

20
13
ANNUAL
REPORT

MELCOR
DEVELOPMENTS LTD.



LIVE. WORK. SHOP. PLAY.





LIVE.



WORK.



SHOP.



PLAY.

About Melcor Developments Ltd.

We are a diversified real estate development and asset management company with a rich heritage of integrity and innovation in real estate. In 2013, we celebrated our 90th year of business.

For 90 years, our focus has been real estate. In the mid-70s we were Canada's largest residential real estate brokerage. We've built over 90 communities across Western Canada since the 1950s and have helped to shape much of Alberta's landscape.

Today, through our integrated operating divisions, we manage the full life cycle of real estate development: acquiring raw land, community planning, construction and development, and managing revenue-producing office, retail and residential assets. We develop and manage mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses.

We are committed to building communities that enrich quality of life – communities where people live, work, shop and play.



2013 Financial Highlights

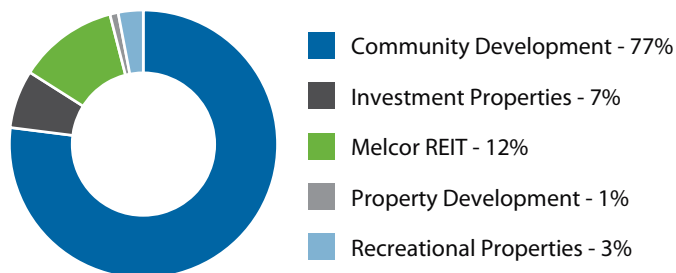
(\$000s except as noted)	2013	2012	Change
Revenue	303,742	274,930	10.5%
Fair value adjustment	47,571	59,103	(19.5%)
Adjusted earnings*	110,439	105,019	5.2%
Funds from operations *	57,859	66,933	(13.6%)
Shareholders' equity	769,231	690,832	11.3%
Total assets	1,727,933	1,447,356	19.4%
\$ per share	2013	2012	Change
Basic earnings	3.24	3.49	(7.2%)
Adjusted basic earnings*	3.63	3.49	4.0%
Funds from operations *	1.90	2.22	(14.4%)
Book value	25.03	22.89	9.3%
Average share price	19.13	14.81	28.6
Dividends paid	1.00	0.45	122%

* Refer to non-standard measures for definitions and calculations (page 37)

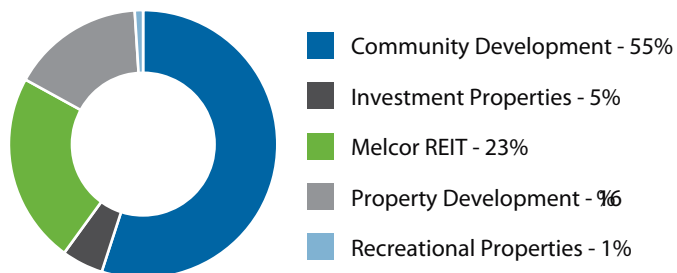
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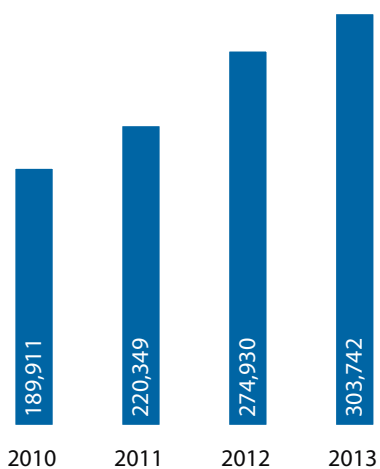
Revenue Mix by Division



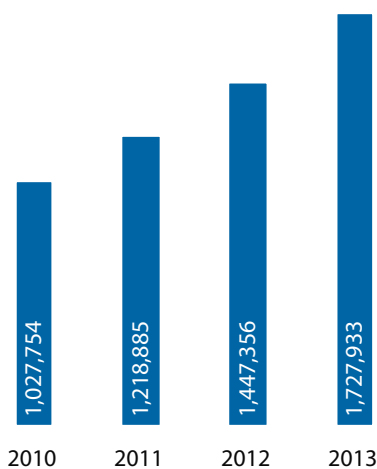
Earnings Mix by Division



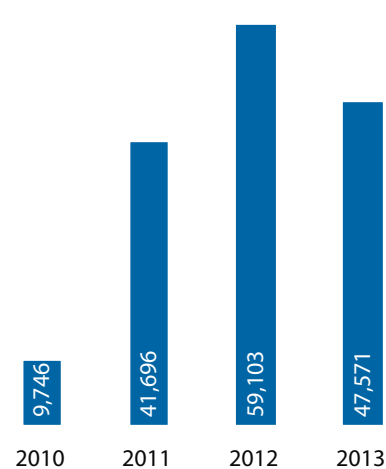
Revenue (\$000)



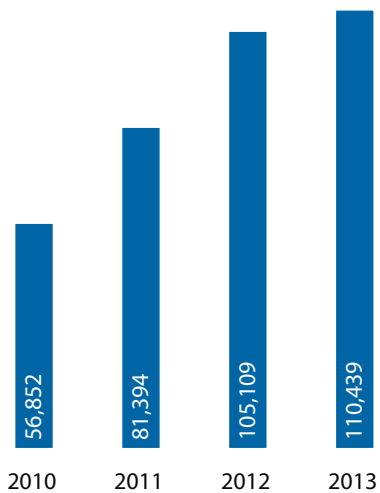
Assets (\$000s)



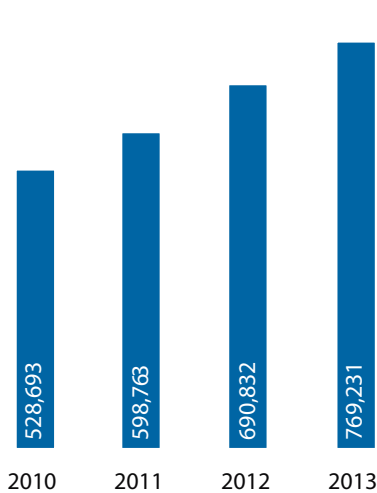
Fair Value Adjustments (\$000)



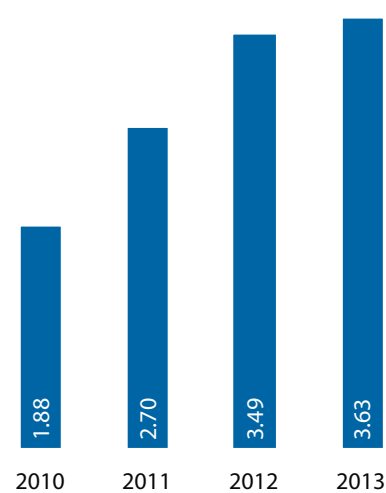
Adjusted Earnings (\$000)



Shareholders' Equity (\$000)



Adjusted Basic Earnings Per Share (\$)



LIVE.

We build communities that are more than a collection of beautiful homes. They are places where families grow and neighbours connect.

We create integrated communities by identifying the amenities that fit today's lifestyle, things like: community gardens, playgrounds and recreation facilities. Bringing people together in community hubs is part of building great neighbourhoods.

Community Development: Since the 1950s, we have developed and sold over 40,000 lots in 90 communities across Alberta, BC and the Southwest United States. Today, we hold over 9,000 acres of land for residential and commercial development.

Investment Properties: We own 1,280 residential rental units in the United States. The rental market in the US has been very strong since the 2008 recession.

Melcor Homes: Melton Homes began building homes in the 1970s to complete the Melton value chain of services ancillary to home ownership: brokerage, insurance and mortgage businesses. We emphasized quality construction and offered a two-year unconditional guarantee and a five-year structural warranty. Eventually, Melton Homes was renamed Melcor Homes and continued building until a decision was made to suspend operations. In 2014 Melcor Homes will be resurrected. The new Melcor Homes remains committed to quality and to building homes in a variety of market segments. Commitment to superior quality remains our greatest priority.

- 90+ communities developed
- 40,000 lots sold
- 1,280 residential rental units
- Melcor Homes returns in 2014, building quality homes in quality neighbourhoods



1923

1923: L.T. Melton sold lots for \$100 each with a \$5 down payment and \$5 per month, making the dream of home ownership affordable for many.

1940s – 1960s

Growth strategy of fully integrated realty services saw subsidiary companies formed to complement the brokerage business, including: Melton Petroleum (to manage mineral rights on properties), Melton Insurance, Sillton Developments (residential and commercial land development – the beginnings of today's land division), Melton Homes (1950s residential construction), Trans-Canada Mortgage Corporation (1952 mortgage services) and First Investors (1954 mortgage investing).

1945

Even early on, the Melton's were committed to building communities that were more than just a collection of homes by integrating industry-leading amenities.

WORK.

We believe quality of life at work is just as important as it is in your home, so we build and manage properties to ensure your comfort. We take care of the details, so our clients can take care of business. We deliver an exceptional client experience through our signature customer care program and consistent focus on client relationships and property improvements. We are proud of our exceptional responsiveness, with over 95% of service requests responded to within 30 minutes.

Investment Properties has been acquiring commercial and office buildings since the 1960s to provide stable cash flows to the company. Today, our Investment Properties team manages, leases and provides signature care for over 3,000,000 sq. ft. of gross leasable area, including the properties now owned by the Melcor REIT.

Property Development has been building commercial properties since 2001. Over 13 years, we have developed over 1.5 million sq. ft. of commercial projects and are now amongst the most active developers in Western Canada. Focused initially on retail properties, we began mixed-use, industrial and business park settings in 2013. Our Property Development team has over 7.5 million in approved land use developments to complete over the next 10-15 years.

- 2.48 million sq. ft. commercial GLA (including properties owned by Melcor REIT)
- 1.5 million in new commercial GLA in development
- 7.50 million sq. ft. in approved commercial developments spanning the next 10-15 years.



Wedding Belles want

MELTON HOMES

1947

The discovery of oil at Leduc, coupled with the post-war baby boom, spurred an economic boom in the Edmonton area.

1950s

Land Division formed. Aerial of the Lynnwood neighbourhood in Edmonton.

1950s

Another Melcor tradition began as Stan Melton recognized the importance of his team. The loyalty, dedication and diligent work ethic of the Melcor team are evidenced by its employee longevity with 16 people with over 25 years of service.

1953

16 Melton branch offices in Edmonton. Local offices provide local market knowledge and specialized service. This was a competitive advantage and remains a key Melcor strategy to this day; operate and grow in the markets you know best.

1967

Melton Real Estate led MLS in sales volume for 10 consecutive years in Edmonton and 4 consecutive years in Calgary.

SHOP.

Everyone loves the convenience of neighbourhood shopping, whether it's running to the store for a last minute dinner ingredient or being able to complete the majority of your errands within a few minutes from home.

We build neighbourhood shopping centres and regional power centres to add connection and convenience to our communities. Since 2001, we've developed over 420,000 sq. ft. of retail space, and we have many more projects planned for the future.

Once our Property Development team builds and leases commercial space, it is transferred to our Investment Properties group for management. It may also be sold to Melcor REIT, thus providing working capital that can be deployed for additional land inventory and property development opportunities.

- 907,000 sq. ft. retail GLA under management (including properties owned by Melcor REIT)
- 420,000 sq. ft. retail assets developed
- 320,000+ sq. ft. retail space under current development



1968

Melton's subsidiaries were amalgamated as Melton Real Estate Ltd and shares were listed on the Vancouver Stock Exchange.



1972

Trading moved to the Toronto Stock Exchange.

MELTON
Blocks n' Blocks
of..... EDMONTON'S BEST HOMES.

