# UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Walton Westphalia Development Corporation

For the three months ended March 31, 2020 and 2019

(Expressed in Canadian dollars)

## NOTICE OF NO AUDITOR REVIEW OF CONDENSED 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 condensed interim consolidated financial statements, the condensed interim consolidated financial statements must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor. The Corporation’s external auditors have not performed a review of these condensed interim consolidated financial statements of Walton Westphalia Development Corporation.

# Index

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Condensed Interim Consolidated Statements of Financial Position
*Unaudited*

As at March 31, 2020 and December 31, 2019

(Expressed in Canadian dollars)

| | March 31, 2020 $ | December 31, 2019 $ |
|---|---|---|
| ASSETS | | |
| Land development inventory (note 3) | 33,393,458 | 45,170,098 |
| Prepaid expenses (note 5) | 244,839 | 513,657 |
| Due from related parties (note 4) | 993,139 | 2,327,342 |
| Restricted cash (note 6) | 68,503 | 93,112 |
| Accounts receivable | 99,774 | 91,342 |
| Cash | 4,757,506 | 7,468,377 |
| TOTAL ASSETS | 39,557,219 | 55,663,928 |
| LIABILITIES | | |
| Project debt (note 7) | 7,592,754 | 22,901,776 |
| Due to related parties (note 4) | 40,353,941 | 40,258,752 |
| Accounts payable and accrued liabilities | 584,354 | 768,668 |
| Deferred revenue (note 8) | 68,503 | 93,112 |
| TOTAL LIABILITIES | 48,599,552 | 64,022,308 |
| SHAREHOLDERS' DEFICIT | | |
| Share capital (note 9) | 37,941,514 | 37,941,514 |
| Accumulated deficit | (47,845,747) | (47,634,738) |
| Accumulated other comprehensive income | 861,900 | 1,334,844 |
| TOTAL DEFICIT | (9,042,333) | (8,358,380) |
| TOTAL LIABILITIES & DEFICIT | 39,557,219 | 55,663,928 |

Going concern (note 1)
Commitments (note 12)

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

# WALTON WESTPHALIA DEVELOPMENT CORPORATION

## Condensed Interim Consolidated Statements of Comprehensive Loss

*Unaudited*

For the three months ended March 31, 2020 and March 31, 2019

(Expressed in Canadian dollars)

| | March 31, 2020 $ | March 31, 2019 $ |
|---|---|---|
| REVENUE | | |
| Land development sales | 17,133,027 | 3,909,747 |
| COST OF SALES | | |
| Cost of sales (note 3) | (16,984,873) | (3,909,747) |
| Selling costs | (257,924) | (49,180) |
| GROSS MARGIN | (109,770) | (49,180) |
| OTHER INCOME/(EXPENSES) | | |
| Management fees (note 4) | (236,953) | (137,972) |
| Professional fees | (47,241) | (56,501) |
| Directors' fees (note 4) | (25,000) | (25,000) |
| Marketing expense | (20,093) | (27,309) |
| Office and other expenses | (15,803) | (6,099) |
| Financing costs | (10,528) | (74,373) |
| Interest income | 15,278 | 20,966 |
| TOTAL EXPENSES | (340,340) | (306,288) |
| LOSS BEFORE OTHER ITEMS | (450,110) | (355,468) |
| Foreign exchange gain/(loss) | 239,101 | (538,361) |
| TOTAL OTHER ITEMS | 239,101 | (538,361) |
| NET LOSS BEFORE TAX | (211,009) | (893,829) |
| Income tax (expense)/recovery (note 10) | - | - |
| NET LOSS | (211,009) | (893,829) |
| OTHER COMPREHENSIVE (LOSS)/GAIN | | |
| Cumulative translation (loss)/gain | (472,944) | 603,631 |
| TOTAL COMPREHENSIVE LOSS | (683,953) | (290,198) |
| Basic net and diluted loss per share (note 9) | (0.004) | (0.29) |
| Diluted net loss per share (note 9) | (0.004) | (0.29) |

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

## Condensed Interim Consolidated Statements of Changes in Shareholders' Deficit
*Unaudited*

For the three months ended March 31, 2020 and March 31, 2019

(Expressed in Canadian dollars)

| | Class A Voting Common Shares | | Class B Non-voting Common Shares | | Accumulated Deficit | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|
| | # of Shares | $ | # of Shares | $ | $ | $ | $ |
| JANUARY 1, 2019 | 100 | 100 | 3,017,170 | 13,988,812 | (45,724,975) | 1,038,873 | (30,697,190) |
| Net loss | - | - | - | - | (893,829) | - | (893,829) |
| Other comprehensive income | - | - | - | - | - | 603,631 | 603,631 |
| MARCH 31, 2019 | 100 | 100 | 3,017,170 | 13,988,812 | (46,618,804) | 1,642,504 | (30,987,388) |
| Shares issued (note 9) | - | - | 50,408,558 | 23,952,602 | - | - | 23,952,602 |
| Net loss | - | - | - | - | (1,015,934) | - | (1,015,934) |
| Other comprehensive loss | - | - | - | - | - | (307,660) | (307,660) |
| DECEMBER 31, 2019 | 100 | 100 | 53,425,728 | 37,941,514 | (47,634,738) | 1,334,844 | (8,358,380) |
| Net loss | - | - | - | - | (211,009) | - | (211,009) |
| Other comprehensive loss | - | - | - | - | - | (472,944) | (472,944) |
| MARCH 31, 2020 | 100 | 100 | 53,425,728 | 37,941,514 | (47,845,747) | 861,900 | (9,042,333) |

