

# MANAGEMENT'S DISCUSSION & ANALYSIS

For the three and nine months ended September 30, 2013

November 20, 2013

The following management's discussion and analysis ("**MD&A**") is a review of the consolidated financial condition and consolidated results of operations of Walton Westphalia Development Corporation (the "**Corporation**") for the three and nine months ended September 30, 2013. The MD&A should be read in conjunction with the Corporation's audited consolidated financial statements for the period from January 4, 2012 to December 31, 2012.

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

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

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and equity at the date of the financial statements, and the reported amount of revenues and expenses during the period. The estimates and assumptions that have the most significant affect on the amounts recognized in the Corporation's consolidated financial statements are related to the recoverability of land held for development and land development costs, and the recognition of future tax assets.

### Recoverability of land held for development and land development costs

In assessing the recoverability of land held for development and land development costs, 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 actual results to differ materially from those reported.

#### Provision for land development costs

In estimating the amount of the provision to be recognized for land development costs, significant judgment is required in estimating the amount of future costs required to settle the Corporation's constructive or contractual obligations which are created from the construction permits with the Prince George's County. These estimates are based on internal cost budgets prepared for each permit for development, which are reviewed regularly to determine what adjustments are needed to the provision for land development costs. The provision for land development costs includes, but is not limited to, construction costs, consulting costs and project management fees. Changes in these estimates and assumptions could cause the total costs required to satisfy the obligations to differ materially from the amount of this provision and the balance of the capitalized provision for land development costs, which forms part of land development costs, to differ materially from the carrying amount of that asset. Any changes to the provision for land development costs could also materially affect cost of sales given that land inventory is sold prior to all costs being committed or known because the nature of land development considers a long-term time frame to complete all County requirements.

#### 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.

### FORWARD-LOOKING STATEMENTS

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

### RESPONSIBILITY OF MANAGEMENT

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

### APPROVAL BY THE BOARD OF DIRECTORS

The MD&A was authorized for issue by the Board of Directors on November 20, 2013.

## BUSINESS OVERVIEW

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

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

The preliminary development plan that has been prepared by Walton Development and Management (USA), Inc. ("**WDM**"), the manager of the project, includes three phases over an estimated seven-year time horizon. When completed, it is anticipated that the project will provide approximately 66 single family homes, 779 townhomes, 884 rental apartments, 533,759 square feet of retail space, 2,240,000 square feet of office space and 600 hotel rooms.

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

The Offerings raised gross proceeds of \$30,171,700, of which \$15,085,850 was received for the issued Debentures and \$15,085,850 was received for the Class B shares. The total costs incurred with respect to the Offerings was \$2,194,076, which consisted of commissions paid to agents, work fees and costs associated with the preparation of the Offering Documents. The commissions and work fees were allocated equally to the Debenture and share component based on their proportionate share of the gross proceeds raised. The costs associated with the preparation the Offering Documents were expensed by the Corporation and totalled \$2,194,076 for the period January 4, 2012 to December 31, 2012.

The Corporation's investment objectives are to:

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

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

- i) acquire the Westphalia Property through the U.S. Subsidiary;

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

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

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

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

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

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

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

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

On June 7, 2013 the Corporation received its rough grading permit which allows for the clearing and grading on the Property in connection with Phase 1. On June 10, 2013, the Corporation broke ground on the Property and began construction. The Corporation provided Prince George's County with two performance bonds totalling USD \$1,589,407 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.

