2012. A total of 14.4% interest in the Property was sold in 2012 to WWE, resulting in 85.6% interest in the Property remaining. On May 6, 2013, the U.S. Subsidiary purchased 1.7 acres of additional land located in Prince George's County, Maryland for a purchase price of \$860,931 (USD \$847,474). The carrying amount of land held for development as at September 30, 2013, was comprised of the following:

	September 30, 2013 \$	December 31, 2012 \$
Purchase of land	24,553,737	23,692,806
Closing costs	1,517,655	1,496,963
Effect of changes in foreign exchange rates	626,028	(107,221)
Cost of land sales	(3,692,142)	(3,692,142)
	<u>23,005,278</u>	<u>21,390,406</u>

Land held for development is relieved through cost of land sales at the time that revenue is recognized. The timing of revenue recognition from the sale of lots is uncertain because it is dictated by factors that are beyond the control of management, such as market demand. 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. RELATED PARTY TRANSACTIONS

WAM, Walton International Group Inc. ("**WIGI**"), WDM, 1389211 Alberta Ltd., Walton Maryland, LLC ("**Walton Maryland**"), WWE, Walton International Group (USA) Inc. and WUSF 1 Westphalia, LLC are all related to the Corporation by virtue of common management. All transactions entered into between the related parties during the three and nine months ended September 30, 2013, were under terms and conditions agreed upon between the parties and recorded at the exchange amount. 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.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

The balance due from related party as at September 30, 2013, is outlined in the table below.

	September 30, 2013 \$	December 31, 2012 \$
WUSF 1 Westphalia, LLC	54,269	-
Walton Westphalia Europe, LP	-	26,427
	<u>54,269</u>	<u>26,427</u>

WUSF 1 Westphalia, LLC.

On February 27, 2012, WUSF 1 Westphalia, LLC entered into a cost sharing agreement with U.S. Subsidiary for costs incurred for roadway improvements 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. Reimbursement of the construction costs will then result in a receivable or payable depending on which entity paid for the construction costs.

Walton Westphalia Europe, LP

On May 15, 2012, Walton Maryland, the U.S. Subsidiary and WWE entered into an assignment agreement under which WWE had an option to acquire certain interests in the Property from the Corporation.

On August 20, 2012, and October 31, 2012 WWE acquired 11.3% and 3.1% respectively of undivided interest in the Property held for development. WWE's purchase price represented the original purchase price of the land by the US subsidiary plus other land costs and land development costs incurred by the US subsidiary from the acquisition to the date of sale. WWE's purchase price for the August 20, 2012, and October 31, 2012, acquisitions were \$2,882,119 (USD \$2,917,420) and \$888,999 (USD \$889,355) respectively for a total price of price of \$3,771,118 (USD \$3,806,775). The cost of the sales amount of \$3,771,118 (USD \$3,806,775) was comprised raw land, land development costs and other land costs.

The funds were used by the Corporation to repay the principal and accrued interest owing on the WIGI loan.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

### *Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

The balances due to related parties as at September 30, 2013, are outlined in the table below.

	September 30, 2013 \$	December 31, 2012 \$
Walton Development & Management (USA), Inc.	35,707	3,266
Walton International Group Inc.	25,991	-
Walton Asset Management L.P.	3,278	10,467
Walton International Group (USA) Inc.	237	-
	<u>65,213</u>	<u>13,733</u>

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

During the three and nine months ended September 30, 2013, the Corporation incurred development fees of \$16,688 and \$29,506 respectively. During both the three months ended September 30, 2012, and the period January 4, 2012 to September 30, 2012, the Corporation incurred \$nil in relation to the development fees. The development fees are capitalized to land development costs as incurred.

During the three and nine months ended September 30, 2013, the Corporation incurred \$nil in performance fees. During both the three months ended September 30, 2012, and the period January 4, 2012 to September 30, 2012, the Corporation incurred \$nil in performance fees.

### Walton International Group Inc.

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 \$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%.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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## Notes to Consolidated Financial Statements

### *Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

The loan was 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, were utilized by the Corporation to pay down the amounts owing under the loan within ten business days of receipt of the available funds. On October 31, 2012, the Private Placement was completed which resulted in the repayment of the outstanding principal and all interest associated with the loan being repaid from the Corporation to WIGI. 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.

As at September 30, 2013, the majority of the balance due to WIGI consists of USD \$25,000 advanced to the Corporation for the purchase of land (note 5).

