WALTON WESTPHALIA DEVELOPMENT CORPORATION – Q1 2015 FISCAL RESULTS

CEO MESSAGE TO SHAREHOLDERS

Included in this report are the financial results for the first quarter of 2015 for Walton Westphalia Development Corporation (the "**Corporation**"). Launched in March 2012, the Corporation was formed to provide investors with the opportunity to participate in the acquisition and development of the 310-acre Westphalia property (the "**Property**").

The Property is in Prince George's County, Maryland, U.S.A., seven miles southeast of the District of Columbia. The Westphalia Property is ideally situated for community development. The Property is along the north side of Maryland State Route 4 and directly across from Joint Base Andrews, approximately 1.5 miles east of the Capital Beltway. The Capital Beltway encompasses Washington, D.C. and its inner suburbs in Maryland and Virginia. The southern edge of the Property runs parallel to Pennsylvania Avenue with more than 1.5 miles of frontage. Pennsylvania Avenue is a major commuter route, which runs 13.5 miles from the Property to Capitol Hill, the site of the White House and the Capitol Building.

FIRST QUARTER HIGHLIGHTS

During the first quarter of 2015, the Corporation focused its efforts on continuing construction on the project, preparing the additional submittals required to achieve the remaining regulatory and construction approvals, and meeting with County officials to coordinate and discuss plans for the project. The Corporation undertook the following activities during the quarter:

- received USD $1.2 million from the State Highway Administration for 4.4 acres of condemned (expropriated) land that will be used for the construction of the Suitland Parkway interchange;
- received the following development permits with USD $2.8 million in bonds provided to the related agencies to be used as construction guarantees for the associated permits;
  - street construction permit for the extension of Woodyard Road
  - temporary road construction permit connecting Woodyard Road extended to Melwood Road
  - State Highway Administration access permit for storm drain work along Pennsylvania Avenue;
- received approval from the State Highway Administration on the Traffic Impact Study for the redesigned Woodyard Road interchange; and
- continued site grading, utilities and culvert construction on Phase 1.

Subsequent to the end of the quarter, on April 24, 2015, NVR, Inc. d/b/a Ryan Homes closed on their showhome building containing seven lots for USD $580,000 which was used to pay down amounts owing under both the senior and mezzanine loans. On April 29, 2015, HWR LLC (Haverford Homes) closed on their showhome building containing six lots for USD $540,000 which was also used to pay down amounts owing under both the senior and mezzanine loans.

The current project schedule is behind key project milestones as outlined in the Corporation's initial offering documents. The delay was due to longer than anticipated time to obtain necessary regulatory and government approvals and permits, as well as weather delays. This resulted in a fifteen-month delay in the delivery of finished lots to builders (January 2014 to April 2015).

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During 2013, 2014 and the quarter ended March 31, 2015, greater cost certainty was obtained on the anticipated costs for developing Phase 1. The offsite improvement for Phase 1, the Woodyard Road interchange, has been redesigned to provide a more cost-effective design and the conceptual plan has been approved. A third-party cost estimate has been prepared based on this conceptual design of the interchange. The Corporation will continue to look at ways to further reduce the cost as we design the final construction plans. Excluding the redesign of the Woodyard Road interchange, the current budget for Phase 1 exceeds the original cost assumptions used by management in preparing the Corporation's initial offering documents.

Due to weather delays and permit issues, Phase 1 residential lot sales were delayed until April 2015, however the revenues from these residential lot sales have increased 28% from that forecasted in the Corporation's initial offering documents due to the increase in market price for the lots and adding additional lots to this phase. Based on current market conditions, the Phase 1 retail, hotel and multi-family sales have been delayed and the projected revenue has been revised downward.

The combined impact of these factors is a change in the timing and amount of cash distributions when compared to the original assumptions in the Corporation's initial offering documents. As reported in the 2014 first quarter news release, delays in construction, downward revenue revisions for the retail and hotel sites, the extension of the estimated sale dates for the office sites, high office vacancy rates and the impact of the U.S. Government's budget sequestration on the market were expected to result in a downward revision to the internal rate of return (the "**IRR**") from the projected 15% disclosed in the Corporation's initial offering documents. Based on management's current information as at the end of Q1 2015, the forecasted IRR is 5.7%. This IRR is based on achieving certain revenue targets, maintaining construction schedules, the timely receipt of recoveries, third-party sales and commitments for additional lots from the builders. Further changes to the IRR projection could occur due to changes in the aforementioned and other factors.

On March 24, 2015, the Board of Directors approved an action plan proposed by management to address a range of strategies to potentially improve the IRR projections. Under the action plan, management will undertake the following initiatives and strategies:

1. Pursue the option of vertical development participation with development partners.

    - Management is having discussions with potential partners on the retail, multi-family, hotel and future phases of the residential portion of the development.

2. Accelerate the development of Phase 1A.

    - Management is pursuing mezzanine financing for soft costs, as well as having discussions with potential joint venture partners on this phase.

3. Pursue Tax Increment Financing ("**TIF**") bonds to recover applicable offsite improvements.

    - Management has brought on a consultant, Municap, Inc., to provide financial consulting services related to the public bond financing.