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

# Condensed Interim Consolidated Statements of Cash Flows

*Unaudited*

For the three months ended March 31, 2020 and March 31, 2019

(Expressed in Canadian dollars)

| | March 31, 2020 $ | March 31, 2019 $ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net loss for the period: | (211,009) | (893,829) |
| Adjustments for: | | |
| Interest Income | (11,360) | (20,966) |
| Items not affecting cash: | | |
| Unrealized foreign exchange gain | (239,493) | (520,713) |
| Changes in non-cash operating items: | | |
| Decrease in due from related parties | 1,478,024 | - |
| Increase in provision for land development costs | - | 350,565 |
| Decrease in deferred revenue | (31,478) | (130,911) |
| Decrease in accounts payable and accrued liabilities | (228,881) | (885,087) |
| (Decrease)/increase in due to related parties | (111,158) | 127,657 |
| Decrease in prepaid expenses | 299,743 | 1,855,851 |
| Decrease in land development inventory | 16,814,413 | 3,306,157 |
| Interest paid | (4,702,453) | (2,399,978) |
| Interest received | - | 968 |
| Cash provided by operating activities | 13,056,348 | 789,714 |
| **INVESTING ACTIVITIES** | | |
| Decrease in restricted cash | 31,478 | 130,911 |
| Cash provided by investing activities | 31,478 | 130,911 |
| **FINANCING ACTIVITIES** | | |
| Advances from project debt | 2,428,555 | 618,500 |
| Project debt repayment | (18,252,648) | (3,829,875) |
| Related party repayment | (4,524) | - |
| Transaction costs paid | (128,410) | - |
| Transaction costs recovered | 166,288 | - |
| Cash used in financing activities | (15,790,739) | (3,211,375) |
| Effect of exchange rate on cash | (7,958) | 842,841 |
| Decrease in cash | (2,710,871) | (1,447,909) |
| Cash – Beginning of period | 7,468,377 | 10,626,073 |
| Cash – End of period | 4,757,506 | 9,178,164 |

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

## 1. NATURE OF BUSINESS, GOING CONCERN & BASIS OF PREPARATION

### 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, USA (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. On May 6, 2019 the Debentures and interest thereon (the "**Interest Debentures**") were converted to Class B non-voting shares.

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 assets, liabilities, revenues and expenses incurred for the development of the Property will be allocated proportionately based on each party's ownership interest in the Property.

The Corporation intends to maximize the return on invested capital of the purchasers of Units in the Corporation, and provide cash distributions on the Units by executing the following strategy:

i. Obtain letters of interest or expressions of interest from vertical developers and other end users to purchase lots and parcels to be serviced in each of the three planned phases of the development of the Property before construction commences on that phase;

ii. Construct municipal services infrastructure on the Property in phases to provide a controlled supply of serviced lots to the marketplace; and

iii. Use the revenue from the sale of the serviced lots and parcels to repay construction loans and other obligations of the Corporation and the U.S. Subsidiary, thereby allowing for either the declaration of a dividend or dividends on the Class B Shares and/or winding up the Corporation and then make Distributions to the shareholders.

Equity distributions by the Corporation are neither guaranteed nor will they be paid in a steady or stable stream, if any such distributions are able to be made. 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, including (i) the fees payable to Walton Asset Management L.P. ("**WAM**"), previously the manager of the Corporation, and Walton Global Investments Ltd. ("**WGI**") as the manager of the Corporation effective April 1, 2018 and (ii) the fees payable to Walton Development & Management (USA), Inc. ("**WDMI**"), the project manager (both of them are related parties by virtue of the fact that they are controlled by WGI (including the performance fee)), and (iii) any amounts outstanding, on a phase by phase basis, under the construction loans required to develop the Property. The performance fee is only payable provided that the investors of Units in the Corporation have received distributions equal to their invested capital of $10.00 per Unit plus a cumulative compounded priority return thereon equal to 8% per annum.

The address of the registered office is Suite 1600, Dome Tower, 333 – 7th Avenue SW, Calgary, Alberta, T2P 2Z1.

These consolidated financial statements were authorized for issue by the Board of Directors on May 28, 2020.

### Going Concern

These condensed interim consolidated financial statements, including comparatives, have been prepared on a going concern basis in accordance with International Accounting Standard ("**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 ("**IASB**"). Management believes that the going concern basis of presentation continues to be appropriate and assumes the Corporation will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they become due.