### 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 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. 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 September 30, 2013, the Corporation incurred \$141,038 (September 30, 2012 - \$113,703) in management fees, and \$35,260 (September 30, 2012 - \$28,426) in servicing fees. During the nine months ended September 30, 2013, the Corporation incurred \$418,515 and \$104,629 in management fees and servicing fees. For the period of January 4, 2012 to September 30, 2012, the Corporation incurred \$201,528 in management fees, and \$50,382 in servicing fees.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

### Unaudited

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

### Walton International Group (USA) Inc.

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 common management, 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, bears 10.5% annual interest, is payable monthly, and was 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. The Demand Loan facility remains available for future draws by the U.S. Subsidiary, but the Senior Loan and Mezzanine Loan limit the potential indebtedness under the Demand Loan to \$1,750,000.

### 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 Initial Public Offering. 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.

### 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		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	For the period January 4, 2012 to September 30, 2012
Directors' fees	\$ 13,032	\$ 13,032	\$ 39,096	\$ 39,096

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

### 7. DEPOSITS

Deposits consists of two performance bonds totalling \$1,634,721 (December 31, 2012 - \$nil) that the Corporation has provided to Prince George's County for the rough grading permit. These performance bonds are used as construction guarantees and will be terminated once Prince George's County is satisfied with the work requirements performed on the development of the Westphalia property and discharges the bonds. Forfeiting of the bonds is triggered in the event that the Corporation does not comply with the requirements set out by the Prince George's County. The Corporation has not been required to forfeit any payments under these performance bonds.

### 8. RESTRICTED CASH

Restricted cash consists of \$1,717,103 (December 31, 2012 - \$nil) of funds pledged as security for the Senior Loan (note 10).

### 9. DEBENTURES PAYABLE AND INTEREST PAYABLE

As at September 30, 2013, the Corporation has issued a total of 3,017,170 (December 31, 2012 – 3,017,170) 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 of each respective year 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, at 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.

The following table shows the change in Debentures payable during the period:

	Nine months ended September 30, 2013 \$	For the period January 4, 2012 to December 31, 2012 \$
BALANCE – BEGINNING OF PERIOD	14,250,570	-
Debentures issued through the IPO & Private Placement	-	15,085,850
Debenture issue costs	-	(870,750)
Non-cash interest on the Debentures	75,513	35,470
BALANCE – END OF PERIOD	<u>14,326,083</u>	<u>14,250,570</u>



# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

### Unaudited

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

The following table shows the change in interest payable during the period:

	Nine months ended September 30, 2013 \$	For the period January 4, 2012 to December 31, 2012 \$
BALANCE – BEGINNING OF PERIOD	724,326	-
Accrued interest on the Debentures payable	903,213	724,326
Distribution of Debenture Interest	(1,022,448)	-
BALANCE – END OF PERIOD	<u>605,091</u>	<u>724,326</u>

As at September 30, 2013, and December 31, 2012, WIGI owned approximately 6.3% of the outstanding Units of the Corporation. As a result WIGI, owns approximately 6.3% of the share capital and approximately 6.3% of the balance of debentures payable and interest payable is due to WIGI.

## 10. PROJECT DEBT

The Project debt balances at September 30, 2013, are outlined in the table below.

	September 30, 2013 \$	December 31, 2012 \$
Senior Loan	565,394	-
Mezzanine Loan	6,721,129	-
	<u>7,286,523</u>	<u>-</u>

### Senior Loan

On May 31, 2013, the U.S. Subsidiary and WWE collectively entered into the Senior Loan (“**Senior Loan**”). The Senior Loan is a secured loan for up to USD \$40.95 million with an interest rate of 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, but may be extended, subject to the satisfaction of certain conditions for two additional 12 month-terms. The Senior Loan is secured by, among other things, a first priority deed of trust lien on the Property. The Senior Loan will fund the first phase of construction on the Property. As at September 30, 2013, the interest rate floor is in effect since LIBOR plus 5.1% was less than 6.2% per annum.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

### Unaudited

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

On June 6, 2013, an interest rate cap was purchased to mitigate the interest rate risk on the Senior Loan. The Corporation has purchased an interest rate cap with a third party which caps the LIBOR (3 month USD-LIBOR) (“LIBOR”) as follows:

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

The balance on the interest rate cap as at September 30, 2013 is outlined in the table below.