1970s

#1 ranked real estate brokerage in Western Canada.



1976

The brokerage division of the company, which had grown to 500 sales and support staff, was sold to A.E. Lepage Real Estate for \$4.25 million. The company name was changed to Melcor Developments and the focus shifted to land development, expanding investment property assets and home building.

PLAY.

Play time is an important component of overall wellbeing, so we put the same care and attention into that element of our communities. Storm management systems double as water features, pathways and trails connect communities, parks and playgrounds, and recreation areas are close at hand. Several of our communities are built around four championship golf courses that host over 100,000 rounds of golf annually.

Recreational Properties: Melcor has owned and managed golf courses attached to residential communities since 1997.

- 4 championship golf courses
- 100,000 rounds of golf played annually



1980s

Falling oil and gas prices led to a devastating recession. Melcor survived lean and focused on land development, particularly in the US.



1998

75th Anniversary – the land division has developed home sites for 65,000 residents across Alberta and in the Southwest United States.



2001

Property Development division was formed to develop commercial properties.



2013

- 90th birthday
- 90 communities built across Western Canada and the southwestern United States.
- 1.5 million square feet of properties developed.
- Over 3 million sq. ft. of revenue-generating assets



Letter from the Executive Chairman

Timothy Melton



It is my pleasure to report to you on behalf of Melcor's Board of Directors. Our company, for the third consecutive year, continues to report record-breaking results. Revenues in 2013 grew 10% to \$304 million compared with \$275 million last year. Total assets increased by \$281 million, or 19%, to \$1.73 billion. Shareholder equity increased by 11% to \$769 million.

The Board of Directors and the fine team of Melcor employees are very proud of our success and results over the past years. At Melcor, we are aware that Alberta's strong economic conditions have had a very positive effect on real estate markets and certainly assisted our performance. For 90 years, Melcor has been unwavering in its confidence in, and commitment to, this province as is evidenced by our continued expansion and reinvestment. We are, indeed, fortunate to have a large asset base in Alberta but also point out that strategic planning, good board governance and a motivated professional management and dedicated employee team are the most important ingredients to company success.

In our 75th anniversary book, we advised that Melcor would use its proven track record of success and experience as a springboard to continue growth into the next century. That has occurred. Since 1998, our revenues have more than quadrupled, while net income grew over ten-fold. The total value of our assets also increased ten-fold in the same period.

This past year, Melcor's board and management team have again proven to be astute stewards of the company through the creation of the Melcor REIT. We are pleased that Andrew Melton, Vice Chair of Melcor was named Chairman of the REIT. The REIT Board of Trustees is composed of three Melcor appointments and four independent directors. The initial public offering was oversubscribed and we are very pleased with the REIT's initial success and how its value has held in the turbulent times for real estate investment trusts since the IPO. The relationship between the two companies is truly synergetic and both companies will benefit and grow faster as a result.

On behalf of the board and all shareholders I thank Melcor's staff and leadership team for delivering exceptional results. The long-term dedication and commitment of two individuals deserves special mention:

- In 2013 Peter Daly advised that he planned to retire after serving the company for 40 years. Throughout his successful career he worked in the company's Community Development Division and held the position of Executive Vice-President of the division for the past several years. Under his direction, the division prospered and expanded. We thank Peter and acknowledge his outstanding contributions. He will continue to be a resource to the company assisting with special projects.
- As previously mentioned, Ralph Young retired as CEO of the company in July 2013. Ralph made an immense contribution to the company through his 42-year career. His integrity and commitment to sound business

principles and values are his hallmark and he was most instrumental in successfully leading the company through both good and challenging times. Ralph continues to hold an office at Melcor and continues as a member of the Board of Directors as well as a Trustee of the Melcor REIT. We thank Ralph for his continued contributions to the company.

Also, I would like to acknowledge and thank our Board of Directors for their continued guidance and counsel. On behalf of all Melcor stakeholders I especially acknowledge Bill Grace who, after serving the company for 20 years, will not seek reelection at the upcoming Annual General Meeting. Bill capably served on and chaired various Board Committees and was appointed Lead Director in 2008. We thank him for his outstanding contributions to our company.

Many stakeholders provide support and ongoing commitment to Melcor and form an important part of our business. We thank our customers, suppliers, partners and shareholders and value the relationships we have with each of you.

The solid foundation of our past is the starting point of a great vision for the future. We remain cautiously optimistic about our future and based on this past exceptional 90th year, we have every confidence that our new team will take Melcor to new heights.

Building Caring Communities

We remain committed to building sustainable communities by sharing our time and resources to make them stronger. Our charitable giving focuses on organizations that support and enrich the communities where we operate.

In 2013, we continued to give to many worthwhile initiatives. We were pleased to celebrate the opening of the Melcor YMCA Village, a 150-unit affordable transitional housing option located in Edmonton. It is our hope that the Melcor YMCA Village will give many individuals and families a hand up when they need it so that they can achieve success. Other initiatives that we're pleased to support include Valour Place and Edmonton's Light the Bridge campaign.



Melcor YMCA Village | Edmonton

We also continue to support post secondary education through bursaries, scholarships and chair endowments.

Letter from the CEO

Brian Baker



A Secure Foundation: 90 Years of Experience and Growth

In 1923, Louis Timothy Melton recognized the potential in the Edmonton real estate market and founded Stanley Investment Company with the goal of helping young families achieve the dream of home ownership. 90 years later, the company has diversified, expanded and evolved, but the focus on real estate excellence and business integrity remain unchanged.

I am honoured to have led this company – with its traditions and history – through its 90th year and it is my great privilege to lead it into a future that is incredibly bright. Over the years, we have adapted our business model to constantly changing times and we continue to do so. Change truly is the only constant: a vital insight for any enduring organization.

Our future is one of continued and measured growth as we innovate and diversify our business model to protect and grow shareholder investment and share our corporate profits with you, our owners.

We remain committed to quality in all that we do: we provide industry-leading value in each of our operating divisions' asset classes. Providing our clients with products of superior quality and value is our basic operational motivation - whether we are developing master-planned communities, constructing and leasing business parks or managing our portfolio of revenue-generating properties.

A Milestone Year

2013 was a milestone year for Melcor. Revenues topped \$300 million for the first time in our history. Adjusted earnings increased by 5% to \$110 million and gross margin (%) increased 3.4% to 44.4% indicating that strategic pricing and cost strategies employed in 2012 and 2013 are proving effective. To achieve these results we:

- Sold 1,776 single family lots, a near record that was only marginally surpassed in 2002
- Sold 47 acres of multi-family residential land
- Sold 33 acres of commercial land
- Completed and leased 103,000 square feet of new commercial development with another 590,000 currently under active development

We also celebrated our 90th year; a milestone few companies can match. It is our corporate longevity and exposure to decades of business cycles and experience with countless transactions that sets us apart from our competitors in industry.

To ensure our future is as bright as our past, we never rest on our past achievements. At Melcor, we are constantly replenishing our current developments with additional sale and leasing inventory to support future growth. In 2013 we broke ground on a number of new projects.

Breaking Ground for Future Growth

3 new master-planned communities:

- The Homes of Jagare Ridge: a 160-acre estate community in south Edmonton
- Laredo: a 160-acre community in Red Deer
- The Vista at Ryders Ridge: a 160-acre master planned community in Sylvan Lake

4 major commercial developments:

- The Village at Blackmud Creek: a 725,000 sq. ft. regional business park in south Edmonton
- West Henday Promenade: a 400,000 sq. ft. high density mixed use development in west Edmonton
- Telford Industrial Park: a 600,000 sq. ft. industrial park in Leduc, Alberta
- The District at North Deerfoot: a 2,250,000 sq. ft. regional business park in northeast Calgary.

This collection of residential and commercial projects will stimulate corporate revenue and earnings growth for decades to come.

The most notable event of 2013 was the successful Initial Public Offering of the Melcor REIT. Through Melcor REIT, we bundled and sold a mix of 27 office, retail and industrial commercial properties comprising 1.57 million sq. ft. of gross leasable area.

The REIT model and accompanying access to the capital markets will help to fuel our continued growth, providing a stable source of working capital that will be re-deployed into our operating divisions.

Letter from the CEO (continued)

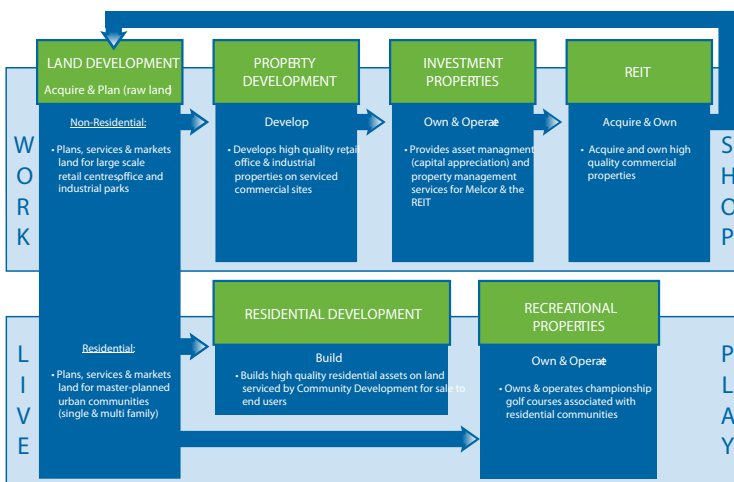
The Melcor Advantage

Together, our principal operating divisions, combined with Melcor REIT, create a dynamic value chain that is much more valuable than the sum of its parts and provides a growth engine for the benefit of Melcor and our shareholders.

Our Community Development division supplies land assets to our Property Development division, which constructs and leases a variety of retail, office and industrial revenue-producing assets. These assets, once complete, are transferred to the Investment Property division where they are actively managed and either sold to Melcor REIT or mortgaged. The sale and/or mortgage proceeds monetize the value created during the development process, which is then redeployed into operations supporting future growth.

This ecosystem is a hedge in a cyclical industry and a tremendously powerful business model. It is a seamless integration between divisions that is unique to Melcor and is a competitive advantage that will continue to serve us exceedingly well.

Melcor Divisional Value Chain Operational Ecosystem



Equipped for the Future

2013 was an exceptionally strong acquisition year. We purchased 834 acres of land for future development, including an assembly of 550 contiguous acres in St. Albert, Alberta that will produce a minimum of 15 years of active residential development for the company.

Melcor now owns 9,771 acres of land inventory and controls 11,703 acres including our joint venture partnerships. We continue to move these assets through regulatory approvals to add value and convert them into revenue and earnings.

In 2014, we will complete our diversification strategy with a renewed emphasis on residential development via Melcor Homes and our first home building project since 1996. Melcor Homes completes our real estate ecosystem. It is an additional source of revenue and earnings that will capitalize on our land positions and serve to strengthen our business model.

We will continue our growth trajectory in a thoughtful and responsible manner, while constantly adhering to key financial guidelines and performance metrics including:

1. Debt to Equity Ratio
2. Gross Margin targets
3. Maximum serviced inventory targets
4. Administrative expense to revenue ratios
5. Diversified revenue mix

Adherence to these metrics ensures our growth does not outstrip our ability to fund it and also mitigates our risk of exposure to cyclical markets.



Letter from the CEO (continued)

Hedging and Diversification

The Alberta and Western Canadian markets remain very strong; however with a heavy reliance on oil and gas, there is always concern that a commodity recession will impact our business. One of the key means of hedging against this is our investment in select markets within the United States, which today makes up over \$132 million of our total assets. The United States is one of our fastest growing regions, with revenue growth of 50% over 2012.