For the three months ended March 31, 2020, the Corporation reported a comprehensive loss of $683,953 (March 31, 2019 – $290,198), positive operating cash flows of $13,056,348 (March 31, 2019 – positive $789,714), and an accumulated deficit of $47,845,747 (December 31, 2019 – $47,634,738).

It is anticipated that the Corporation will continue to incur operating and development costs and has related party payables due on demand and loan interest payable quarterly and semi-annually. The Corporation expects to pay these obligations by way of proceeds from the sale of the Phases 2 and 3 lands and cash on hand. Management is actively pursuing various avenues of monetizing the Phases 2 and 3 lands and considering whether to renegotiate or refinance its senior debt with its related party, WWMN, LLC ("**WWMN**"). Without the proceeds from selling the lands in Phases 2 and 3, the Corporation may not have sufficient working capital to cover operating and development costs, or to pay amounts due with respect to related party balances and loan interest as these obligations come due in the next 12 months.

As there is material uncertainty identified relating to the timing of cash inflows, including when the Corporation will receive proceeds from the sale of the lands in Phases 2 and 3, and the significant amount of time required to negotiate a sale with a new party, at the date these condensed interim consolidated financial statements are approved there is significant doubt as to the ability of the Corporation to meet its obligations as they become due.

It is not possible to predict the outcome of the matters described above and there is significant doubt about the Corporation's ability to continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses that would be necessary if the Corporation were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. If the Corporation were unable to continue as a going concern, the adjustments required could be material.

### Novel Coronavirus ("**COVID-19**")

Since early 2020, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada and the United States, businesses have been forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of nonessential services have triggered significant disruptions to businesses worldwide, resulting in an economic shutdown. The short and long-term impact to the real estate market is unknown at this time and therefore the impact to the Corporation's land and development costs is unknown as of the date of these condensed interim consolidated financial statements.

### Basis of Presentation

The Corporation's condensed interim consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments which are initially measured at fair value and those measured on a recurring basis at fair value, as explained in the accounting policies set out in note 2. The condensed interim consolidated 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 condensed interim consolidated financial statements. With the exception of land development inventory (note 3), project debt (note 7), and certain amounts due to related parties (note 4), all assets and liabilities are current in nature and are expected to be settled in less than twelve months.

(Expressed in Canadian dollars)

## 2. ACCOUNTING POLICIES, ESTIMATES & JUDGMENTS

The accounting policies used in the preparation of these condensed interim consolidated financial statements are consistent with those which were disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2019, except as described below.

### Use of Estimates and Judgments

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and equity at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. There have been no significant changes in accounting judgements, estimates and assumptions made by the Corporation in the preparation of these condensed interim consolidated financial statements from those judgements, estimates and assumptions disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2019.

### Adoption of Recent Accounting Pronouncements

The Corporation has adopted the following new or revised standards, including any consequential amendments thereto, for the period effective January 1, 2020. The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Changes in accounting policies adopted by the Corporation were made in accordance with applicable transitional provisions as provided in those standards and amendments. As required by IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", the nature and the effect of these changes are disclosed below:

#### Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the condensed interim consolidated financial statements of, nor is there expected to be any future impact to the Corporation.

## 3. LAND DEVELOPMENT INVENTORY

| | Three months ended March 31, 2020 $ | Year ended December 31, 2019 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | 45,170,098 | 47,202,976 |
| Development costs | 1,706,589 | 8,284,464 |
| Cost of sales | (16,984,873) | (7,485,088) |
| Effect of change in foreign exchange rates | 3,501,644 | (2,832,254) |
| BALANCE – END OF PERIOD | 33,393,458 | 45,170,098 |

(Expressed in Canadian dollars)

Within the statement of comprehensive loss, $16,984,873 (March 31, 2019 - $3,909,747) was recognized for cost of sales on land development inventory during the three months ended March 31, 2020. This amount is comprised of $17,133,027 (March 31, 2018 - $1,488,388) cost of sales allocated to land development inventory, and $nil (March 31, 2018 - $2,421,359) cost of sales allocated to the provision for land development costs.

Land development inventory is relieved through cost of sales at the time that revenue from lot sales is recognized. It is not possible for management to reasonably estimate the portion of land development inventory that will be realized within the next twelve months, as the timing of lot sales is subject to uncertainty based on market demand.

## 4. RELATED PARTY TRANSACTIONS

WAM, WDMI, WWE, WUSA, WGI, Walton Development and Management LP ("**WDM**"), Walton Global Holdings, Ltd. ("**WGH**"), and WUSF 1 Westphalia, LLC ("**WUSF**") are all related to the Corporation by virtue of the fact that they are all controlled by WGI. WWMN is related to the Corporation through common ownership. WIGI Restructured Bond Corporation ("**WIGI RBC**") is related to the Corporation through common management and a common Director. Any miscellaneous or other expenses due from related parties and due to related parties, as well as the funding received from WGI, are unsecured, due on demand, bear no interest and have no fixed terms of repayment.