	September 30, 2013 \$	December 31, 2012 \$
Interest rate cap purchase price	182,527	-
Interest rate cap revaluation	(18,532)	-
Effect of change in foreign exchange rates	2,175	-
	<u>166,170</u>	<u>-</u>

The Senior Loan contains an interest rate floor of 6.2%. At the time that the first draw was made on the Senior loan, the floor rate of 6.2% exceeded the Senior loan’s rate of LIBOR plus 5.1%. Therefore, an embedded derivative resulted which requires that the value of the interest rate floor be separated from the carrying value of project debt. The interest rate floor is accounted for as a separate derivative financial liability measured at fair value with gains and losses on re-measurement included in profit and loss in the period in which they arise. As of September 30, 2013, the fair value of the interest rate floor value has been recorded at \$9,456 (December 31, 2012 - \$nil).

### Mezzanine Loan

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 and payable from cash flow on asset sales. The initial term of the Mezzanine Loan is 36 months, but may be extended with the terms of the Senior Loan. 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 will fund the first phase of construction on the Property.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

### 11. PROVISION FOR LAND DEVELOPMENT COSTS

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

	September 30, 2013	December 31, 2012
	\$	\$
Estimated obligations under existing work permits	4,183,750	-
Total costs incurred to satisfy obligations	(578,677)	-
Effect of changes in foreign exchange rates	(84,734)	-
Provision for land development costs	<u>3,520,339</u>	<u>-</u>

The balance of the Corporation's provision for land development costs outstanding as at September 30, 2013, relates to the Corporation's development obligations under approved grading permits.

Although management cannot reasonably estimate the amount for the provision for land development costs that will be settled each year, the provision for land development costs will be settled as the Corporation completes its development obligations under the construction permits and will ultimately be extinguished once Prince George's County releases the performance bonds submitted as part of the approved construction permits.

### 12. SHARE CAPITAL

Authorized:

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

Outstanding:

	September 30, 2013		December 31, 2012	
	Number of shares	Amount \$	Number of shares	Amount \$
Class A voting common shares	100	100	100	100
Class B non-voting common shares	3,017,170	15,085,850	3,017,170	15,085,850
Share issuance costs	-	(870,750)	-	(870,750)
	<u>3,017,270</u>	<u>14,215,200</u>	<u>3,017,270</u>	<u>14,215,200</u>

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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## Notes to Consolidated Financial Statements

### *Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

During the period of January 4, 2012 to December 31, 2012, the Corporation issued 100 Class A voting common shares for gross proceeds of \$100, and 3,017,170 Class B non-voting common shares were issued for gross proceeds of \$15,085,850 less issuance costs of \$870,750.

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.

### Per Share Amount

Basic net loss per share is calculated by dividing the Corporation's Net Loss (prior to Other Comprehensive Income) by the weighted average number of shares outstanding. Class A shares outstanding have not been included in the weighted average shares outstanding because the Class A shares do not participate in the profits or losses of the Corporation. The weighted average number of shares outstanding during the third quarter of 2013 was 3,017,170 (December 31, 2012 - 3,017,170).

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. For the three and nine months ended the diluted loss per share amount has not been presented as the impact of the conversion feature of the debentures would be anti-dilutive.

### 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.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

### 13. INCOME TAXES

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

	Nine months ended September 30, 2013 \$	For the period January 4, 2012 to September 30, 2012 \$
Consolidated net loss before tax	588,853	748,212
Applicable tax rate	25%	25%
Expected tax recovery	<u>147,213</u>	<u>187,053</u>
Tax effects of:		
Timing difference related to operating income	(97,539)	295,928
Recognition of valuation allowance	<u>(49,674)</u>	<u>(482,981)</u>
INCOME TAX RECOVERY	<u>-</u>	<u>-</u>

Deferred income tax assets and liabilities are a result of temporary differences between the carrying amount of assets and liabilities in the financial statements and their carrying amount for income tax purposes. Deferred income tax expense is a result of changes in the amount of temporary differences in the expected deferred tax rates of the Corporation.

The Corporation's temporary differences include non-capital loss carry forwards of \$1,719,552 and deductible temporary differences of \$215,668 arising from differences in debt and share issuance costs, interest and organizational costs. These temporary differences result in a future income tax asset of \$49,674 which has been fully offset by a valuation allowance.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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## Notes to Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

The unused non-capital losses of \$1,719,552 will expire as follows:

	\$
2032	847,219
2033	872,333
	<u>1,719,552</u>

## 14. FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of interest rate cap, accounts receivable, due from related party, 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, 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. With the exception of the interest rate cap, debentures payable, project debt and derivative financial liability the fair value of these financial instruments approximate their carrying value due to the short-term nature of these items.