4. Pursue the re-planning of Phases 2 and 3, including for example a town centre re-design to realize on current market opportunities such as a senior living component and/or flex industrial within Phases 2 and 3.

    - Management has received a proposal from a land planner and will move forward with the re-planning once the potential uses are researched further.

Based on management's current information and assessment of the identified strategies and executing on the identified action plans, preliminary analysis suggests the potential hold period for the Project could increase to 13 years from the seven years disclosed in the Corporation's initial offering documents.

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Management also continues to focus on additional complementary strategies to maximize the returns of the project, which include, but are not limited to:

- Securing a grocery anchor for the retail site, which can increase the attractiveness for other future retail tenants to locate in the project, and positively impact retail values, lease rates, and project absorptions. Securing a grocery anchor tenant will also positively impact the sales momentum for other components of the project, including the townhome product and other future residential development by providing an important retail based service and community amenity.

- Engaging in discussions with commercial and residential developers to broaden the awareness of the project and explore sales and/or partnering opportunities to realize the highest and best use and associated values for the project.

- Evaluating project positioning and retail product opportunities to maximize usable retail space and project amenities to accelerate market demand.

- Continuing efforts to attract a major hotel chain to construct a hotel in the Westphalia site.

- Partnering with the Prince George's County Economic Development Corporation to assist with marketing the office site, and with a strategic focus related to locating future government office buildings in Westphalia.

MARKET ENVIRONMENT

The latest Washington DC metro area employment report points to an improving regional economy in 2015. The private sector will increasingly become the driver of Washington's economic activity. It is anticipated that, as the U.S. economy strengthens, the Washington DC metro economy will likely gain more traction, creating more optimism for the local real estate markets during 2015.[1]

The Washington Metropolitan Statistical Area ("**MSA**") office market is beginning to show small but positive improvements early in 2015. Net absorption is positive and with modest rent increases. Investment activity is strong with high volume and record prices, and the demand for quality space is fueling leasing activity. The office market, however, will need to continue adjusting to the new reality of lower aggregate demand as consolidations, shorter lease terms, and shadow space remain prevalent in the near-term.[1]

In Prince George's County where Walton's Westphalia Town Center project is located, the office market continued to soften in the first quarter. Due to move-outs, Prince George's County posted a historic high vacancy rate for the second straight quarter at 29.6%.[2] The retail real estate market is showing consistent improvements. Shopping centre vacancy rates continue to decline and rents have been rising steadily since 2010.[1] It is anticipated that the retail market will likely gather momentum through the rest of 2015 and into 2016 as U.S. consumer confidence and spending continue to improve and encourage local retail spending.[1]

The Washington DC metro area had the fourth-lowest unemployment rate among the U.S.'s largest metro areas.[1] The unemployment rate was 4.9% in January 2015, down from 5.3% in January 2014.[1] This compares to the U.S. (seasonally adjusted) rate of 5.7% in January 2015, which is down from January 2014.[1] CohnReznick expects the Washington DC metro area's unemployment rate to hold in the 5% range during 2015, as new jobs are created while the labour force also continues to grow.[1]

The Gross Regional Product ("**GRP**") for Washington is anticipated to grow to $501.7 billion in 2015 – a 5.5% increase from the estimated $475.5 billion in 2014.[1] The U.S. government's share of spending is shrinking. U.S government spending

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[1] *CohnReznick, Washington Area Commercial Real Estate Market Update, April 2015*
[2] *JLL Office Insight – Prince George's County Q1 2015*

currently accounts for approximately 35% of GRP.[1] By 2018, it is expected this share might shrink to 29%, as the U.S. government continues to control spending and the private sector picks up the slack.[1]

During the first quarter of 2015, the average sale price of a home in the Washington area was $451,640 — an increase of 2.5% from the first quarter of 2014.[3] This rate of price growth compares to 5.5% for the first quarter 2014 and 9.2% for the same quarter in 2013.[3] Price growth is likely to remain below the long-term average as the number of active listings in the region continues to increase in the near-term. This slowdown in price growth could boost demand for housing this year. In Prince George's County where Walton's Westphalia Center Town project is located, the average home price during the first quarter of 2015 increased 7.7% compared with prices for the same period in 2014.[3]

It is anticipated that a combination of the following will bring modest gains to the Washington-area for-sale housing market during 2015:

- Mortgage interest rates that remain relatively low by historical standards, notwithstanding a potential modest increase during the latter half of 2015;
- An easing of lending standards that will open up homeownership, especially to first-time home buyers;
- Job growth, driven by the private sector, that is likely to gain traction during 2015;
- Income growth and household formation that will propel new home buyers into the marketplace; and
- Growing confidence by builders, lenders, and buyers that the height of market risk has passed.[3]

While we remain optimistic that there will be continued demand for new housing and commercial development in the Washington DC metro market, management will continue to monitor the political and economic circumstances which could influence the Corporation's overall investment objectives.

Management will continue to work with municipal governments and other stakeholders in the planning and development of the project to realize the most effective use of the Property to attain the Corporation's investment goals.

Thank you for investing in the Corporation.

Best regards,

William K. Doherty
President and Chief Executive Officer
Walton Westphalia Development Corporation

[3] *First Quarter 2015 Delta Associates Washington Area Housing Outlook*

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