Our US assets are a mix of residential rental units, serviced lots and raw land inventory. These assets were purchased below replacement cost and have since increased in value. Local talent now staff our Arizona office, furthering our commitment south of the border. This team is focused on expanding our US operations and identifying additional opportunities for continued growth.

Our Melcor Family

Our company is comprised of the most talented and hardest working team in the industry. These are high quality people who we train and empower to do the right thing. They grow with our company and become part of the Melcor family; a family with remarkable employee longevity boasting 16 members with 25+ years of service, including three with more than 40 years of service.

These hard working and dedicated people - our Melcor family - are responsible for our record year.

The Road to 100

Our past shapes our future. Our character and culture has developed through our history and today that culture establishes the foundation for what is to come.

As we begin the charge towards our 100th birthday, it is with reverence for L. T. Melton and the vision he had in 1923. It is rare that a company endures for 90 years and, rarer still, for a company with our longevity to be on Melcor's growth trajectory.

With the Melcor ecosystem and a strong economic environment in our primary markets, our future will be as bright as our past.

Thank you for your ongoing support. Our primary goal remains, as always, to protect and grow your investment and provide you with a consistent dividend along the way.



90 years in business

Publicly traded for 46 years
43 years of dividends, including the past 25 consecutive years

2013:

Sold 1,776 single family lots
Acquired 834 acres of new land inventory
Developed 329 acres



Corporate Governance

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practices lay the foundation for a sustainable company and long-term value creation for our shareholders.

As governance practices evolve, we periodically review, evaluate and enhance our governance program. Here are a few highlights of our program:

Independence

The majority of our directors are independent. Board committees are comprised solely of independent directors. The independent directors meet in camera (without management and related directors) for a portion of each meeting held in person. As our executive chairman is related to Melcor, we have appointed a lead director, William D. Grace, who is independent of the company. Mr. Grace chairs the in camera sessions of the board and ensures that the board conducts itself in accordance with good governance practices. Mr. Grace is retiring at our upcoming annual general meeting and Allan Scott has been appointed Lead Director.

Integrity: the Heart of our Business

The highest standard of ethical conduct has always been at the heart of Melcor's operating philosophy. All employees, directors and officers follow our Code of Business Conduct and Ethics, which governs Melcor's work

environment, regulatory compliance and the protection of our assets and reputation. The Code can be found on our website at www.melcor.ca.

Strategic Planning Process

The board ensures that Melcor establishes a solid strategy designed to optimize shareholder value. This process includes active consultation with management on the issues, business environment, assumptions, goals and financial budgets that underpin the strategy and ensures that risk levels are appropriate. To ensure that the board is fully informed and engaged in the strategic issues and critical risks of our business, one meeting each year is dedicated to the review and approval of our strategic plan to manage risk, protect shareholder value and build a sustainable business.

Alignment with Shareholder Interests

Our compensation philosophy is to pay for superior performance. Thus a significant portion of executive compensation is "at risk": tied directly to results and thus linked to Melcor's success. This ensures alignment with shareholder interests and a focus on long-term value creation.

Additional information on our governance practices can be found in our 2013 Information Circular.

Melcor employees do not receive additional director compensation.



Gordon J. Clanachan, FCA, ICD.D

Corporate Director & Consultant

Independent

Director Since	2009
2013 Attendance	100%
2013 Director Compensation	\$46,500
Common Shareholdings	7,000
Committees	Audit (Chair)

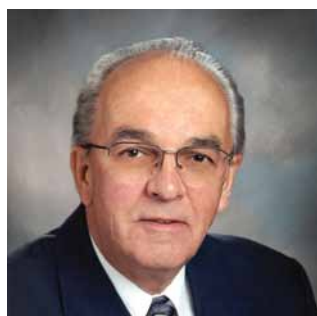


Ross A. Grieve

Chairman, PCL Construction Holdings Ltd.

Independent

Director Since	2003
2013 Attendance	100%
2013 Director Compensation	\$35,000
Common Shareholdings	78,000
Committees	Compensation & Governance



William D. Grace, FCA

Corporate Director

Independent

Director Since	1994
2013 Attendance	100%
2013 Director Compensation	\$46,600
Common Shareholdings	16,000
Committees	Audit, Compensation & Governance



Andrew J. Melton

Chairman, Melcor REIT

Related

Director Since	1985
2013 Attendance	100%
2013 Director Compensation	\$nil
Common Shareholdings	133,600
Committees	none



Timothy C. Melton

Executive Chairman, Melcor

Related

Director Since	1973
2013 Attendance	100%
2013 Director Compensation	\$nil
Common Shareholdings	1,772,660
Committees	none



Catherine M. Roozen

Director & Secretary, Cathton Investments Ltd.

Independent

Director Since	2007
2013 Attendance	100%
2013 Director Compensation	\$36,500
Common Shareholdings	125,600
Committees	Audit



Allan E. Scott

Corporate Director

Independent, Lead Director

Director Since	2007
2013 Attendance	100%
2013 Director Compensation	\$40,000
Common Shareholdings	3,000
Committees	Compensation & Governance (Chair)



Ralph B. Young

Chancellor, University of Alberta

Related (Former CEO – Retired)

Director Since	1976
2013 Attendance	100%
2013 Director Compensation	\$nil
Common Shareholdings	1,430,966
Committees	none

Management's Discussion & Analysis

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March 12, 2014

The following discussion of Melcor's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2013.

The financial statements underlying this MD&A, including 2012 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

The statement of financial position is presented without reference to current assets or current liabilities. The operating cycle of an entity involved in real estate investment and development is normally considered to be longer than one year. Thus, the concept of current assets and current liabilities is not considered relevant and there is no need to segregate the balance sheet to disclose assets or liabilities that are expected to be settled within the immediately following year.

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on March 12, 2014.

Non-Standard Measures

We refer to terms that are not specifically defined in the CICA Handbook and do not have any standardized meaning prescribed by IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results. Non-standard measures are defined on page 37: *Non-Standard Measures*.

Caution Regarding Forward-Looking Statements

In order to provide our investors with an understanding of our current results and future prospects, our public communications often include written or verbal forward-looking statements.

Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions, courses of action and include future-oriented financial information.

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2014 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under *Business Environment & Risks*, page 35.

Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by the company or on its behalf.

Additional information about Melcor including our annual information form, management information circular and quarterly reports, is available on our website at melcor.ca and on SEDAR at sedar.com.

Our Business

Melcor is a diversified real estate development and asset management company with a rich heritage of integrity and innovation in real estate. Today, through our integrated operating divisions, we manage the full life cycle of real estate development. We develop and manage mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. 2013 marked our 90th year of business. The achievements we celebrated this year include:

- Creating over 90 communities across Western Canada since the 1950s: we've helped to shape much of Alberta's residential landscape in Edmonton, Calgary, Red Deer and their surrounding communities.
- Overseeing the development of over 1.24 million sq. ft. of commercial properties in Alberta over the past decade, including innovative regional shopping centres, and office and industrial buildings.
- Owning and operating 2.48 million sq. ft. of income-producing commercial GLA and 1,280 residential units.
- 46 years of dividend payments, validating our commitment to protecting and growing our shareholders' investment in the company and rewarding them for their ongoing loyalty.

We are committed to enriching quality of life where people live, work, shop and play.

We have been a public company since 1968 (TSX:MRD). On May 1, 2013, we formed Melcor REIT (the REIT) through an initial public offering (the IPO). We sold interests in a portfolio of 27 income-producing properties to the REIT for total consideration of \$266.13

million. We retain a controlling 51.1% effective interest in the REIT and continue to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. We reflect the public's 48.9% interest in the REIT as a financial liability in our financial statements.

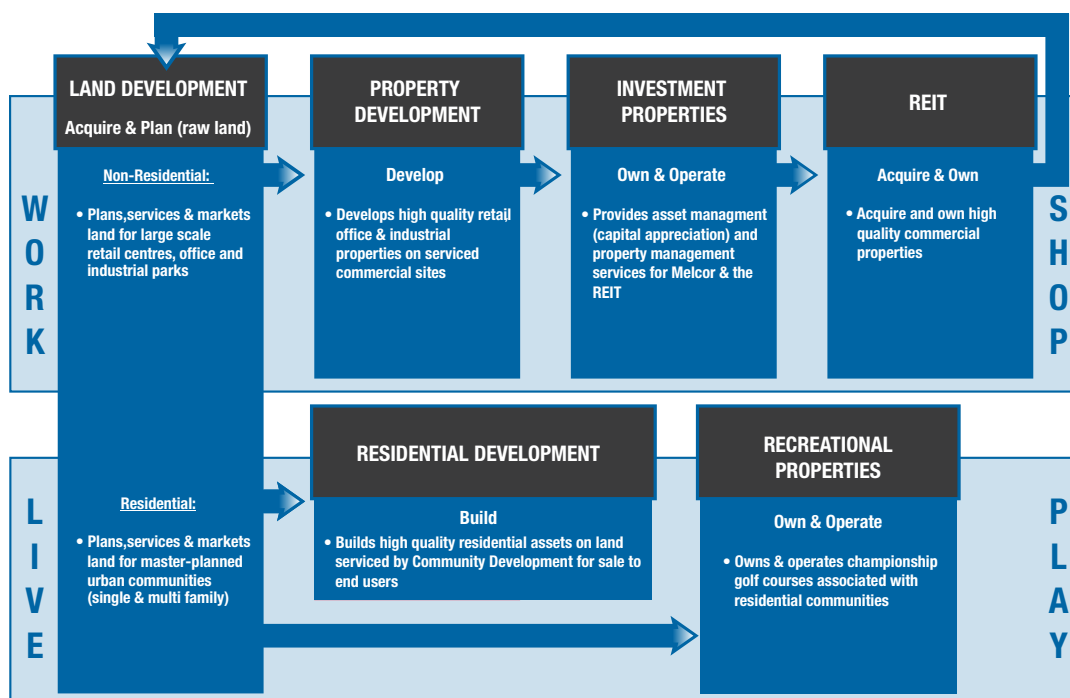
Our real estate heritage and tradition of strong core values – honesty, loyalty, respect, quality and acting with integrity in all that we do – serve as the solid foundation for Melcor, which today has grown to over \$1.72 billion in assets.

We operate five integrated divisions that together manage the full life cycle of real estate development:

- acquiring raw land (Community Development)
- planning residential and commercial communities (Community Development)
- project managing development and construction of commercial properties (Property Development)
- operating a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property management of REIT owned properties (Investment Properties)
- acquiring and owning high quality leasable office, retail and residential sites (Melcor REIT: 51.1% owned)

In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreational Properties. The following diagram illustrates how each of our operating divisions complements one another to create and enhance value from our real estate assets.

Melcor Divisional Value Chain



The sections titled Our Business, Strategy and Key Performance Drivers above and on the following pages contains forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Please refer to the Caution Regarding Forward-looking Statements on page 12.

In addition to extending the value of our asset base, these diversified operating divisions enable us to manage our business through real estate cycles (both general market conditions and the seasonality associated with construction and development) and diversify our revenue base.

While building a sustainable business, we also focus on building sustainable communities by sharing our time and resources to make them stronger. We are proud to support a number of worthy causes and charities that enrich the communities where we operate.

Our headquarters are in Edmonton, Alberta, with regional offices across Alberta, British Columbia, and in Phoenix, Arizona. Our developments span Western Canada and the US.

Strategy

We are one of Canada's leading real estate development firms. We achieve this by demonstrating our core values – honesty, loyalty, respect, quality and acting with integrity in all that we do – in our interactions with our customers, suppliers, shareholders and employees.