### DUE FROM RELATED PARTIES

The balance due from a related party is outlined in the table below:

| | March 31, 2020 $ | December 31, 2019 $ |
|---|---|---|
| WUSF 1 Westphalia, LLC | 760,850 | 2,321,101 |
| Walton Development & Management (USA), Inc. | 232,289 | - |
| WIGI Restructured Bond Corporation | - | 6,241 |
| TOTAL DUE FROM RELATED PARTIES | 993,139 | 2,327,342 |

#### WUSF 1 Westphalia, LLC.

On February 27, 2012, WUSF entered into a cost sharing agreement with the U.S. Subsidiary for costs incurred for roadway improvements in accordance with pre-approved plans on both the Property owned by the Corporation and property owned by WUSF. Either WUSF or the U.S. Subsidiary may elect to construct any of the required improvements by providing notice to the other party of its intent to do so, and each non-constructing party shall acknowledge receipt of any such commencement notice. Each non-constructing party shall reimburse the constructing party for any costs and expenses related to the non-constructing party's property. The proportion of costs for each party to this agreement is determined pro rata on ownership acreage, or shared equally, dependant on the project. Any amounts outstanding are subject to interest at 12%.

(Expressed in Canadian dollars)

| | March 31, 2020 $ | December 31, 2019 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | 2,321,101 | 1,114,448 |
| Costs incurred under cost sharing agreement | - | 1,627,900 |
| Recoveries received under cost sharing agreement | - | (423,672) |
| Interest earned | 15,278 | 53,822 |
| Other expenses incurred | 1,097 | - |
| Payments received | (1,677,138) | - |
| Effect of change in foreign exchange rate | 100,512 | (51,397) |
| BALANCE – END OF PERIOD | 760,850 | 2,321,101 |

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

On February 27, 2012, U.S. Subsidiary, WDMI, Walton Maryland LLC 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 WDMI are divided into the following two categories:

i. WDMI 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. WDMI will receive a performance fee, plus applicable taxes, equal to 25% of cash distributions after all investors of Units in the Corporation have received cash payments or distributions equal to $10.00 per Unit, plus a cumulative compound priority return of 8% per annum. The priority return is calculated on the $10.00 amount per Unit, reduced by any cash payments or distributions by the Corporation.

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

| | March 31, 2020 $ | December 31, 2019 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | (274,150) | (307,211) |
| Development fees incurred | (6,192) | (68,994) |
| Development fees paid | 4,571 | 85,891 |
| Other expenses incurred | (165) | (5,028) |
| Other expenses paid | 501,999 | 6,545 |
| Effect of change in foreign exchange rates | 6,226 | 14,647 |
| BALANCE – END OF PERIOD | 232,289 | (274,150) |

## WIGI Restructured Bond Corporation

The other expenses were costs paid by the Corporation on behalf of WIGI RBC.

(Expressed in Canadian dollars)

| | March 31, 2020 $ | December 31,, 2019 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | 6,241 | - |
| Other expenses paid | - | 6,241 |
| Payments received | (6,241) | - |
| BALANCE – END OF PERIOD | - | 6,241 |

## DUE TO RELATED PARTIES

The balances due to related parties as are outlined in the table below:

| | March 31, 2020 $ | December 31, 2019 $ |
|---|---|---|
| WWMN, LLC | 36,687,281 | 34,386,505 |
| Walton Global Investments Ltd. | 1,850,513 | 1,625,100 |
| Walton Asset Management L.P. | 1,814,330 | 1,814,330 |
| Walton Global Holdings, Ltd. | 1,817 | 1,663 |
| Walton International Group (USA), Inc. | - | 2,106,128 |
| Walton Development & Management (USA), Inc. | - | 274,150 |
| Walton Westphalia Europe LP | - | 50,876 |
| TOTAL DUE TO RELATED PARTY | 40,353,941 | 40,258,752 |

### WWMN, LLC

On July 13, 2018, the Corporation entered into a $30 million USD facility with WWMN, bearing interest at 12%, payable semi-annually, commencing January 15, 2019, with a maturity date of June 30, 2021 ("**New Loan Program**"). Under the terms of the agreement, on each advance of the loan, 12% of the gross advance amount was held back by WWMN and kept in a separate bank account, for an interest reserve for the semi-annual interest payments first occurring on January 15, 2019. Additionally, transaction costs consisting of a 3% origination fee and a 1% lender expense reimbursement, payable to WWMN, were deducted and held back by WWMN on each advance.

The New Loan Program was subordinate to the terms of the New Senior Loan and secured by, among other things, a second-priority deed of trust lien on the Property. As a result of the full repayment of the New Senior Loan on February 28, 2020 (Note 7), the New Loan Program has moved into first position.

