Walton
APPRECIATE THE LAND

WALTON WESTPHALIA DEVELOPMENT CORPORATION – Q3 2014 REPORT

CEO MESSAGE TO SHAREHOLDERS

Included in this report are the third quarter fiscal results of 2014 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., approximately 21.7 km from the U.S. Capitol Hill in Washington D.C., the site of the White House and the U.S. Capitol Building. 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 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 more than 1.5 miles of frontage. Pennsylvania Avenue is a major commuter route, which runs 13.5 miles from the Property to the U.S. Capitol Hill.

HIGHLIGHTS FOR THE THIRD QUARTER

During the third quarter of 2014, the main priority of the Corporation was to continue construction, prepare the additional submissions necessary to receive the remaining approvals as described in the Corporation's February 2012 prospectus and initial private placement offering memorandum (collectively, the "**Offering Documents**"), and meet with county officials to coordinate and discuss plans for the project. The following key activities were undertaken by the Corporation during the third quarter:

- As previously reported, the Corporation received a permit to relocate its 30-inch waterline under the proposed Woodyard Road extension in July 2014. The extension of Woodyard Road will provide access to the townhomes proposed for the development. The Corporation provided the Washington Suburban Sanitary Commission ("**WSSC**") with two bonds totaling USD $1,946,996 which will be used as construction guarantees and will be replaced by a maintenance bond once WSSC is satisfied with the work requirements.

- Construction of the sanitary sewer outfall was completed and construction on relocating the 30-inch water line commenced. Work on additional underground utilities installations, the box culvert undercut, site grading and the stone sub-base also occurred during the quarter.

- The Corporation's senior debt facility was amended on September 22, 2014 to extend the facility's date by which Sub-phase 1 must be completed to June 30, 2015, from August 31, 2014, due to the delays previously reported.

- Subdivision plans for the southern townhouse area were officially recorded in October 2014.

The current project schedule is behind key project milestones as outlined in the Offering Documents. The delay was due to the longer than anticipated time to obtain approvals and permits from Prince George's County, Maryland as well as weather delays. This has resulted in delaying the delivery of finished lots to the builders from the originally anticipated completion date of January 2014 to February 2015.

During 2013 and nine months ended September 30, 2014, greater cost certainty was obtained on the anticipated costs for developing Phase 1. However, the offsite improvement in Phase 1, the Woodyard Road interchange, is still being reviewed and redesigned to provide the most cost effective design. 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 Offering Documents.

23rd Floor, 605 - 5th Avenue SW | Calgary, Alberta, Canada T2P 3H5 | Main: +1.403.265.4255 | Fax: +1.403.237.6634 | Walton.com

As of September 30, 2014, the total forecasted increase in Phase 1 development costs, before financing and net of recoveries, is U.S. $3.6 million.

Due to weather delays and permit issues, the Phase 1 residential lot sales will be delayed until February 2015, however the revenues have increased 28% from that forecasted in the Offering Documents. Additionally based on current market conditions, the Phase 1 retail, hotel and multi-family sales have been delayed and the 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. As previously reported, 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 ("**IRR**") from the projected 15% disclosed in the Offering Documents. Based on management's current information as at the end of Q3 2014, the currently 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 the changes in the aforementioned and other factors.

Management continues to focus on strategies to maximize the project returns 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 may 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 value 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.

- Potentially retaining an office broker or consultant to assist with marketing the office site, and with a strategic focus related to locating future government office buildings in Westphalia.

In addition to the above initiatives, Col. Edward Fleming, US Army Ret. has been appointed Chief Operations Officer for North America to oversee the day-to-day operations of Walton Development and Management and Mr. John Goodwin has been appointed as Senior Vice President of Retail Development with Walton's land acquisitions and institutional relationships group, Walton Asset Management-USA.

Before joining Walton Development and Management Col. Fleming was the Executive Director of Civil Works and Emergency Operations for the United States Army Corps of Engineers, where he was part of the leadership team that had oversight responsibility of a 194-person directorate managing the nation's $5.4 billion civic works program comprised of infrastructure with a capital stock value of $192 billion, 170 field offices and 23,000 employees.