Our focus is on delivering innovative, high quality products and industry-leading value in each of our divisions: from developing master-planned communities to constructing and leasing business parks to managing our income-producing portfolio to operating championship golf courses.

We protect our shareholders' investments through careful stewardship of company assets. We pay consistent dividends, offering both growth potential and income to our shareholders.

Our long-term strategy is to balance our capacity to take advantage of market opportunities for growth with sustaining and improving our existing businesses:

Develop Assets

Our raw and developed assets place Melcor in a strong position to achieve our growth strategy. We will continue to develop our real estate assets to support revenue, earnings and cash flow growth.

Sustain & Improve

Execute our proven business model for sustainable results:

- Continue to develop and manage real estate assets for revenue, earnings and cash flow growth
- Continue to drive key performance measures to match or exceed prior 5-year results

Grow & Diversify

Build for future growth:

- Acquire strategic land and property assets
- Explore strategic opportunities to increase capital resources while maintaining a strong balance sheet

Division	Assets	Strategy
Community Development	9,771 acres of raw land inventory in strategic growth corridors	Maintain right mix of inventory, available at the right time Increase market share
Property Development	Prospects for 7.24 million square feet of new development over 5-15 years based on existing plans	Develop strong relationships with regional/national/ multinational tenants Ongoing development of high quality retail, business and industrial centres
Investment Properties & REIT	Over 2.48 million square feet of commercial property and 1,280 residential units under management, diversified across 4 asset classes in 3 provinces and 2 states New buildings coming online as Property Development completes projects	Improve existing assets with value-added investments and enhanced quality to achieve higher occupancy rates and increase rent / square foot Be the landlord of choice by providing consistent, high-quality service
Recreational Properties	4 championship golf courses	Maintain strong reputation through consistent course quality and player experience

Diversify Holdings

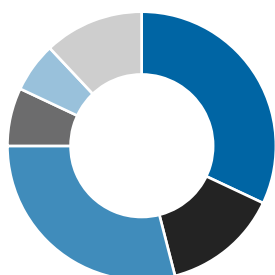
Our operating divisions diversify our revenue streams in a number of ways:

- The mix of land and property types held (residential, office, retail, industrial)
- The regional profile of our assets (Alberta, Saskatchewan, BC & US)
- The type of revenue (lot and parcel sales, annuity income, value creation which feeds annuity income, green fees) each asset generates

Community Development is the most geographically diverse of our divisions and is opportunistically investing in the US and Canada to build inventory for future development. This division holds a diverse mix of land for future residential or commercial development in strategic growth corridors. It is also diversified through the lifecycle phase of different land parcels: a balance is struck between lands that are immediately developable ('shovel ready'), those that will be ready for development in 3 to 5 years, and those with a development horizon of 5+ years.

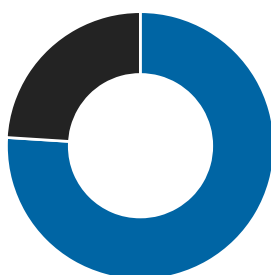
Melcor has been planning and developing innovative communities since the 1950s. We have developed over 40,000 lots in 90 communities across Alberta, BC and the Southwest United States. Over the past three years, we have developed an average of 375 acres per year.

Land Inventory By Region



- Northern Alberta - 32%
- Central Alberta - 14%
- Southern Alberta - 29%
- BC - 7%
- Saskatchewan - 6%
- United States - 12%

Land Inventory By Type



- Residential - 76%
- Commercial - 24%

Net of joint arrangement interests

Property Development adds value to raw land by developing retail, office and industrial properties. The division has developments in high-growth regions of Alberta.

The Property Development division supports Melcor's strategic objectives of asset diversification, income growth and value creation by constructing income-producing developments, primarily on land acquired from the Community Development division. On completion, the properties are transferred to Investment Properties, thus creating a value chain from raw land to annuity income. The properties may also be sold to the REIT, which realizes the value created while at the same time still retaining a controlling interest in the asset.

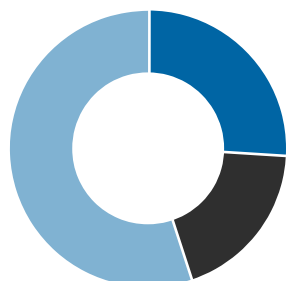
Melcor has been developing commercial properties since the 1970s and has built 1.24 million sq. ft. over the past decade. Our future development pipeline is 7.52 million square feet over the next 5 to 15 years based on current plans.

Investment Properties manages our income-producing properties - including those owned by the REIT - to provide consistent annuity income and cash flow. The total portfolio managed is well diversified across asset classes, property mix and regions. The regional asset mix is primarily commercial and industrial in Western Canada (the majority of these assets are owned by the REIT), where economic conditions create a favorable environment for commercial development, and primarily residential in the US, where the economy has produced a thriving rental market. The goals of the Investment Properties division are to be the landlord of choice by providing exceptional customer care and to continually enhance and improve existing properties through capital investment to maximize occupancy, rental rates and tenant retention.

Melcor REIT owns 1.76 million square feet of income-producing assets that are managed by Investment Properties (1.69 million at December 31, 2013). The REIT is a vehicle for realizing the value created throughout the Melcor value chain as raw land is developed for commercial use (Community Development) and commercial properties are built (Property Development) and sold to the REIT. The REIT will continue to seek and execute acquisitions to grow the portfolio, both through the Property Development pipeline and third party acquisitions.

In all divisions except Melcor REIT, we expect our growth over the short term to be primarily organic as we develop raw land inventory to feed into our Property Development and Investment Properties divisions, however we continue to seek opportunities to diversify our business to insulate against real estate cycles and to acquire undervalued assets to diversify our portfolio geographically.

Development Pipeline by Property Type



- Industrial - 26%
- Office - 19%
- Retail - 55%

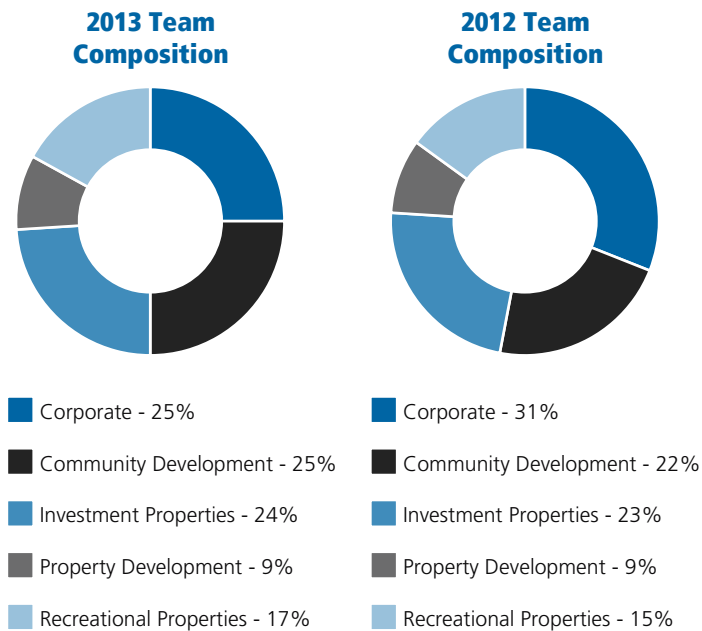
Key Performance Drivers

A High Performance Team

Over the past few years, we've focused on building the capacity of our team to help us achieve our growth objectives. Each of our divisions has expanded substantially as a result. In 2013, we added 20 new positions for overall headcount growth of 19%. Over the past two years, we added 38 positions for employee growth of 44%.

On the other end of the spectrum, we have 16 team members (7 active) on Melcor's Quarter Century Club, including three employees with over 40 years of service.

Even as we've grown our team significantly over the past few years, the average tenure of our full-time permanent staff is 7.75 years and over 18 years for members of the executive team. We believe this level of commitment and dedication to Melcor is a reflection of finding employees whose personal values mirror our corporate values, and thus contribute to our enduring success.



This team, with its complementary combination of seasoned experience and new talent, contributed to record company results over the past several years. We continue to build our management team depth and emphasize succession planning and training and development to ensure today's young talent is ready to lead our company in the future.

Our culture is based on nine decades of strong corporate values. We offer rewarding career and development opportunities, competitive compensation and benefits, and employer-matched RRSP and ESPP programs.

Financial Resources

Given the capital-intensive nature of our business, we require access to sufficient capital in order to continue to grow, develop lands and take advantage of opportunities to acquire land or property that fits our growth strategy. Over the past few years, we have built our reserve capital sources to support this growth with an operating loan of \$120 million and a \$40 million convertible debenture.

We have developed strong relationships with our major lenders, which, combined with our capital structure and liquidity, provides the company access to financing on attractive terms in spite of fluctuating credit markets and ongoing changes in the economic environment.

We also use fixed rate, long-term mortgage financing on our revenue producing assets to raise capital for acquisitions, development activities, and other business expenditures. As such, most of our borrowings are in the form of long-term, property specific financings such as mortgages or project financings secured by specific assets. In addition, in 2013 Melcor took out project specific financings on three residential community project and four commercial development projects. At December 31, 2013 this debt totalled \$64.38 million.

In 2013, with the IPO of Melcor REIT, we created a vehicle to realize the value of some of our Investment Properties assets. We received total consideration of \$266.13 million in the IPO and we retain an effective 51.1% ownership. The REIT will be an important financial resource going forward as it exercises its option to purchase assets developed by our Property Development division.

Our operations are supported by a syndicated operating line of credit, which margins our land development assets (raw land inventory, land under development and agreements receivable).

For additional information on our financial resources, please refer to the *Financing* and *Liquidity & Capital Resources* sections on pages 27 - 29.

Real Estate Inventory

Our existing real estate inventory puts us in a good position to continue to grow our business. We have:

- 9,771 acres of developable land in regions with above average growth forecasts.
- 2.48 million sq. ft. of leasable commercial property and 1,280 residential units under management in 3 provinces and 2 states.
- Potential to develop over 7.52 million square feet of new leasable property over the next 5 to 15 years (based on existing planned development).

We create shareholder value out of our land assets by developing them into revenue and income earning properties.

2013 Highlights

	2013	2012	Change
(\$000s except as noted)			
Revenue	303,742	274,930	10.5%
Gross margin (%)*	44.4%	41.0%	8.3%
Fair value adjustment	47,571	59,103	(19.5)%
Net income	98,623	105,019	(6.1)%
Net margin (%)*	32.5%	38.2%	(14.9)%
Adjusted earnings*	110,439	105,019	5.2%
Funds from operations *	57,859	66,933	(13.6)%
Shareholders' equity	769,231	690,832	11.3%
Total assets	1,727,933	1,447,356	19.4%
Cash from operations	64,651	35,089	84.2%
Per Share Data			
Basic earnings	3.24	3.49	(7.2)%
Diluted earnings	3.05	3.29	(7.3)%
Adjusted basic earnings*	3.63	3.49	4.0%
Adjusted diluted earnings*	3.35	3.29	1.8%
Funds from operations *	1.90	2.22	(14.4)%
Book value*	25.03	22.89	9.3%

* See non-standard measures for definitions and calculations.

A Record Year

With continued strong market demand, 2013 was the third consecutive year that we achieved record revenue. Some of the highlights of the year include:

- Record consolidated revenues of \$303.74 million and record revenues in each division
- Record adjusted basic earnings per share of \$3.63
- Asset growth of 19.4% to \$1.73 billion
- Successful completion of the REIT IPO, the fruition of a long term strategy for Melcor to enhance our capacity to access capital for continued growth (refer to the section *Formation of Melcor REIT* on page 33)
- Gross margin improved to 44.4% as a result of efficient execution in all divisions

Strategically and operationally, Melcor is well positioned for continued growth with a great team and solid assets in markets that are outperforming national averages.