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

### THIRD QUARTER FINANCIAL DATA

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Total revenue (\$)	-	2,882,119	-	2,882,119
Total cost of sales (\$)	-	2,882,119	-	2,882,119
Gross margin (\$)	-	-	-	-
Other income/(expenses) (\$)	(208,694)	(203,924)	(628,966)	(713,145)
Other items gain/(loss) (\$)	(151,399)	(22,458)	40,113	(35,067)
Net (loss) (\$)	(360,093)	(226,382)	(588,853)	(748,212)
Comprehensive income/(loss) (\$)	(895,704)	(226,382)	220,931	(748,212)
Weighted average shares outstanding <sup>1</sup>	3,017,170	88,519	3,017,170	1,469,428
Basic and diluted net loss per share (\$)	0.12	2.56	0.20	0.51

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

	September 30, 2013	December 31, 2012
Total assets (\$)	39,902,441	28,465,010
Total non-current liabilities (\$)	25,142,401	14,250,570
Total liabilities (\$)	26,496,207	15,279,707
Total equity (\$)	13,406,234	13,185,303
Class B shares outstanding – end of period	3,017,170	3,017,170

### REVIEW OF OPERATIONS

#### Summary

During the third quarter of 2013, the main priority of the Corporation was to continue construction, prepare additional submittals necessary to achieve the remaining approvals as described in the prospectus and meet with county officials to properly coordinate and discuss plans for the project.

The Corporation also undertook certain planning activities during the third quarter of 2013. The following activities were undertaken by the Corporation during the period:

- Draft purchase and sale agreements are in review with homebuilders in order to convert signed letters of intent into purchase and sale agreements to allow construction of homes on all lots in Phase 1. A lot purchase agreement was executed with NVR, Inc. for 144 lots on September 5, 2013. Document negotiation continues with two builders for the remaining lots in Phase 1.
- The real estate company representing the Corporation in the sale of the multi-family apartment site in Phase 1 has been actively marketing the site.
- The Umbrella Architecture Detailed Site Plan was approved by the Planning Board in September, and will be reviewed by the District Council in January 2014. The Plan allows builders to directly apply for building permits.
- Subsequent to the third quarter, a Conceptual Site Plan Reconsideration to revise a condition to allow up to 10% of the townhouse units to be front-load garage units was approved by the Planning Board in October 2013.

From a timing perspective, the project is proceeding as anticipated and management expects that the project will be completed within the approximate seven-year time frame disclosed in the Prospectus and Offering Memorandum (collectively, the “**Offering Documents**”).

During the third quarter of 2013, the Corporation recognized revenues of \$nil (September 30, 2012 - \$2,882,119), cost of sales of \$nil (September 30, 2012 - \$2,882,119), other income of \$1,580 (September 30, 2012 - \$8,373), other expenses of \$210,274 (September 30, 2012 - \$212,297), net loss of \$360,093 (September 30, 2012 - \$226,382) and comprehensive loss of \$895,704 (September 30, 2012 - \$226,382). Comprehensive loss increased in the third quarter of 2013 compared to the third quarter of 2012 due to the loss on the interest rate cap revaluation being incurred in 2013, a larger unrealized foreign exchange loss incurred in 2013 compared to 2012 and a large foreign translation loss which was incurred in 2013.

On a year-to-date basis, the Corporation recognized revenue of \$nil (September 30, 2012 - \$2,882,119), cost of sales of \$nil (September 30, 2012 - \$2,882,119), other income of \$19,498 (September 30, 2012 - \$24,158), other expenses of \$648,464 (September 30, 2012 - \$737,303), net loss of \$588,853 (September 30, 2012 - \$748,212) and comprehensive income/(loss) of \$220,931 (September 30, 2012 - (\$748,212)).

The difference in revenue and cost of land sale on a quarterly and year-to-date basis from 2012 was due to a land sale to WWE which occurred in the third quarter of 2012. The difference in other expenses on a quarterly and year-to-date basis was due to organization costs being incurred in the 2012 and not in 2013. The fluctuation on a year-to-date basis for comprehensive loss in 2012 to comprehensive income in 2013 was due to a foreign translation gain in 2013.

Given that the project remains on track both financially and from a timing perspective, management believes that the project remains on track for achieving its investment objectives.