(Expressed in Canadian dollars)

| | March 31, 2020 $ | December 31, 2019 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | 34,386,505 | 35,277,119 |
| Advances | - | - |
| Transaction costs recovered | 93,048 | - |
| Interest incurred | 1,042,275 | 4,073,874 |
| Interest paid | (2,029,224) | (3,825,401) |
| Accretion | 135,333 | 535,868 |
| Effect of change in foreign exchange rates | 3,059,344 | (1,674,955) |
| BALANCE – END OF PERIOD | 36,687,281 | 34,386,505 |

The following table provides a summary of the New Loan Program balances outstanding at March 31, 2020 and December 31, 2019:

| | March 31, 2020 $ | December 31, 2019 $ |
|---|---|---|
| Principal, net of transaction costs | 35,601,652 | 32,371,399 |
| Interest payable | 1,085,629 | 2,015,106 |
| BALANCE | 36,687,281 | 34,386,505 |

The following table provides a summary of the interest reserve at March 31, 2020 and December 31, 2019:

| | March 31, 2020 | December 31, 2019 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | 279,300 | 4,203,470 |
| Interest reserve utilized | (281,257) | (3,825,401) |
| Effect of change in foreign exchange rates | 1,957 | (98,769) |
| BALANCE – END OF PERIOD | - | 279,300 |

### Walton Asset Management L.P.

The balance of $1,814,330 payable as at March 31, 2020 was in respect of the management fees and servicing fees incurred prior to March 31, 2018, when the Management Services Agreement was assigned to WGI. Notwithstanding the payment terms for such fees, due to cash constraints of the Corporation, management has communicated to WAM that it does not expect to make payments for the management fees and servicing fees until such time that the Corporation has adequate capital for the payment of such amounts. All amounts outstanding are due on demand and bear no interest.

### Walton Global Investments Ltd.

On March 31, 2018, the Corporation and WGI entered into a Management Services Agreement whereby WGI will provide certain management related services to the Corporation in return for an annual management fee equal to 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.

(Expressed in Canadian dollars)

Notwithstanding the payment terms for such fees, due to cash constraints of the Corporation, management has communicated to WGI that it does not expect to make payments for the management fees and servicing fees until such time that the Corporation has adequate capital for the payment of such amounts.

The Corporation also received funds for general operating purposes from WGI. All amounts outstanding are due on demand and bear no interest.

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| | $ | $ |
| BALANCE – BEGINNING OF PERIOD | 1,625,100 | 777,032 |
| Management fees incurred | 236,953 | 849,024 |
| Other expenses incurred | 79 | 10,146 |
| Other expenses paid | (11,624) | (10,835) |
| Effect of change in foreign exchange | 5 | (267) |
| BALANCE – END OF PERIOD | 1,850,513 | 1,625,100 |

### Walton Global Holdings Ltd.

The other expenses incurred are costs initially funded by Walton Global Holdings on the Corporation's behalf.

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| | $ | $ |
| BALANCE – BEGINNING OF PERIOD | 1,663 | - |
| Other expenses incurred | - | 1,683 |
| Effect of change in foreign exchange rates | 154 | (20) |
| BALANCE – END OF PERIOD | 1,817 | 1,663 |

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

The following table provides a summary of the WUSA balances outstanding at March 31, 2020 and December 31, 2019:

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| | $ | $ |
| Loan principal | - | 4,387 |
| Interest payable | - | 2,101,741 |
| BALANCE | | 2,106,128 |

The Corporation had a $4.1 million USD subordinated loan agreement with WUSA (the "**WUSA Loan**") bearing interest at 11% per annum, payable semi-annually. The loan was unsecured and subordinate to the New Senior Loan described in note 8, as well as the New Loan Program and the loan with MCFI. The WUSA Loan was repaid in full on March 4, 2020, with the consent of the New Loan Program lender and MCFI.

(Expressed in Canadian dollars)

| | Three months ended March 31, 2020 $ | Year ended December 31, 2019 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | 2,106,128 | 6,861,989 |
| Advances | - | - |
| Repayments | (4,524) | (4,920,787) |
| Interest incurred | 41,739 | 587,339 |
| Interest paid | (2,208,889) | (198,616) |
| Effect of change in foreign exchange rates | 65,546 | (223,797) |
| BALANCE – END OF PERIOD | - | 2,106,128 |

On February 20, 2020, the U.S. Subsidiary entered into a payment guaranty agreement with WUSA, WDMI, WWE, and WUSF (the "**Payment Guaranty**") for certain public infrastructure costs related to roadway improvements. The roadway improvements are currently underway and being managed by WDMI, with WUSA having guaranteed completion to Prince George's County. The Payment Guaranty states that if any cost overruns are incurred by WDMI, WUSA will fund those overruns, and the U.S Subsidiary and WUSF are to reimburse WUSA, with each party responsible for 50% of the cost overrun.