Building Strategically

We formed Melcor REIT through an IPO which raised gross proceeds of \$91.30 million. This strategic initiative allowed us to convert part of the equity we held in the 27 assets sold to the REIT to cash flow. Part of the funds from the IPO were repatriated to our shareholders through a special dividend of \$0.50 per share.

We continued to invest in land inventory, developing commercial properties and improving existing leasable properties.

- The Community Development division added several parcels of raw land for future development:
 - We acquired the remaining 25% interest on 1,032.00 acres of land planned future residential development in Colorado.
 - We increased our Canadian land holdings by 576.81 acres in our key regions and markets. This includes 131.46 acres of land allocated for industrial development.
- The Property Development division had projects totaling over \$142.24 million under development (at fair value) in 2013, compared to projects under development of \$61.87 million in 2012. The division completed and transferred 13 buildings with 103,388 sq. ft. (at 100%) to the Investment Properties division in 2013. This compares with 6 buildings and 69,947 sq. ft. last year.
- Our Investment Properties portfolio grew through third-party acquisitions and transfers of completed buildings from our Property Development division.
 - We completed three third-party property acquisitions which added 345,543 sq. ft. (net of joint arrangement interest) at a cost of \$49.05 million. Two of these acquisitions were completed by the REIT. The third was the purchase of our joint venture partner's 50% interest in an asset.
 - We added 29 condo units in one of our US-based assets for \$2.59 million.
 - We transferred 57,913 sq. ft. (net of joint arrangement interest) with a fair value of \$26.14 million from Property Development. This represents 13 buildings in three different projects in Airdrie, Chestermere and Red Deer, Alberta.

People: Our Key Asset

We appointed Brian Baker as President and Chief Executive Officer on July 2, 2013 following the retirement of Ralph Young.

Over the past two years, we have significantly expanded our overall resource capacity with the addition of 38 new positions. In 2013, we hired 20 new positions and increased overall headcount by 19% to 124 full-time permanent staff. This additional talent base positions us well to execute on our growth strategies.

Return to Shareholders

We paid annual dividends of \$0.50 per share, plus a special dividend of \$0.50, to shareholders. We have been paying dividends since 1969.

Adjusted Earnings Attributable to Melcor's Shareholders

The following analysis adjusts the consolidated net income attributable to Melcor's shareholders for the year ended December 31, 2013 to reflect our proportionate interest in the earnings of the REIT. As detailed below, we have adjusted consolidated net income for the year for amounts recorded as a result of the non-controlling interest (NCI in Melcor REIT) being recorded as a financial liability and management fees earned from the REIT. We also, removed 48.9% of the REIT's post-formation net earnings (the public's interest). The adjustments are summarized as follows:

- adjustments related to REIT units for 2013 were comprised of transaction costs of \$10.42 million, distributions to unitholders of \$4.11 million and fair value adjustment of \$3.65 million;
- management fees earned by Melcor from NCI in the REIT under the asset management and property management agreement which are eliminated upon consolidation; and
- unitholders' 48.9% interest in the REIT's post-formation earnings.

We consider adjusted earnings attributable to Melcor's shareholders (adjusted earnings) to be more representative of the operational activities, financial results and earnings attributable to Melcor's shareholders. The most comparable IFRS metric is net income.

(\$000s except as noted)	2013	2012
Net income for the year	98,623	105,019
Adjustments related to REIT Units	18,176	—
Management fees earned from the REIT	1,070	—
Unitholders' portion of earnings of the REIT	(7,430)	—
Adjusted earnings	110,439	105,019
Adjusted basic EPS*	3.63	3.49
Adjusted diluted EPS*	3.35	3.29

* See non-standard measures for definitions and calculations.

Revenue & Margins

We earned revenue of \$303.74 million in 2013 compared to \$274.93 million in 2012. With strong market demand, all divisions grew compared to the prior year; however, the Community Development division was the largest proportionate contributor to the record consolidated revenue, with lot sales of 1,776 compared to 1,554 in 2012 leading to highest annual revenues for the division of \$251.32 million.

Gross margin was strong in all operating divisions in 2013, and improved 3.40% overall to 44.4%. Gross margin is predominantly driven by our largest division, Community Development. Gross margin in the division is primarily impacted by the lot type sold, development costs, the timing of the original land purchase and the relative real-estate market strength at the time of sale. Land that has been in inventory for many years typically generates higher margin on sale.

Net margin declined from 2012 to 32.5%. Lower fair value adjustment on investment properties and adjustments related to REIT units recognized during 2013 negatively impacted net income by \$19.71 million. Excluding these, net margin increased compared to the prior year. This improvement was driven by strengthening gross margins, and lower interest and income tax expenses.

Fair value gains of \$47.57 million were recorded in 2013 (2012: \$59.10 million) as a result of:

- the transfer of land inventory (measured at cost) to Property Development where it is classified as investment properties on the balance sheet (measured at fair value), resulting in fair value gains of \$4.30 million (2012: \$1.83 million);
- leasing activity and completion of construction on Property Development projects resulting in fair value gains of \$26.16 million (2012: \$9.03 million); and
- higher leasing activity and a 25 basis point decrease in capitalization rate on certain properties produced fair value gains of \$17.11 million (2012: \$48.25 million) in the Investment Properties and REIT divisions.

Adjusted earnings attributable to Melcor's shareholders (adjusted earnings), which reflects our proportionate interest in the earnings of the REIT, was \$110.44 million for the year, an increase of 5.2% over 2012. Adjusted basic earnings per share were \$3.63, an increase of 4.0% over 2012. The increase reflects revenue growth and improved gross margin during the year. Management believes that adjusted earnings and adjusted earnings per share provide a clearer measure of operational and relative performance.

Divisional Results

Our business is comprised of five integrated and complementary operating divisions:

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed by Community Development;
- Investment Properties, which manages and leases the commercial developments produced by the Property Development division and an externally purchased portfolio of assets, as well as assets held in Melcor REIT;
- Melcor REIT, which owns and holds 30 (29 at December 31, 2013) income-producing properties; and
- Recreational Properties, which owns and operates four championship golf courses associated with Melcor residential communities.

Our Corporate division carries out support functions including accounting, treasury, information technology, administration, legal and human resources.

The following table summarizes the results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31	
(\$000s except as noted)	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenue	251,323	217,487	2,939	1,353	23,878	16,193	39,325	37,485	8,410	7,649
Portion of total revenue	77%	78%	1%	—%	7%	6%	12%	13%	3%	3%
Cost of sales	(151,281)	(134,551)	—	—	(11,076)	(9,173)	(15,930)	(15,423)	(5,564)	(5,211)
Gross profit	100,042	82,936	2,939	1,353	12,802	7,020	23,395	22,062	2,846	2,438
Gross margin %	40%	38%	100%	100%	54%	43%	59%	59%	34%	32%
Portion of total gross profit	71%	72%	2%	1%	9%	6%	16%	19%	2%	2%
General and administrative expense	(10,102)	(7,370)	(1,924)	(1,814)	(3,608)	(76)	(1,722)	(1,369)	(1,999)	(1,774)
Fair value adjustment on investment properties	—	—	26,159	9,032	(351)	18,637	16,953	30,163	—	—
Gain on sale of assets	—	—	—	—	—	—	—	—	35	2
Interest income	2,114	2,161	7	—	45	32	61	23	—	—
Divisional income before tax	92,054	77,727	27,181	8,571	8,888	25,613	38,687	50,879	882	666

Community Development

Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning, obtaining approvals from municipalities, developing the land, construction, marketing and ultimately selling the lots to home builders (for residential communities) or developers (for commercial/industrial centres). The division also sells sites to our Property Development division, who in turn develops the land into commercial properties.

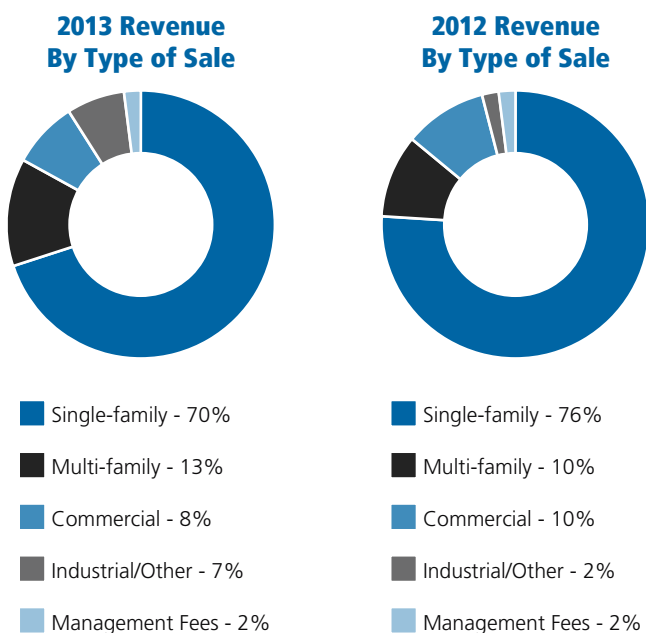
Master planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and parcels are sold to homebuilders who share our passion for quality and with whom we have long-standing relationships.

Our focus is to grow market share and income levels by ensuring that we have an appropriate land mix and the right inventory in high demand areas in growing regions. We proactively manage our agreement receivables by maintaining an exclusive builder clientele and working closely with those builders.

We currently hold 9,771 acres of raw land for future development which positions the division well for future growth. Our developed land inventory at December 31, 2013 includes 1,498 single-family lots, 70.9 acres for multi-family unit development, and 181.1 non-residential acres. Our diversified inventory positions us well for continued growth.

Sales Activity

Income can fluctuate significantly from quarter to quarter due to the timing of plan registrations, the cyclical nature of real estate markets and the mix of land sold. The seasonality caused by the timing of plan registrations and the real estate construction cycle typically evens out over the course of the year.



Our operations span several regions, with a primary focus on the Alberta real estate market. The following table summarizes our activity in 2013 and 2012:

Consolidated	2013	2012
<i>Sales data:</i>		
Single family sales (number of lots)	1,776	1,554
Gross average revenue per single family lot (\$)	143,300	138,700
Multi-family sales (acres)	47.36	45.56
Gross average revenue per multi-family acre (\$)	881,100	807,800
Commercial sales (acres)	32.63	30.59
Gross average revenue per commercial land acre (\$)	800,800	839,400
Other land sales - Industrial, Other (acres)	126.28	43.54
Gross average revenue per other land acre (\$)	164,500	162,800
<i>Financial results:</i>		
Revenue (\$000s)	251,323	217,487
Earnings (\$000s)	92,054	77,727

The division produced record results in 2013, with 1,776 single-family lot sales, 47.36 acres sold for multi-family projects, and 158.91 acres sold for commercial, industrial, or other uses. Our primary market is Alberta, Canada, where overall market conditions remain strong.