## ANALYSIS OF FINANCIAL CONDITION

As at September 30, 2013, the Corporation had total assets of \$39,902,441 (December 31, 2012 - \$28,465,010), total liabilities of \$26,496,207 (December 31, 2012 - \$15,279,707) and total shareholders' equity of \$13,406,234 (December 31, 2012 - \$13,185,303). The most significant assets of the Corporation as at September 30, 2013, were land held for development of \$23,005,278 (December 31, 2012 - \$21,390,406) and land development costs of \$12,442,328 (December 31, 2012 - \$2,754,291). The most significant liabilities of the Corporation as at September 30, 2013, were Debentures payable of \$14,326,083 (December 31, 2012 - \$14,250,570), project debt of \$7,286,523 (September 30, 2012 - \$nil) and provision for land development costs of \$3,520,339 (September 30, 2012 - \$nil).

The balance of the Corporation's liabilities as at September 30, 2013, was significant relative to its cash and receivables. The Corporation plans to fund its liabilities as follows:

Provision for land development costs – The Provision for land development costs will be financed through the Project debt. The settlement of the provision for land development costs will result in an increase in the balance of Project debt.

Debentures payable and interest payable – The balance of the debentures payable will be repaid through proceeds from completed lot sales after the repayment of Project debt, as well as any potential over-expenditure recoveries from future developers. The balance of interest payable will be settled through proceeds from completed lot sales after the repayment of project debt or through the issuance of interest debentures.

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

## LAND DEVELOPMENT COSTS

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

The following table provides a breakdown of the amounts capitalized to land development costs. Planning and financing costs are comprised of soft costs associated with the project. The provision for land development costs relates to the Corporation's development obligations under approved grading permits.

	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	3,605,073	-
Effect of changes in foreign exchange rates	174,117	136,678
Land development costs included in cost of land sales	(95,218)	(95,218)
Total – land development costs	12,442,328	2,754,291

The total development costs incurred during the nine months ended September 30, 2013, were consistent with the amounts anticipated by management for the work completed during that period.

## LAND HELD FOR DEVELOPMENT

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)
Total – land held for development	23,005,278	21,390,406

On May 6, 2013, the U.S. Subsidiary purchased 1.7 acres located in Prince George's County, Maryland for a purchase price of \$860,931 (USD \$847,474). The land will be exchanged for road and infrastructure construction.

## 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)	-
Total – provision for land development costs	3,520,339	-

## INTEREST ON DEBENTURES

As at September 30, 2013, the Corporation has issued a total of 3,017,170 Debentures with a face value of \$15,085,850. The Debentures are unsecured and bear interest at a rate of 8%.

On June 30, 2013, there was an interest distribution of \$1,022,448 paid to unit holders. This was the amount accrued from the time units were issued until March 31, 2013, payable on June 30, 2013.

As at September 30, 2013, Walton International Group Inc. ("**WIGI**"), a related party of the Corporation by virtue of common management, owned approximately 6.3% of the Units of the Corporation. As a result, approximately 6.3% of the debentures payable and interest payable at September 30, 2013, is payable to WIGI.

## MANAGEMENT FEES

On February 27, 2012, the Corporation and WAM entered into a Management Services Agreement. In accordance with the terms of the Management Services Agreement, WAM will provide management and administrative services to the Corporation in return for an annual management fee equal to:

- i) from March 20, 2012, until the earlier of the date of termination of the Management Services Agreement and March 31, 2019, 2% of the aggregate of:
  - a) the net proceeds raised from the IPO of \$13,449,548, calculated as the gross proceeds raised of \$14,423,101, net of selling commissions of \$757,208 and organizational costs of \$216,345;
  - b) the net proceeds raised from the Private Placement; and
  - c) the amount of the servicing fee (see below), which will be distributed by WAM on behalf of the Corporation; and
- ii) thereafter, from April 1, 2019, until the termination date of the Management Services Agreement, an amount equal to 2% of the book value of the Properties.