### Walton Westphalia Europe, L.P.

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

| | March 31, 2020 $ | December 31, 2019 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | 50,876 | - |
| Recoveries paid | (52,055) | - |
| Recoveries received | - | 51,549 |
| Effect of change in foreign exchange rates | 1,179 | (673) |
| BALANCE – END OF PERIOD | - | 50,876 |

(Expressed in Canadian dollars)

### Key Management Compensation

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

| | For the three months ended March 31, 2020 $ | March 31, 2019 $ |
|---|---|---|
| Directors' fees | 25,000 | 25,000 |

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

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

## 5. PREPAID EXPENSE

The amount of prepaid expenses as at March 31, 2020 and December 31, 2019 are as follows:

| | March 31, 2020 $ | December 31, 2019 $ |
|---|---|---|
| BALANCE – BEGINNING OF PERIOD | 513,657 | 4,483,297 |
| New Loan Program prepaid interest reserve utilized (note 4) | (281,257) | (3,825,401) |
| Transaction fees related to the unused loan facility (note 8) | - | 252,912 |
| Amortized to financing cost expense | (10,528) | (286,028) |
| Office and other prepaid expenses | - | 525 |
| Effect of changes in foreign exchange rates | 22,967 | (111,648) |
| BALANCE – END OF PERIOD | 244,839 | 513,657 |

## 6. RESTRICTED CASH

The restricted cash balances at March 31, 2020 and December 31, 2019 are outlined in the table below:

| | March 31, 2020 $ | December 31, 2019 $ |
|---|---|---|
| Customer deposits (note 10) | 68,503 | 93,112 |
| | 68,503 | 93,112 |

(Expressed in Canadian dollars)

## 7. PROJECT DEBT

The following table provides a continuity of the project debt:

| | New Senior Loan | MCFI Loan | Total |
|---|---|---|---|
| BALANCE – JANUARY 1, 2019 | 23,425,237 | - | 23,425,237 |
| Advances | 2,207,748 | 5,119,232 | 7,326,980 |
| Transaction costs | (68,187) | (266,688) | (334,875) |
| Payment on loan | (7,320,431) | - | (7,320,431) |
| Interest incurred | 2,141,322 | 107,941 | 2,249,263 |
| Interest paid | (2,201,749) | - | (2,201,749) |
| Accretion | 885,602 | 13,055 | 898,657 |
| Effect of changes in foreign exchange rates | (1,028,693) | (112,613) | (1,141,306) |
| BALANCE – DECEMBER 31, 2019 | 18,040,849 | 4,860,927 | 22,901,776 |
| Advances | - | 2,428,555 | 2,428,555 |
| Transaction costs | - | (135,456) | (135,456) |
| Transaction costs recovered | 70,502 | - | 70,502 |
| Payment on loan | (18,252,648) | - | (18,252,648) |
| Interest incurred | 176,273 | 91,816 | 268,089 |
| Interest paid | (356,631) | (107,710) | (464,341) |
| Accretion | - | 10,232 | 10,232 |
| Effect of changes in foreign exchange rates | 321,655 | 444,390 | 766,045 |
| BALANCE – MARCH 31, 2020 | - | 7,592,754 | 7,592,754 |

The following table provides a summary of the project debt balances outstanding as at March 31, 2020 and December 31, 2019:

| | New Senior Loan | MCFI Loan | Total |
|---|---|---|---|
| | | | $ |
| Principal, net of transaction costs | 17,868,748 | 4,754,463 | 22,623,211 |
| Interest payable | 172,101 | 106,464 | 278,565 |
| BALANCE – DECEMBER 31, 2019 | 18,040,849 | 4,860,927 | 22,901,776 |
| Principal, net of transaction costs | - | 7,497,130 | 7,497,130 |
| Interest payable | - | 95,624 | 95,624 |
| BALANCE – MARCH 31, 2020 | - | 7,592,754 | 7,592,754 |

### New Senior Loan

On November 30, 2018, the U.S. Subsidiary and WWE (the "**Borrowers**") collectively entered into the New Senior Loan, a $27 million USD secured loan with a new third-party lender, with an interest rate of 11%, payable quarterly, and a maturity date of November 30, 2019. The loan was amended on December 4, 2019 to extend the maturity date to March 31, 2020. Interest was capitalized to land development inventory as the loan was used to fund the first phase of construction on the Property. The New Senior Loan was repaid with 100% of the Corporation's proceeds from the sale of the Property.

The New Senior Loan was secured by, among other things, a first priority deed of trust lien on the Property.

WUSA had provided a guarantee with the lenders of the New Senior Loan that the U.S. Subsidiary would complete the development of the project in accordance with the plans and on a lien-free basis and fund all cost overruns. WUSA also guaranteed any losses incurred by the lender in connection with certain bad acts or particular events under the New Senior Loan, including, but not limited to, waste or intentional/grossly negligent damage to the Property, and misappropriation of funds. WUSA would have become fully liable for the loan if the Borrowers were unable to repay the loan.

The New Senior Loan was repaid in full on February 28, 2020.