Regional Highlights

Edmonton & Region	2013	2012
<i>Sales data:</i>		
Single family sales (number of lots)	923	726
Multi-family sales (acres)	17.24	24.76
Commercial sales (acres)	27.13	19.93
Other land sales - Industrial, Other (acres)	17.00	2.25
<i>Financial results:</i>		
Revenue (\$000s)	122,165	103,987
Earnings (\$000s)	38,487	35,253

Momentum continues in the Edmonton region due to strong market demand, resulting in revenue growth of 17%. The two subdivisions introduced in Edmonton in 2012 reported strong sales in 2013 and have been well-received by builders and the public. In 2013, we introduced a new master-planned estate community on the Jagare Ridge golf course, which also produced strong sales. Our established neighbourhoods continue to grow in Edmonton (Lewis Estates, Aurora and Larch Park), Spruce Grove (Jesperdale, McLaughlin and Stoneshire), and Leduc (Bridgeport and Westhaven).

Commercial sales in the Edmonton region include the sale of three commercial sites to our Property Development division at a price of \$23.35 million for a gain of \$4.27 million (net of joint arrangement interest, \$18.76 million and \$4.30 million).

Red Deer & Region	2013	2012
<i>Sales data:</i>		
Single family sales (number of lots)	276	294
Multi-family sales (acres)	16.65	3.41
Commercial sales (acres)	—	1.84
Other land sales - Industrial, Other (acres)	15.10	30.56
<i>Financial results:</i>		
Revenue (\$000s)	52,831	47,469
Earnings (\$000s)	23,771	18,619

The Red Deer region achieved solid financial results in 2013 with revenue growth of 11%. Servicing in the final phases of lots in the Vanier Woods East community was completed. The south east Red Deer community continues to be in demand with new home buyers. The Red Deer regions newest neighbourhood, Laredo, was started with the servicing of the first two phases of residential development and had 130 lot sales in 2013.

Melcor continues to hold a dominant share of the Red Deer market, and has begun a strategic expansion into surrounding communities that will benefit as Red Deer grows. In 2014, we will launch The Vista in Ryders Ridge, our first project in the rapidly growing town of Sylvan Lake.

Calgary & Region	2013	2012
<i>Sales data:</i>		
Single family sales (number of lots)	429	379
Multi-family sales (acres)	13.47	17.39
Commercial sales (acres)	5.50	8.82
Other land sales - Industrial, Other (acres)	8.38	2.45
<i>Financial results:</i>		
Revenue (\$000s)	60,425	50,154
Earnings (\$000s)	23,979	20,355

Results continue to be strong in the Calgary region, with revenue growth of 20% over 2012. During the year, another phase of Sunset Ridge (Cochrane) was registered. We also registered three new phases of Kinwood (North West Calgary) which added 13.47 acres of multi-family development sales and 107 single family lot sales. The Estates of Valleyridge saw moderate absorptions in 2013 with builders finishing off most of their inventory. We continue to invest in North Deerfoot, preparing commercial land for future development by Property Development.

Lethbridge	2013	2012
<i>Sales data:</i>		
Single family sales (number of lots)	58	149
Other land sales - Industrial, Other (acres)	16.38	8.28
<i>Financial results:</i>		
Revenue (\$000s)	7,709	14,469
Earnings (\$000s)	2,701	4,328

Both revenue and earnings were on budget for 2013 for Lethbridge; however, revenue declined by 47% following the atypically strong year in 2012. We are actively building three communities in Lethbridge. Garry Station, introduced in 2012, was awarded "Best New Development" at the Canadian Home Builders Association Building the Best awards program.

Kelowna	2013	2012
<i>Sales data:</i>		
Single family sales (number of lots)	7	6
<i>Financial results:</i>		
Revenue (\$000s)	1,995	1,408
Earnings/(loss) (\$000s)	(251)	(595)

Revenue in Kelowna grew by 42% over 2012 as a result of various initiatives aimed at driving traffic through our developments. We continue to expect a slow recovery in economic activity in this region, and we are well positioned to take advantage when it occurs with a good inventory of finished lots and developable land.

During the year we also sold 69.42 acres of raw land in Saskatchewan pursuant to an expropriation order from the government of Saskatchewan for \$2.42 million at a gross profit of \$1.73 million.

Inventory

Inventory management is a critical component to the Community Development division's future success. Land development is a capital-intensive process requiring long time horizons to obtain all the related permits and development agreements. As such, we closely monitor the fundamentals of the regions where we operate to ensure that we have the correct land mix to meet market demands and that the land is ready for sale when demand dictates.

Developed lot inventory

A summary of the movement in our developed lot inventory follows:

	December 31, 2013		
(including joint arrangements at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	1,180	93.0	237.6
Purchases	—	—	—
New developments	2,094	25.3	13.9
Internal sales	—	—	(15.6)
Sales	(1,776)	(47.4)	(54.8)
	1,498	70.9	181.1

	December 31, 2012		
(including joint arrangements at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	1,062	95.3	177.4
Purchases	—	—	—
New developments	1,672	43.3	110.0
Internal sales	—	—	(6.5)
Sales	(1,554)	(45.6)	(43.3)
	1,180	93.0	237.6

Raw land inventory

To support future growth, we acquire land in strategic growth corridors and maintain an inventory of land for future development in our primary markets. Land inventory acquisitions are based on management's anticipation of market demand and development potential. The markets we operate in require significant infrastructure development and heavy capital investment, creating a barrier to entry. We continually investigate high potential new lands that complement our existing land holdings or provide attractive projects that are consistent with our overall strategy and management expertise. We acquire land when we find a good fit within these criteria.

Following is a summary of land acquisitions during the year (figures include land acquired through equity transactions and swap agreements):

Land purchases (in acres, net of joint arrangement interests)	2013	2012	Total Land Holdings
Edmonton & Region	347.12	299.64	3,095
Central Alberta	—	76.87	1,374
Calgary & Region	2.59	—	2,371
Lethbridge	72.10	—	525
British Columbia	155.00	11.17	653
Saskatchewan	—	—	616
United States	258.00	16.70	1,137
	834.81	404.38	9,771

Our land acquisitions in 2013 remained focused on securing land positions in strategic growth corridors. Included in the 834.81 acres purchased in 2013 is 131.46 acres of land which will be used for industrial development.

During the year we entered into a new joint arrangement and purchased 93.60 acres (net of joint arrangement interest, 32.76 acres) of residential lands in Southwest Edmonton to replenish inventory. We also acquired the remaining 25% interest on 1,032.00 acres of land planned for future residential development in Colorado.

Property Development

Our Property Development division develops, manages construction, markets and initially leases high-quality retail, office and industrial revenue-producing properties on prime commercial sites purchased primarily from our Community Development division. The division currently operates solely in Alberta.

The Property Development division increases the value of land assets and delivers long-term sustainable returns with high profile anchor tenants such as Canadian Tire, Canadian Western Bank, Home Depot, Rexall Drugs, Rona, Save-on Foods, Scotia Bank, Shoppers Drug Mart, Sport Check, Staples, TD Canada Trust, Tim Hortons and many others.

The Property Development division supports Melcor's strategic objectives of asset diversification, income growth and value creation by constructing income-producing developments, primarily on land acquired from the Community Development division, which is transferred at fair market value.

The Property Development division realizes fair value gains from development and leasing activities. Once built and leased, properties are transferred at fair market value to the Investment Properties division for long-term property management.

Division Highlights

(at 100%)	2013	2012
Square footage transferred (sq. ft.)	103,388	69,947
Number of buildings transferred	13	6
Fair value gains (\$000s) (net of joint arrangement interest)	26,159	9,032

External valuers appraise all development projects each quarter. Any fair value gains in these projects are attributed to the Property Development division until the building(s) is determined to be complete, at which point the property is transferred to our Investment Properties division. These fair value gains are primarily a reflection of the value created through the development process and the leasing activities of the division. Changes in capitalization rates during the construction phase may also affect the fair value of a project.

The Property Development division was active in 2013, completing and transferring 13 buildings to the investment properties division. Construction was also advanced on several additional buildings, which are expected to be completed in 2014.

Regional Highlights

Fair Value Adjustments (\$000s)	2013	2012
Northern Alberta	23,847	500
Central Alberta	—	3,750
Southern Alberta	2,312	4,782
	26,159	9,032

Northern Alberta: During the year we substantially completed construction of two industrial buildings, Telford Industrial and McKenzie Industrial. These buildings were approximately 90% complete at the end of 2013. Construction is underway at The Village at Blackmud Creek, a 725,000 sq. ft. regional business park and West Henday Promenade, a 378,000 sq. ft. mixed-use commercial centre. We expect to complete approximately 59,000 sq. ft. at The Village at Blackmud Creek and 81,000 sq. ft. at West Henday Promenade in 2014.

Construction progressed at Stoneycreek Shopping Centre, a 210,000 sq. ft. mixed-used commercial development in Fort McMurray. Leasing in the project has been very strong with over 65% of available GLA pre-leased. At the end of the year, construction was approximately 90% complete. Fair value gains of \$28.97 million (net of joint arrangement interest, \$8.91 million) were recognized in 2013.

Central Alberta: Construction was completed in Clearview Market Phase 2 in Q1-2013. 6 buildings for a total of 59,856 sq. ft. were transferred to the Investment Properties division. These buildings generated revenue of \$1.77 million (net of joint arrangement interest, \$0.59 million) during the year.

Southern Alberta: Construction of Kingsview Market Phase 2 and 3 in Airdrie was substantially completed. Three freestanding buildings and one commercial retail unit (CRU) for a total of 26,876 sq. ft. were transferred to the Investment Properties division. Two additional buildings at Kingsview Market are currently under construction and are expected to be completed in 2014/2015.

At Chestermere Station (Chestermere), we completed the construction of two CRUs and a free standing restaurant for a total of 16,656 sq. ft. These three buildings were transferred to the Investment Properties division retail portfolio.

Future Development Opportunities

We work closely with the Community Development division to identify parcels of land from their inventory that are well suited for commercial development in the near future. We also work together to obtain municipal approvals in order to initiate development.

Future projects include:

Current Projects				
Project	Location	Type	Total Sq. Ft.*	Sq. Ft. Under Development
The Village at Blackmud Creek	South Edmonton	Regional business park	725,000	59,000
Telford Industrial	Leduc	Industrial Park	600,000	89,000
West Henday Promenade	West Edmonton	Regional mixed use centre	378,000	81,000
Stoneycreek Shopping Centre	Fort McMurray	Regional mixed use centre	210,000	210,000
McKenzie Industrial	Red Deer	Industrial Park	66,000	66,000
Clearview Market	Red Deer	Neighbourhood shopping centre	36,000	36,000
Leduc Common	Leduc	Regional shopping centre	31,000	25,000
Kingsview Market	Airdrie	Regional shopping centre	234,000	12,000
Chestermere Station	Chestermere	Neighbourhood shopping centre	58,000	12,000
Total			2,338,000	590,000

Anticipated Future Projects				
Project	Location	Type	Total Sq. Ft.*	Expected Start
The District at North Deerfoot	North Calgary	Regional business / industrial park	2,250,000	2014
The Shops at Jagare Ridge	South Edmonton	Neighbourhood shopping centre	105,000	2015
The Shoppes at Canyons	Lethbridge	Neighbourhood shopping centre	105,000	2015
Greenwich	West Calgary	Regional mixed use centre	395,000	2016
Keystone Common	North Calgary	Regional power centre	775,000	2017
West Pointe Marketplace	Lethbridge	Regional power centre	750,000	2017
West Calgary Marketplace	West Calgary	Regional power centre	800,000	2017
Total			5,180,000	

* Size represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end users.

Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality office, retail, industrial and residential properties, which are located across western Canada and the US (including the properties owned by Melcor REIT).

Our goal is to improve the operating efficiency of each property for stable and growing cash flows, and to grow our portfolio through acquisition and development. We focus on client retention through continuous customer contact and ongoing service evaluations. We also enhance our portfolio by upgrading the appearance, functionality and desirability of our properties, thereby increasing their rental potential.