## SERVICING FEES

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

## TRANSACTIONS WITH RELATED PARTIES

Walton Maryland LLC, WAM, WIGI, WDM, WWE, Walton International Group (USA) Inc., 1389211 Alberta Ltd. and WUSF 1 Westphalia, LLC are all related to the Corporation by virtue of common management. All transactions entered into between the related parties during the nine months ended September 30, 2013, were under terms and conditions agreed upon between the parties. With the exception of the loans due to WIGI and Walton International Group (USA) Inc., the amounts payable to WAM for the management and servicing fee and the amounts payable to WDM for the development fee, all amounts receivable from related parties and payable to related parties are unsecured, due on demand, bear no interest and have no fixed terms of repayment.

The balance due to related parties as at September 30, 2013 and December 31, 2012, is outlined in the table below.

	September 30, 2013 (\$)	December 31, 2012 (\$)
Walton Development and 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	-
Total – Due to related parties	65,213	13,733

The balance due from the related parties as at September 30, 2013 and December 31, 2012 is outlined in the table below.

	September 30, 2013 (\$)	December 31, 2012 (\$)
WUSF 1 Westphalia, LLC	54,269	-
Walton Westphalia Europe, LP	-	26,427
Total – Due from related parties	54,269	26,427

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

Walton Development and Management (USA), Inc.

In accordance with the Project Management Agreement between the Corporation and WDM, 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 cash payments or distributions equal to \$10 per Unit, plus a cumulative compounded priority return of 8% per annum. The priority return is calculated on that \$10 amount per Unit, 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 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.

The total amount owing under this loan was fully repaid on November 1, 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.

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

#### Walton Asset Management L.P.

In accordance with the Management Services Agreement between the Corporation and WAM, the Corporation incurred total management fees during the three months ended September 30, 2013, of \$141,038 (September 30, 2012 - \$113,703). During the nine months ended September 30, 2013, the Corporation incurred \$418,515. For the period January 4, 2012 to September 30, 2012, the Corporation incurred \$201,528 in management fees.

In accordance with the Agency Agreements between the Corporation and its agents, the Corporation incurred total servicing fees during the three months ended September 30, 2013, of \$35,260 (September 30, 2012 - \$28,426). During the nine months ended September 30, 2012, the Corporation incurred \$104,629. For the period January 4, 2012 to September 30, 2012, the Corporation incurred \$50,382 in service fees.

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

The U.S. Subsidiary entered into a 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 with interest of 10.5% per annum. As of September 30, 2013, all amounts drawn on the loan with Walton International Group (USA), Inc. have been repaid.

#### 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. As of September 30, 2013, there is \$54,269 due from WUSF 1 Westphalia, LLC.

## 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 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 independent directors are paid a fixed amount of compensation for the life of the Corporation, which is payable quarterly in advance. The amount of compensation expense incurred by the Corporation relating to its independent directors was as follows:

	Three months ended September 30		Nine months ended September	
	2013	2012	2013	2012
Directors’ fees (\$)	13,032	13,032	39,096	39,096

All services performed for the Corporation by its executive officers and 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.

## FINANCING ARRANGEMENTS

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

On May 31, 2013, the U.S. Subsidiary and WWE collectively entered into the Senior Loan. The Senior Loan is a secured loan for up to \$40.95 million USD with an interest rate of LIBOR (3 month USD-LIBOR-BBA w/- 1 New York lookback) (“**LIBOR**”) plus 5% with a minimum interest rate floor of 6.2% per annum. The initial term of the Senior Loan is 36 months and may be extended in certain circumstances. The Senior Loan is secured by, among other things, a first priority trust on the Property. The Senior Loan was acquired to fund the first phase of construction on the Property. In order to mitigate the interest rate risk associated with LIBOR, the Corporation purchased an interest rate cap. In the event that LIBOR increases above 1.2% during the period June 6, 2013 to June 30, 2015, and above 1.6% during the period July 1, 2015 to July 1, 2016, the interest rate cap will be activated and any interest charged on the interest rates greater than 6.3% and 6.7% respectively, will be paid by the counterparty to the swap thereby minimizing the interest rate expense.