### MCFI Loan

On August 26, 2016, the Borrowers entered into the loan agreement ("**Loan Agreement**") with MCFI Global Fund Westphalia LLC ("**MCFI**"). Under the Loan Agreement, MCFI proposed to loan to the Borrowers jointly, up to $58 million USD. On August 21, 2019, the Loan Agreement was amended in order to facilitate the fact that the Borrowers are obligated to borrow an amount of $16.5 million USD, dependent on MCFI's abilities to raise funds, and a change in the interest rate from 5.25% to 7%. Borrowing any amounts over the $16.5 million USD and up to the $58 million USD, is at the sole discretion of the Borrowers, which would require creating additional jobs from the project, as well as MCFI's ability to raise the funds, and is subject to change. The Loan bears interest at 7% non-compounded, payable quarterly. The maturity date is the sixth anniversary of the last day of the calendar quarter for each Class of Loan Advances, which is defined as all the Loan Advances made during any calendar quarter, with the lender having the ability to extend the maturity date by one year. The main purpose of the Loan Agreement is to, including but not limited to, repay project debt and to provide working capital for the Project to cover certain qualifying hard and soft costs for Phase 1. MCFI will continue to raise funds until July 31, 2020 under this Loan Agreement.

The MCFI Loan was subordinate to the terms of the New Senior Loan and the New Loan Program, and is secured by, among other things, a third-priority deed of trust lien on the Property. As a result of the full repayment of the New Senior Loan on February 28, 2020, the MCFI Loan is now only subordinate to the New Loan Program.

(Expressed in Canadian dollars)

### Interest Costs Incurred

The following table provides a breakdown of interest costs incurred for the three months ended March 31, 2020 and the year ended December 31, 2019:

| | Interest Capitalized to Land Development Inventory | |
|---|---|---|
| | March 31, 2020 | December 31, 2019 |
| | | $ |
| Interest | | |
| New Senior Loan | 176,273 | 2,141,322 |
| New Loan Program (note 4) | 1,042,275 | 4,073,874 |
| MCFI Loan | 91,816 | 107,941 |
| WUSA Loan (note 4) | 41,739 | 587,339 |
| Debentures | - | 416,617 |
| Interest Debenture | - | 192,391 |
| TOTAL INTEREST | 1,352,103 | 7,519,484 |
| Accretion | | |
| New Senior Loan | - | 885,602 |
| New Loan Program | 135,333 | 535,868 |
| MCFI Loan | 10,232 | 13,055 |
| Debentures | - | 52,806 |
| TOTAL FINANCING COSTS | 145,565 | 1,487,331 |
| TOTAL INTEREST AND FINANCING COSTS | 1,497,668 | 9,006,815 |

## 8. DEFERRED REVENUE

Deferred revenue is comprised of deposits received from homebuilders for lots, for which revenue recognition criteria have not been met. The deposits are non-refundable and are paid in accordance with the terms of the purchase and sales agreements between the Corporation and the homebuilders. In addition to cash deposits received from builders (note 6), on March 4, 2014, in lieu of a deposit, an irrevocable letter of credit in the amount of $367,200 USD was received from the second homebuilder. The letter of credit will be reduced proportionately as gross proceeds are received from the sale of lots in accordance with the purchase and sale agreement with this builder. During the three months ended March 31, 2020, there has been no change to this letter of credit (December 31, 2019 – $169,200 USD). As of March 31, 2020, the second homebuilder has closed on all of their contracted lots, and management has communicated with  the homebuilder in order to terminate this letter of credit.

## 9. SHARE CAPITAL

### Per Share Amount

Basic net income/(loss) per share (“**EPS**”) is calculated by dividing the Corporation’s net income/(loss) (prior to other comprehensive income/(loss)) by the weighted average number of shares outstanding. The 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 Class B Shares outstanding for the three months ended March 31, 2020 was 53,425,728 (December 31, 2019 – 36,024,418).

(Expressed in Canadian dollars)

On May 6, 2019, the Debentures and Interest Debentures were converted to Class B non-voting shares. As the Corporation had the right to convert any portion of the Debentures and Interest Debentures 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-month period ended March 31, 2019, the potentially dilutive shares was nil because the Corporation generated losses during the period.

## 10. 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.

| | Three months ended March 31, 2020 $ | Three months ended March 31, 2019 $ |
|---|---|---|
| Consolidated net loss before tax | (211,009) | (893,829) |
| Applicable tax rate | 27% | 27% |
| EXPECTED TAX RECOVERY | (56,972) | (241,334) |
| Increase/(decrease) in income taxes resulting from: | | |
| Change in deferred tax asset not recognized | 3,322,777 | 1,245,588 |
| Deferred tax asset not recognized on impairment of land | (2,414,061) | (1,216,419) |
| Effect of change in foreign exchange rates | (851,744) | 212,165 |
| INCOME TAX EXPENSE/(RECOVERY) | - | - |

The components of the deferred tax assets (liabilities) are as follows:

| | March 31, 2020 $ | December 31, 2019 $ |
|---|---|---|
| Non-capital loss carry forward | 8,253,626 | 5,262,420 |
| Unrealized gain on foreign exchange | (2,275,230) | (1,584,634) |
| Debenture issuance costs | (296,201) | (296,201) |
| Other | (243,638) | (223,047) |
| Excess development costs for tax vs accounting | 6,594,189 | 8,895,621 |
| Unrecognized deferred tax asset | (12,032,746) | (12,054,159) |
| NET DEFERRED TAX LIABILITY | - | - |

Deferred income tax assets and liabilities are a result of temporary differences between the carrying amount of assets and liabilities in the unconsolidated financial statements and their carrying amount for income tax purposes, as well as recognition of tax losses relating to the Canadian taxes.