Our Investment Properties division oversees 2.48 million sq. ft. of income-producing commercial GLA and 1,280 residential units. Our portfolio has high occupancy rates with long-term tenancies from high-quality retail and commercial clients.

Operating Results

(\$000s except as noted)	2013	2012
Rental revenue	23,878	16,193
Net operating income (NOI) *	13,920	7,450
Same asset NOI* (see calculation following)	8,007	6,407
Occupancy	91.0%	96.3%
Fair value adjustments	(351)	18,637
Funds from operations *	10,825	7,637
Funds from operations per share *	0.35	0.25

* See non-standard measures for definition and calculation.

Investment properties revenue grew by 47% compared to 2012. This growth is primarily attributable to the increase in GLA as high quality properties were completed and transferred from the Property Development division. The fair value of the portfolio grew by \$26.14 million in 2013 from transfers of 57,913 sq. ft. (net of joint arrangement interests) of retail GLA from our developments in Airdrie, Chestermere and Red Deer, Alberta. In addition, we acquired our joint venture partner's 50% interest in LethCentre. These new properties contributed an additional \$3.58 million to revenue in 2013. Occupancy rates were strong at 91.0%, but decreased from 2012 as a result of ongoing redevelopment work on one property. The strong US dollar and foreign currency translation gains, in conjunction with improved occupancy on our residential units contributed an additional \$1.20 million in revenues during 2013. For the year ended December 31, 2013 revenues from our US residential assets represented 47% of divisional revenue (2012 - 62%).

The following is a reconciliation of our same properties net operating income to our divisional net operating income:

(\$000s except as noted)	2013	2012
Same asset NOI*	8,007	6,407
Properties transferred from PD	2,164	610
Third party acquisitions	595	—
NOI before adjustments	10,766	7,017
Foreign currency translation	(153)	3
Management fees from Melcor REIT	2,189	—
Amortization of operating lease incentives	1,586	661
Straight-line rent adjustment	(468)	(231)
Divisional NOI	13,920	7,450

* See non-standard measures for definition.

Divisional NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustment. Same asset NOI grew by \$1.60 million or 25% over 2012, of which \$0.84 million was attributable to improved leasing and occupancy on our US residential assets. The remainder of the increase is due to higher rental rates realized on lease renewals and improved occupancy on specific properties.

Funds from operations (FFO) increased by \$3.19 million over 2012. The increase is due to higher NOI, offset by higher general and administrative (G&A) expenses. Year over year analysis of G&A is not meaningful due to the formation of the REIT and resulting change in structure of the portfolio.

Fair Value of Investment Portfolio

	2013	2012
Number of commercial properties	8	7
Total commercial area (sq. ft.)	695,741	582,560
Total area (Melcor owned % sq. ft.)	637,679	194,526
Total residential units	1,280	1,251
Total parking stalls	516	516
Fair value of portfolio (\$000s)	235,029	164,714
Value per square foot	\$369	\$847
Weighted average capitalization rate	6.51%	6.69%
Weighted average discount rate	7.84%	7.65%
Weighted average terminal cap rate	6.87%	6.82%

Our investment properties were valued by independent valuation professionals as at December 31, 2013 and December 31, 2012. This resulted in fair value losses of \$0.35 million in 2013 and fair value gains of \$18.64 million in 2012 being recognized in income. Fair values are determined by discounting the expected future cash flows over ten years plus a terminal value determined by applying a capitalization rate to estimated year eleven cash flows.

A breakdown of our fair value adjustments by region is as follows:

Fair Value Adjustments (\$000s)	2013	2012
Northern Alberta	1,728	1,739
Southern Alberta	(2,846)	7,218
Saskatchewan	154	1,050
United States	613	8,630
	(351)	18,637

Fair value gains in Northern Alberta in 2013 were driven by a decrease in capitalization rates on certain properties in the Edmonton region and stabilized NOI on specific parking lot assets. Fair value losses in Southern Alberta in 2013 were primarily due to changes in estimates based on construction cost revisions on our LethCentre property which is currently undergoing renovations. Because we acquired 100% of the property in the period, we recognized 100% of the adjustment, where as we had only recognized 50% of the fair value previously. We have realized a net fair value gain of \$18.61 million (at 100%) for the value enhancing capital projects undertaken since the renovations began in Q3-2012. We also realized a fair value gain during 2013 on one of our properties in Phoenix, Arizona, due to a decrease in capitalization rates and stabilized NOI.

REIT

The REIT owned 29 income-producing office, retail and industrial properties, comprising 1,691,920 square feet of gross leasable area ("GLA") and a land lease community at December 31, 2013. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants, operating in a variety of industries.

We hold a controlling 51.1% effective interest in the REIT through ownership of all Class B LP Units. As we have concluded that Melcor retains control of the REIT we consolidate 100% of the REIT's revenues, expenses, assets and liabilities. The following tables include financial information for the pre-acquisition period, including the comparative periods, based upon financial information previously reported by the Investment Properties division, at 100% interest.

Operating results

The following table summarizes the REIT's key performance measures:

(\$000s except as noted)	2013	2012
Rental revenue	39,325	37,485
Net operating income (NOI) *	25,295	24,060
Same asset NOI (see calculation following)	22,457	21,969
Fair value adjustments	16,953	30,163
Occupancy	90.6%	91.0%
Funds from operations *	15,903	13,742
Funds from operations per share *	0.52	0.46

* See non-standard measures for definition and calculation.

Rental revenue for the year ended December 31, 2013 increased \$1.84 million or 5% over 2012. Base rent was 4% or \$1.06 million higher than 2012; driven by higher average base rent (per sq. ft.) and the increase in GLA following two acquisitions. GLA grew by 8% or 120,446 sq. ft. over 2012 due to the acquisition of Coast Home Centre in Q3-2013 and Liberty Crossing in Q4-2013.

Average base rent was \$17.49 per sq. ft. compared to \$16.35 per sq. ft. in 2012. The increase is a result of increased rental rates on new and renewed leases signed in 2013, and higher rates on leases with rent rates that escalate over time.

Recoveries are amounts recovered from tenants for direct operating expenses incurred during the year and include a nominal administrative charge. Direct operating expenses increased by 3% over 2012, but recoveries, which generally track with direct operating expenses, were comparable to 2012. This divergence is the result of slightly lower occupancy and non-recoverable expenses on certain properties. This was in-line with our forecast.

Direct operating expenses increased by \$0.51 million or 3% as a result of increased GLA following the acquisition of properties in Q3-2013 and Q4-2014. GLA has grown 8% since 2012 as a result of these acquisitions. An increase of \$0.39 million or 5% in property taxes due to higher appraised property values compared to 2012 also contributed to the increase in direct operating expenses.

(\$000s except as noted)	2013	2012
Same asset NOI*	22,457	21,969
Acquisitions	938	93
NOI before adjustments	23,395	22,062
Amortization of operating lease incentives	2,297	2,447
Straight-line rent adjustment	(397)	(449)
Divisional NOI	25,295	24,060

* See non-standard measures for definition.

Net operating income ("NOI") and same asset NOI are non-standard metrics used in the real estate industry to measure the performance of investment properties. The IFRS measurement most directly comparable to NOI and same asset NOI is net income.

NOI and same asset NOI increased by \$1.24 million and \$0.49 million respectively compared to 2012. This growth is primarily a result of increased average base rent and other revenue offset by higher direct operating expenses. Divisional NOI also reflects the impact of new property acquisitions during the year.

Funds from operations ("FFO") increased by \$2.16 million or 16% over 2012 due to higher NOI achieved.

Fair Value of REIT Portfolio

	2013	2012
Number of properties	29	27
Total GLA (sq. ft.)	1,786,447	1,667,440
GLA (REIT owned % sq. ft.)	1,691,920	1,571,474
Fair value of portfolio (\$000s)	440,349	393,461
Value per square foot	\$260	\$250
Weighted average capitalization rate	6.41%	6.48%
Weighted average discount rate	7.57%	7.59%
Weighted average terminal cap rate	6.69%	6.72%

Our investment properties were valued by independent valuation professionals as at December 31, 2013 and December 31, 2012. This resulted in fair value gains of \$16.95 million in 2013 and \$30.16 million in 2012 being recognized in income. Fair values are determined by discounting the expected future cash flows over ten years plus a terminal value determined by applying a capitalization rate to estimated year eleven cash flows.

A breakdown of our fair value adjustments by region is as follows:

Fair Value Adjustments (\$000s)	2013	2012
Northern Alberta	7,969	24,287
Southern Alberta	7,683	5,060
Saskatchewan & British Columbia	1,301	816
	16,953	30,163

The REIT recognized fair value gains of \$16.95 million during 2013 (2012 - \$30.16 million). Increased leasing activity, higher base rents on new and renewed leases, and a 0.25% decrease in capitalization rates on certain properties lead to these gains.

Recreational Properties

Our Recreational Properties division owns and manages championship golf courses built to add value to Melcor residential communities.

The division's goal is to provide a high standard of service to our customers so as to maximize their enjoyment at our golf courses and to enhance divisional performance through revenue growth and cost savings.

Our golf courses aspire to achieve consistent course conditions and quality, and to be recognized as championship public golf courses with state of the art clubhouses that contribute to our ability to attract tournaments and events. Achieving these goals enables us to find the appropriate balance between the revenue levers of course fees, number of rounds played and customer satisfaction and enjoyment.

Operating Results

(\$000s except as noted - net of joint arrangement interests)	2013	2012
Revenue	8,410	7,649
Gross profit	2,846	2,438
Gross margin (%)	33.8%	31.9%
Earnings	882	666

The financial performance of our golf courses is greatly influenced by the weather conditions during the golf season. Through effective and efficient operations management, our golf courses increased revenue by 10% and earnings by 32% in the 2013 season. Our golf courses continue to focus on maximizing the rounds of golf played. The number of rounds played at Melcor managed courses increased by 10% over 2012 in spite of a delayed start to the season in the Edmonton region.

Over the past few years, we have focused on food and beverage initiatives as part of our strategy of attracting tournaments and growing revenue. We rebranded the restaurants at each course to "The Grill". The Grill at the Links received the Spruce Grove Chamber of Commerce "New Business of the Year" award. The new clubhouse opened during the 2012 golf season. In 2013, food and beverage contributed to the overall 2% increase in the gross margin for the Recreational Properties division.

		2013		
	Ownership Interest	Season opened	Season closed	Rounds of golf*
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	May 1	October 31	29,912
The Links (Spruce Grove)	100%	May 1	October 31	26,227
Black Mountain (Kelowna)	100%	March 22	November 4	29,128
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	May 8	October 20	21,814

	Ownership Interest	2012		
		Season opened	Season closed	Rounds of golf*
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 12	October 19	26,559
The Links (Spruce Grove)	100%	April 20	October 19	24,422
Black Mountain (Kelowna)	100%	March 30	November 9	26,306
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	April 25	October 14	22,729

* Rounds of golf indicated at 100%

General and Administrative Expense

General and administrative expense ("G&A") for the year increased \$7.52 million over 2012. During the year the Corporate Governance and Compensation Committee approved a one-time increase to the performance incentive program resulting from the sale of the Initial Properties to the REIT. The performance incentive is calculated pursuant to a pre-existing compensation plan based upon the gain on disposition of the net assets. The remainder of the increase was due to higher head count as a result of organizational growth and higher activity levels in all areas of our business.