On June 6, 2013, the U.S. Subsidiary and WWE collectively entered into the Mezzanine Loan. The Mezzanine Loan is a second priority secured loan for up to US\$7.29 million 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 and shall terminate with the Senior Loan. The Mezzanine Loan will be subordinated to the terms of the Senior Loan and be secured by, among other things, a second-priority deed of trust on the Property. The Mezzanine Loan was acquired to fund the first phase of construction on the Property.

## NON-FINANCIAL INDICATORS

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

### Key Milestones

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

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

The anticipated date for the completion of the Record Plat of Subdivision has been revised to October 2013. The recordation of this plat is no longer a pre-requisite to receiving a grading permit, and is not anticipated to impact other scheduled items. In addition to the activities above, technical plans have been submitted for storm water, storm drain, fine grading erosion and sediment control, water and sewer and offsite construction at the MD 4 Woodyard Road interchange and are under review or revision. The Special Purpose Detailed Site Plan, which includes descriptions of project amenities, transit circulation, conceptual landscaping, signage and other overarching details for the entire project was submitted and approved by the Planning Board on May 2, 2013. Based on construction to date, we do not anticipate achieving paving in order to deliver lots in January. The cumulative effects of starting construction much later in 2013 than planned and a wet summer compound to delay the initial delivery.

## SUMMARY OF QUARTERLY RESULTS

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

	Three months ended						
	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012 <sup>2</sup>
Total assets (\$)	39,902,441	40,114,225	29,184,072	28,465,010	28,885,604	30,780,363	29,799,092
Total liabilities (\$)	26,496,207	25,812,288	15,742,688	15,279,707	17,245,631	20,225,813	23,212,881
Total equity (\$)	13,406,234	14,301,937	13,441,384	13,185,303	11,639,973	10,554,550	6,586,211
Total revenue (\$)	-	-	-	888,999	2,882,119	-	-
Total cost of sales (\$)	-	-	-	888,999	2,882,119	-	-
Gross margin (\$)	-	-	-	-	-	-	-
Other income/(expense) (\$)	(208,694)	(223,411)	(252,260)	(260,026)	(226,382)	(275,045)	(246,785)
Other items gain/(loss) \$	(151,399)	167,970	23,542	(30,913)	(35,067)	(12,519)	(90)
Net loss (\$)	(360,093)	(55,441)	(228,718)	(260,026)	(226,382)	(275,045)	(246,785)
Comprehensive income / (loss) (\$)	(895,704)	805,155	256,081	(281,685)	(226,382)	(275,045)	(246,785)
Weighted average shares outstanding <sup>1</sup>	3,017,170	3,017,170	3,017,170	2,896,887	2,436,074	1,722,655	182,360
Basic and diluted net loss per share (\$)	0.12	0.02	0.06	0.09	0.09	0.16	1.35
Class B shares issued during the period	-	-	-	389,763	279,852	905,255	1,442,300
Class B shares outstanding – end of period	3,017,170	3,017,170	3,017,170	3,017,170	2,627,407	2,347,555	1,442,300

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

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

## SUPPLEMENTAL INFORMATION

### Liquidity and Capital Resources

As at September 30, 2013, the Corporation's capital resources consisted of project debt, advances from related parties, 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.

#### Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as at September 30, 2013.

#### 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.

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

The Corporation is exposed to interest rate risk because changes in the market interest rate impact the future cash flows and fair values of the Corporation's Senior Loan in project debt. The Corporation monitors the effects of market changes in interest rates, specifically, the LIBOR being the variable rate underlying the Corporation's long-term debt's interest rate. To mitigate this market risk, the Corporation has purchased an interest rate cap with a third party which caps the Senior Loans' interest rate as follows:

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

The Corporation is exposed to foreign exchange risk because the operations, development expenditures and 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 – 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, 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)	24,302,713	1,215,136	(1,215,136)

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.

#### Outstanding Shares

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

#### Outstanding Debentures

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

#### Commitments

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

	Servicing fee (\$)	Management fee (\$)	Total (\$)
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	279,776	1,257,077	1,536,853
Total	734,699	3,076,771	3,811,470

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.

## 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.