Mr. Goodwin will focus on retail and commercial development sites owned or managed by Walton. His work will include both advising on the zoning and planning of retail assets and overseeing leasing and development. Mr. Goodwin will also be the point person for Walton's relationships with retail tenants for North America.

Prior to joining Walton, Mr. Goodwin was Director of Development at Kimco Realty Corp. where he was responsible for new development and redevelopment projects in the 11 western states. He also served as Director of Real Estate for Kimco where he was responsible for leasing, repositioning and redeveloping a portfolio of 14 shopping centers consisting of 2.5 million square feet throughout California and New Mexico. Previous to his position at Kimco, Mr. Goodwin was Vice President of Development and Leasing for M & M Realty Partners, LLC and the Senior Leasing Representative/Development for GMS Realty.

Both Col. Fleming and Mr. Goodwin will be based in Reston, Virginia.

MARKET ENVIRONMENT

The slowdown in the Washington metro area grew in early 2014 as a result of the sustained fiscal drag from the federal government. Employment in the area's largest segments: the federal government and professional services is thinning at the fastest rate in 20 years.[1] Winter weather also limited consumer spending, which had been one of the economy's primary supports.[1] Multi-family construction is one of a few drivers at the moment with apartment deliveries achieving a record in the first quarter of 2014 pushing construction employment higher.[1] Overall, less than a third of industries have added to their payrolls in the Washington metro area in the last three months, which speaks to the far-reaching influence of federal budget tightening.[1]

The Washington metro area housing market grew modestly during the third quarter of 2014. Average house prices metro-wide increased, but at a much slower pace compared to 2013.[2] While the U.S. economy is starting to grow and is anticipated to support the broader housing market during the next period, wage and job growth in the Washington area is expected to keep the local housing market's performance modest through the remainder of 2014 and into early 2015.[2] While the federal government has trimmed its workforce, the private sector continues to create enough new jobs to help offset the local economic impact of the federal government's austerity measures.

It is anticipated that a combination of the following factors will help to bring modest gains to the new housing market in the Washington area during the remainder of 2014:

- Mortgage interest rates that remain relatively low by historical standards, notwithstanding a potential increase on the horizon.[2]
- Job growth, driven by the private sector, that is likely to stay modest but gain traction.[2]
- Income growth and household formation that will propel new home buyers into the marketplace.[2]
- Growing confidence by both lenders and buyers that the height of market risk has passed.[2]

The Washington metro area ranks seventh in population among the nation's metro areas, with 5.9 million residents.[3] With 3.1 million payroll jobs, the Washington metro area ranks as the fifth-largest job market in the U.S., behind New York, Los Angeles Basin, Chicago, and Dallas/Ft. Worth. The Washington metro area economy added 6,300 new payroll positions during the 12 months ending April 2014. This number ranks Washington 12th among large metro areas. Growth is below the 20-year annual average of 42,600 and less than in past recovery cycles, which averaged 60,000 to 100,000.

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

[1] *Moody's Analytics Washington-Arlington-Alexandria DC-VA_MD_VA May 2014*
[2] *Washington Area Housing Outlook – Third Quarter 2014 – Delta Associates*
[3] *Washington /Baltimore Flex / Industrial Market Report – Mid-year 2014, Delta Associates*

23rd Floor, 605 - 5th Avenue SW | Calgary, Alberta, Canada T2P 3H5 | Main: +1.403.265.4255 | Fax: +1.403.237.6634 | Walton.com

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
Chief Executive Officer
Walton Westphalia Development Corporation

WALTON WESTPHALIA DEVELOPMENT CORPORATION

23rd Floor, 605 - 5th Avenue SW | Calgary, Alberta, Canada T2P 3H5 | Main: +1.403.265.4255 | Fax: +1.403.237.6634 | Walton.com