(Expressed in Canadian dollars)

The unused non-capital losses of $6,311,992 will expire as follows:

| | $ |
|---|---|
| 2032 | 847,219 |
| 2033 | 647,600 |
| 2034 | 711,846 |
| 2035 | 955,466 |
| 2036 | 1,132,801 |
| 2037 | 881,998 |
| 2038 | 1,080,564 |
| 2039 | 54,498 |
| | 6,311,992 |

The unused non-capital losses relating to the U.S. Subsidiary as at March 31, 2020 amounted to $24,290,455 (December 31, 2019 - $13,178,453).

## 11. FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of due from related parties, restricted cash, accounts receivable, cash, project debt and interest payable, accounts payable and accrued liabilities, and amounts due to related parties.

The future undiscounted obligations of the Corporation as at March 31, 2020, are as follows:

| | 2020 | 2021 | 2022 | 2023 | 2024 and thereafter |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Project debt | 648,121 | 552,496 | 552,496 | 552,496 | 8,830,010 |
| Accounts payable and accrued liabilities | 584,354 | - | - | - | - |
| Due to related parties | 7,956,437 | 37,737,751 | - | - | - |
| Total | 9,188,912 | 38,290,247 | 552,496 | 552,496 | 8,830,010 |

Future undiscounted obligations relating to project debt and the loans due to related party include expected, unpaid interest.

In addition to these items in the table, based on the current loan amounts outstanding and as a result of the joint and several nature of the MCFI Loan, and the New Loan Program, the U.S. Subsidiary may be liable for WWE's portion of the loans. As at March 31, 2020, this amount is $7,885,034 (December 31, 2019 - $9,923,391).

The Corporation is not exposed to any interest rate risk in regards to the New Senior Loan, included in project debt, or the New Loan program, included in due to related parties. The interest rates of the New Senior Loan and the New Loan Program are fixed, at 11% and 12% respectively, and any changes in the market interest rate would not affect the Corporation.

## 12. COMMITMENTS

Under the Management Services Agreement (note 4), the commitment for management fees will extend for the length of the project, however, it is calculated based on the book value of the Property at the end of the previous calendar quarter, which cannot be reasonably estimated at this time. The development fee and the performance fee payable to WDMI under the Project Management Agreement cannot be reasonably estimated at this time.

(Expressed in Canadian dollars)

The Corporation also has a commitment to complete the construction of onsite water, sewer and lines, as well as the construction of an offsite sewer outfall as part of the permits issued by Prince George's County, Maryland. The Corporation has provided the Washington Suburban Sanitary Commission, Prince George's County and the Maryland National Park and Planning Commission with bonds, which are used as construction guarantees. As at March 31, 2020, the outstanding value of these bonds total $18,648,272 USD (December 31, 2019 - $18,648,272 USD).

## 13. CAPITAL MANAGEMENT

The Corporation defines capital as total Shareholders' Deficit, Project Debt, and Due to Related Parties. At March 31, 2020, the total capital managed was $38,904,362 (December 31, 2019 - $54,802,148).

The Corporation's objectives when managing capital are to:

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

The Corporation manages the capital structure by using short and long-term cash flow projections to determine that the amount of cash available to meet on-going obligations is either retained by the Corporation, available through construction loan facilities or is available through agreements with related parties. Project debt is intended to be utilized to finance future phases of development which may require partial or full guarantees by WGI to obtain or maintain facilities at market rates.

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

## 14. SUPPLEMENTAL INFORMATION TO THE STATEMENTS OF CASH FLOWS

| | March 31, 2020 | March 31, 2019 |
|---|---|---|
| | $ | $ |
| Accretion related to Debentures payable capitalized to land development inventory | - | 29,930 |
| Accretion related to Debentures payable and applied to provision | - | 22,876 |
| Non-cash interest capitalized to land development inventory | 1,134,091 | 965,926 |
| Non-cash interest applied to provision | - | 775,374 |
| Interest paid capitalized to land development inventory | 4,702,453 | 256,866 |
| Interest paid and applied to provision | - | 209,574 |
| Accretion on project debt capitalized to land development inventory | 10,232 | 130,576 |
| Accretion on project debt applied to provision | - | 106,535 |
| Accretion on related party loans capitalized to land development inventory | 135,333 | 68,939 |
| Accretion on related party loans applied to provision | - | 56,246 |