

WALTON WESTPHALIA DEVELOPMENT CORPORATION – Q3 2015 FISCAL RESULTS

CEO MESSAGE TO SHAREHOLDERS

Included with this report are the financial results for the third 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.

THIRD QUARTER HIGHLIGHTS

During the third quarter of 2015, the following key activities were undertaken:

- Ryan Homes and Haverford Homes continued construction on their model showhomes with anticipated completion in November;
- the Corporation’s U.S. subsidiary completed initial paving of the main access road to the model showhomes; and
- site grading and utilities installation in Phase 1 continued.

Management continues to implement strategies to reduce costs, increase revenues and accelerate absorptions. The development strategies include accelerating the development of Phase 1A, re-planning of Phases 2 and 3, including 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, and potentially undertaking vertical development participation with development partners. The financing strategies include pursuing programs such as the EB-5 Immigrant Investor Program (“**EB-5 Program**”) (which would be done in conjunction with vertical development) that would allow for lower cost financing with better flexibility and working to secure Tax Increment Financing (“**TIF**”) from the County.

The EB-5 program is administered by the U.S. Customs and Immigration Service (“**USCIS**”). Under this program, non-US citizen entrepreneurs and certain members of their family are eligible to apply for a U.S. green card (permanent residence) if they meet specific investment criteria set by the USCIS. The main benefit of the EB-5 program to the Corporation is that the funds these investors could provide are relatively inexpensive debt capital that could enhance the financial viability of the Westphalia project to the benefit of its investors.

A TIF is a public financing method used for financing public infrastructure improvement projects as part of a larger development project. A municipality, through a TIF, leverages potential future gains in municipal taxes by offering the sale of bonds to the public, the proceeds of which are used to pay for the proposed infrastructure. The bonds are then paid off in the future with the increased municipal tax revenues resulting from increased development in the municipality.



MARKET ENVIRONMENT

The latest Washington, D.C. metro area employment report points to an economic recovery that is on solid footing, with most economic indicators showing positive trends. The stronger performance of the area's job market has been influenced by a growing private sector share of the regional economy. The future of Federal employment and procurement in the area will continue to remain uncertain, though, until after the 2016 national elections.

In August 2015, the area added 57,000 jobs compared to the previous 12 months.¹ The regional unemployment rate as of August 2015 was 4.4%, well below the U.S. average of 5.1%.¹ The population of the Washington metro area is the U.S.'s seventh largest metro area by population in the country.¹ With 3.1 million payroll jobs, the Washington metro area is the fifth largest job market in the U.S.¹ Job growth in 2015 in the Washington area is strong to date and is well above the 20-year annual average of 41,700.¹ The average household income in the Washington metro area grew by 49% from 2000 to 2015, compared to 32% in the U.S., and currently exceeds the U.S. national average income by 61%.¹

The housing market in the Washington metropolitan area continued to show modest growth. During the third quarter of 2015, the average sale price of a house increased and the average days a house was on the market increased from the previous year.² During the third quarter of 2015 housing prices were up 1.2% from the third quarter of 2014, and housing sales were up 13.5% compared to the third quarter of 2014.² Housing prices in Prince George's County, where Walton's Westphalia Town Center is located, increased 4.1% during the third quarter of 2015 compared to the same period in 2014.²

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 the year;
- an easing of lending standards that could open up homeownership, especially to first-time home buyers;
- job growth, driven by the private sector, that is anticipated to gain traction;
- income growth and household formation that could propel new home buyers into the marketplace; and
- anticipation of an interest rate hike by the Federal Reserve Bank before the end of the year, which is anticipated to increase sales activity as potential buyers take advantage of more favourable interest rates and housing prices.²

¹ Delta Associates, *Washington, DC Metro Retail Outlook, October 2015*

² Delta Associates, *Washington, DC Washington Area Housing Outlook, October 2015*

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As with the rest of the Washington metro economy, the retail real estate market is showing consistent, if modest, improvement. The decline in vacancy rates at neighbourhood/community shopping centres continues, while rents have been increasing since 2010 and leases have lengthened. Tenants seeking space are interested in newer, Class A space, and the increased attraction of the metro area as a destination for living, working, and shopping presents an opportunity for retailers.¹

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

A handwritten signature in black ink, appearing to read 'William K. Doherty', written in a cursive style.

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