CEO MESSAGE
TO SHAREHOLDERS

Included in this report are the financial results for the fiscal year ended December 31, 2014 and for the fourth quarter 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 (formerly known as Andrews Air Force Base), 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.

2014 HIGHLIGHTS

During the year-ended December 31, 2014, the primary focus of the Corporation was to continue with construction on the project, prepare additional submissions necessary to achieve the remaining regulatory and construction approvals as described in the offering documents, and meet with county officials to properly coordinate and discuss plans for the project. In addition, the following key activities were undertaken by the Corporation during the year:

- Plats were recorded for the southern townhouse area;
- The Corporation received the following development permits with US $20 million in bonds provided to the related agencies to be used as construction guarantees for the associated permits including:
  - A revision to a previously issued rough grading permit to include additional clearing and grading, as well as storm drain installation
  - Culvert crossing permit
  - Onsite water and sewer permit
  - 30" waterline relocate permit

Clearing and grading

Construction of services

Residential site grading

2014 HIGHLIGHTS CONTINUED

- The agreement with Mid-Atlantic Builders for the purchase of the 24' and 32' townhomes in Phase 1 became binding on April 21, 2014;
- Site grading and the construction of the stormwater management ponds, and the installation of utilities and culverts in Phase 1 continued;
- Construction of the sanitary sewer outfall and 30" waterline relocation were both completed; and
- The Corporation increased the financing available from US $40.95 million to US $43.012 million on its Senior Loan and extended the date of which Sub-phase 1 must be completed under the loan.

The current project schedule is behind the key project milestones as outlined in the 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 fourteen-month delay in the delivery of finished lots to builders from January 2014 to March 2015.

During 2013 and the year-ended December 31, 2014, 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. The Corporation will continue to value engineer this improvement as we move into final design and expects to be able to reduce costs even further. 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.

Due to weather delays and permit issues, the Phase 1 residential lot sales will be delayed until March 2015, however the revenues from these residential lot sales 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 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 ("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.

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

1. Pursue the option of vertical development participation with development partners.
2. Accelerate the development of Phase 1A.
3. Pursue Tax Increment Financing ("TIF") bonds to recover applicable offsite improvements.
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.

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 offering documents. Further material increases could occur to the potential hold period as a result of changes in the various factors that impact such timing. Management also continues to focus on and execute additional complementary strategies to maximize the project 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. It 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

Throughout 2014, the consistent (if modest) improvements in the Washington area economy influenced much of the measured performance of major real estate asset types in the region. The metro area markets should have a slightly stronger year in 2015 as the effects of the U.S. government's austerity measures continue to wane and as job growth strengthens, as in recent months. However, absolute employment growth will be modest relative to the size of the regional economy. The Washington area will increasingly depend on its private sector rather than the U.S. government, and as pent-up demand for goods and services rises, the region's highly-skilled and well-educated workforce will fuel economic activity in the intermediate term. The continued momentum of the national economy – driven by encouraging labour market conditions and rising consumer confidence nationwide – will nudge regional economic growth and will create more optimism for the local real estate markets in the year ahead.[1]

Sluggish regional economic growth in 2014 affected the office market more acutely than other major property types in the metro area. Rents and absorption were held down in 2014 due to pressure from the "densification" of space (fewer square feet leased per worker). Investor confidence in the metro area's office assets, however, remains strong, as sales transaction volume is high. As uncertainty in the private sector tapers, and more leasing decisions are made, growth in private sector demand over the next several years will overcome some of densification's effects.[1]

MARKET ENVIRONMENT CONTINUED

The retail real estate market's performance remained consistent throughout 2014. The decline in vacancy rates continued while shopping centre rents rose steadily metro-wide. The local retail market will likely gather momentum in the near-term as retail spending grows thanks to declining gasoline prices, improving consumer sentiment, and strengthening national employment numbers.[1]

Washington area for-sale housing metrics also ended 2014 on an upbeat note, with modestly accelerating price growth during the fourth quarter. However, in a broader sense, the regional housing market's expansion continues to level off. Sales activity may rise early in the year ahead, however, as potential buyers take advantage of the slowdown in price increases during 2014 and of still-low mortgage rates.[1] In Prince George's County where Walton's Westphalia Center Town project is located the average home price during the fourth quarter of 2014 increased 12.5% from the average a year earlier.[2]

Despite weak job growth in 2014, the Washington area unemployment rate consistently performed better than the national rate. The unemployment rate in Washington in November 2014 was at 4.5%, compared to the seasonally adjusted national rate of 5.8% during the same time period. The metro area's unemployment rate is expected to stabilize in the 5% range during 2015, as new jobs are created while the labor force also continues to grow.[1]

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 stay modest but gain traction.
- Income growth and household formation that will propel new home buyers into the marketplace.
- Growing confidence by builders, lenders, and buyers that the height of market risk has passed.

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.

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

1. CohnReznick, Washington Area Commercial Real Estate Market Update, January 2015 2. Year-end 2014 Delta Associates Washington Area Housing Outlook