The fair value of the interest rate cap and derivative financial liability are determined using a third party valuator who uses a discounted future cash flow approach, making use of both level 2 (other than quoted prices) and level 3 (unobservable) 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 is determined using the net present value 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 credit adjusted risk free rate. As at September 30, 2013, the fair value of debentures payable approximated the carrying amount because there have not been any significant changes in the Corporation's risk premium or to market interest rates, since the issuance of the debentures payable.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

### Risk – overview

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

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

#### a) 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:

Accounts receivable – The balance in accounts receivable has been outstanding for less than 90 days and is considered collectible by the Corporation. Exposure to credit risk relating to these financial instruments is not significant.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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## Notes to Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

Due from related party - The balance of due from related party 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 not significant.

Restricted cash and cash – Restricted cash and cash are on deposit with a major financial institution, which substantially minimizes the exposure of cash to credit risk.

### b) 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 (note 16) and by managing cash receipts and payments. The liabilities which expose the Corporation to liquidity risk are a result of the normal operations of the Corporation.

Debentures payable and 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, (note 16). Management also has the ability to settle any interest 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 payable through future revenues generated by the Corporation.

Project debt - Project debt is comprised of Senior and Mezzanine debt with arm's length institutional lenders. The loans are secured by among other things, first and second priority trust on the Property. In order to minimize the Corporation's exposure to liquidity risk as a result of the project debt, management ensures that all conditions and requirements under the loan agreements are adhered to.

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 that risk resulting from US 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, US Subsidiary may have a greater than it's proportionate share of exposure to the default conditions. Management has mitigated this risk by entering into additional agreements with WWE to provide a method of recovery for such remote instances.



# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

Accounts payable and accrued liabilities, and due to related parties - 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 September 30, 2013, 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, (note 16).

The future undiscounted obligations of the Corporation are noted below:

	Maturity Analysis of liabilities As at September 30, 2013		
	Less than 90 days	Between 91 days and 1 year	Greater than 1 year
	\$	\$	\$
Debentures payable	-	-	15,085,850
Project debt	-	-	7,295,979
Interest payable	-	1,206,868	9,134,169
Accounts payables and accrued liabilities	624,946	58,556	-
Due to related party	65,213	-	-

	Maturity Analysis of liabilities As at December 31, 2012		
	Less than 90 days	Between 91 days and 1 year	Greater than 1 year
	\$	\$	\$
Debentures payable	-	-	15,085,850
Interest payable	-	1,022,448	7,241,208
Accounts payables and accrued liabilities	291,078	7,241,208	-
Due to related party	13,733	-	-

### c) 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.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

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

Project debt, interest rate cap and derivative financial liability – The Corporation is exposed to interest rate risk on its Senior Loan which is based on LIBOR (note 10). Within the Senior Loan is an interest rate floor which has been classified as a derivative financial liability. This ensures that a minimum interest rate is charged on the Senior Loan. In order to mitigate the maximum interest rate risk on the Senior Loan the Corporation entered into an interest rate cap (note 10).

### d) 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 assets of the Corporation as follows:

	Rate Analysis – at September 30, 2013		
	Carrying Amount of Net Assets	5% increase in CAD to USD exchange rates	5% decrease in CAD to USD exchange rates
	\$	\$	\$
Net assets exposed to currency risk (CDN)	28,549,522	1,427,476	(1,427,476)

	Rate Analysis – at December 31, 2012		
	Carrying Amount of Net Assets	5% increase in CAD to USD exchange rates	5% decrease in CAD to USD exchange rates
	\$	\$	\$
Net assets exposed to currency risk (CDN)	24,302,713	1,215,136	(1,215,136)

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

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 September 30 2013, the Corporation did not have any outstanding foreign currency forward contracts.

### 15. COMMITMENTS

The following table presents future commitments of the Corporation under the Management Services Agreement (note 6). 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
	\$	\$	\$
2013	35,259	141,038	176,297
2014	139,888	559,552	699,440
2015	139,888	559,552	699,440
2016	139,888	559,552	699,440
2017 and thereafter	<u>279,776</u>	<u>1,257,077</u>	<u>1,536,853</u>
	<u>734,699</u>	<u>3,076,771</u>	<u>3,811,470</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.

### 16. CAPITAL MANAGEMENT

As at September 30, 2013, the Corporation's capital resources consisted of project debt and shares, Debentures and cash which the Corporation raised through the offerings. Out of the net proceeds raised through the Offerings and financing, \$625,318 of cash remains. The cash on hand will be used 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.

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 September 30, 2013, sufficient capital exists to fund the Corporation's activities for at least the next 12 months.

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

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## Notes to Consolidated Financial Statements

*Unaudited*

For the three and nine months ended September 30, 2013 and the period January 4, 2012 to September 30, 2012

(Expressed in Canadian Dollars)

### 17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation adopted.