Financing

As at December 31, 2013, our total general debt outstanding was \$574.33 million compared to \$490.53 million in 2012. The financing function is managed by our corporate division and decisions on how to deploy operating and acquisitions funds is a centrally managed corporate decision. We use various forms of financing to fund our development and acquisition activities. We are often able to leverage the assets in one division to fund development opportunities in others. A summary of our debt is as follows:

As at (\$000s)		2013	2012
Melcor - revolving credit facility	a	80,870	93,232
REIT - revolving credit facility	b	23,748	—
Project specific financing	c	64,383	30,037
Secured vendor take back debt on land inventory	d	77,194	72,184
Debt on investment properties and golf course assets	e	288,801	255,941
Convertible debenture	f	39,336	39,138
		574,332	490,532

a. Melcor - revolving credit facility

One of our primary sources of funding for development projects is an operating line of credit with a syndicate of major chartered banks. This line of credit margins the Community Development assets of the company.

We benefit by being able to borrow at rates fluctuating with prime. Our current cost of borrowing on a floating basis is low when compared to historical cost of funds.

Under the terms of this facility, Melcor pledges specific agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral. This facility matures on July 31, 2015, renewable one year in advance of expiry and may be modified.

A summary of the credit facility is as follows:

As at (\$000s)		2013	2012
Credit limit approved	i)	178,000	160,500
Supportable credit limit	ii)	172,477	157,610
Credit used		80,870	93,232
Credit available		91,607	64,378

i) The portion of these loan limits that relate solely to Melcor Developments Ltd. is \$120.00 million (2012 - \$120.00 million) with the remaining balance pertaining to specific joint arrangements.

ii) Our supportable credit limit is calculated based on a formula and tests as required by the bank. The supportable credit limit is calculated based on agreements receivable balances and land inventory. As such, the supportable limit fluctuates in response to increases or decreases in these balance sheet accounts. Management monitors the supportable credit limit and keeps the bank informed at all times of its current collections and inventory production plans.

In the normal course of development operations, we are also required to issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. The credit facility described above also includes a letter of credit facility. Melcor's letter of credit balances, net of joint arrangement interests are:

As at (\$000s)	2013	2012
Total letter of credit facility	69,516	64,316
Letters of credit issued	51,774	41,609
Available for issue	17,742	22,707

b. REIT - revolving credit facility

The REIT revolving credit facility was entered into subsequent to the formation of the REIT with two major Canadian chartered banks. Under the terms of the agreement the REIT has an available credit limit based upon the carrying values of specific investment properties, as calculated quarterly, up to a maximum of \$25,000 for general purposes. The agreement also provides the REIT with \$5,000 in available letters of credit. The facility matures on May 1, 2015, with a one year extension period at the discretion of the lenders. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the facility. As at December 31, 2013 the REIT supported a lending base of \$25,000. During the year the REIT drew \$24,000 from the facility, which is presented net of unamortized transaction costs and discounts on outstanding bankers acceptance. Subsequent to year-end we received \$10.90 million in proceeds from funding of two mortgages on previously unencumbered properties. Part of the proceeds were used to repay \$5.50 million of amounts drawn under the revolving credit facility.

c. Project specific financing

We use project financing to supplement our line of credit, or when certain projects allow us to access a lower cost of capital typically provided by project financing. This type of loan usually has floating rates of interest tied to prime.

The composition of our project specific financing is as follows:

As at (\$000s)	2013	2012
Project specific debt on investment properties under development, with fixed interest rates between 3.37% and 5.00%	46,607	5,250
Project specific debt on land, with fixed interest rates between 3.53% - 3.75%	17,776	24,787
	64,383	30,037
Weighted average effective interest rate	3.70%	3.73%

d. Secured vendor take back debt on land inventory

This debt is primarily comprised of loans on the acquisition of land that are held by the land vendor (fixed rate financing with repayments over 3 to 10 years) or from financial institutions (variable rate financing with repayments over 3 to 5 years). Current debts mature from 2014 to 2019.

As at (\$000s)	2013	2012
Agreements payable with interest at the following contractual rates:		
Fixed rates of 3.13% - 6.16%	68,144	67,745
Variable rates of prime plus 0.75% to prime plus 1.50% (3.75% - 4.50% at Dec. 31/13 and Dec. 31/12)	9,050	4,439
	77,194	72,184
Weighted average effective interest rate	4.69%	5.17%

e. Debt on investment properties and golf course assets

We use fixed rate, long-term mortgage financing on our investment properties assets to raise capital. We are able to finance increased loan amounts from our existing portfolio of buildings as old mortgages renew and there is increased equity in our investment properties.

Debt on investment properties and golf course assets in the amount of \$288.80 million reflects financing placed on investment properties that have a carrying value of \$548.22 million.

Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. New mortgage rates from Canadian lending institutions ranged from 3.33% to 3.89% in 2013.

The composition of our debt on investment properties and golf course assets is as follows:

(As at (\$000s))	2013	2012
Canadian mortgages at fixed rates (2013: 3.01% to 6.16%, 2012: 2.90% to 7.46%)	184,519	189,024
Canadian mortgages at variable rates (2013: 3.50% to 4.60%, 2012: 3.50% to 4.60%)	53,847	19,585
US mortgages at fixed rates (2013: 5.21% to 6.06%, 2012: 3.74% to 6.06%)	32,348	40,478
US mortgages at variable rates (2013: 3.02% to 3.74%, 2012: 3.02% to 3.25%)	18,087	6,854
	288,801	255,941
Weighted average effective interest rate	4.32%	4.68%

Loan maturity dates are spread out so as to reduce associated loan renewal risks. The following table represents cumulative loan amounts due for renewal over the next ten years:

Year	Loan renewal amount (\$000s)	Weighted average interest rate	Number of loans
2014	20,915	4.53%	5
2015	48,613	4.90%	10
2016	36,532	4.84%	5
2017	6,248	3.54%	4
2018	43,582	3.89%	8
2019	13,040	3.81%	3
2020	12,587	5.22%	4
2021	13,226	5.21%	1
2022	8,307	3.74%	1
2023	15,461	3.98%	2

As at December 31, 2013, \$9.65 million of debt was payable in US dollars (2012: \$9.10 million).

f. Convertible debenture

In 2011, we completed the issue and sale of \$40.00 million, 6.25% convertible unsecured subordinated debentures. The issue closed on February 8, 2011 with a maturity date of February 8, 2017. The debentures are convertible at the option of the holder at any time before maturity at a conversion price of \$18.51 per share. From the period of February 1, 2014 until January 31, 2016, Melcor has the option to redeem the debentures at a price equal to their principal amount, plus any accrued and unpaid interest, provided the weighted average trading price of the common shares is 125% of the conversion price for a specified period of time. Commencing February 1, 2016, Melcor has the option of redeeming the debentures at a price equal to their principal amount plus any accrued and unpaid interest.

\$22.00 million of the convertible debenture was issued to companies controlled by two Directors of Melcor, which constitutes a related party transaction. The transaction occurred in the normal course of operations and was measured at its exchange amount, which approximates its carrying value.

Assuming the debentures are not converted until maturity, a \$2.50 million annual cash interest payment will be required for the next six years.

The debenture is a source of financing for all of the company's current operations, and not allocated to one specific purpose.

Liquidity & Capital Resources

The following table represents selected information as at December 31, 2013, compared to December 31, 2012.

As at (\$000s except as noted)	2013	2012
Cash & cash equivalents	28,973	11,628
Restricted cash	5,969	—
Accounts receivable	21,542	21,966
Agreements receivable	177,961	173,950
Revolving credit facilities	104,618	93,232
Accounts payable and accrued liabilities	65,256	57,728
Total assets	1,727,933	1,447,356
Total liabilities	958,702	752,599
Debt to equity ratio*	1.25	1.08

* See non-standard measures for definition.

We employ a range of strategies to maintain operations and facilitate growth. Our principal liquidity needs are to:

- Fund recurring expenses;
- Meet debt service requirements;
- Make dividend payments;
- Make distributions to unitholders of the REIT;
- Fund land development; and
- Fund investing activities such as the discretionary purchase of land inventory and/or investment property purchases.

We are able to meet our capital needs through a number of sources, including cash generated from operations, long and short-term borrowings from our syndicated credit facility, mortgage financings, convertible debentures, and the issuance of common shares. Our primary use of capital includes paying operating expenses, sustaining capital requirements on land and Property Development projects, completing real estate acquisitions, debt principal and interest payments, and paying dividends when declared by our board of directors.

We believe that internally generated cash flows, supplemented by borrowings through our credit facility and mortgage financings, where required, will be sufficient to cover our normal operating and capital expenditures. We regularly review our credit facility limits and manage our capital requirements accordingly.

On May 1, 2013, we completed the IPO of the REIT which generated proceeds (net of underwriters' fee) of \$78.02 million. On May 10, 2013, the underwriters exercised their over-allotment option to purchase additional shares from Melcor which generated proceeds (net of underwriters' fee) of \$7.80 million. Proceeds will be used to fund development activities and cover general corporate costs.

We do not currently have any other plans to raise additional capital through the issuance of common shares, preferred shares or convertible debentures; however, under certain circumstances, we would consider these means to facilitate growth through acquisition or to reduce the utilized level on our credit facility.

Cash requirements

The following information about our contractual obligations and other commitments summarizes certain of our liquidity and capital resource requirements. The information presented includes legally committed capital expenditures.

Contractual obligations include:

	Total	Payments due by period			
		Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt on investment properties and golf course assets	288,801	57,780	98,208	62,090	70,723
Revolving credit facilities	104,618	—	104,618	—	—
Secured vendor take back debt on land inventory	77,194	33,715	24,099	16,740	2,640
Project specific financing	64,383	64,383	—	—	—
Convertible debenture	39,336	—	—	—	39,336
Operating leases	664	375	289	—	—
Contractual commitments	—	—	—	—	—
Total contractual obligations	574,996	156,253	227,214	78,830	112,699

Sources and uses of cash

The following table summarizes our cash flows from (used in) operating, investing and financing activities, as reflected in our consolidated statement of cash flows:

	2013	2012
Cash flows from operating activities	64,651	35,089
Cash flows used in investing activities	(155,408)	(66,274)
Cash flows from financing activities	107,899	32,176

Cash from operations was \$29.56 million higher in 2013 as a result of our increase in net income and funds flow from operations for the year. Increased collections on agreements receivable contributed an additional \$30.10 million to operating cash flows.

During the year we continued to invest in growing and improving our asset base through strategic and value enhancing projects. In 2013 we completed three property acquisitions and increased our residential unit holding in one of our US assets at a total cost of \$49.05 million. The Property Development division also acquired 15.57 acres of developed land from our of our joint ventures and invested \$55.97 million in our properties under development as activity in that division grew through 2013.

Cash from financing activities increased by \$75.72 million over 2012 as a result of the REIT IPO which generated \$91.30 million. Part of the funds from the IPO were used to pay a special dividend of \$0.50 per share, which in conjunction with an increase in our dividend yield in 2013 resulted in a cash outlay of \$30.67 million in dividends. During the year we realized net cash inflows of \$38.51 million from our various debt facilities. We renewed mortgages on five of our

commercial properties for gross proceeds of \$60.00 million, and obtained mortgage financing on two, previously unencumbered properties for gross proceeds of \$6.47 million. In addition, we obtained project financing on four of our properties under development, of which we had drawn an additional \$67.40 million at December 31, 2013. Proceeds from financing arrangements allowed us reduce the amount drawn on the Melcor revolving credit facility.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at December 31, 2013 there were 30,729,074 common shares issued and outstanding and 944,590 options, each convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

Please refer to note 16 to the consolidated financial statements for information pertaining to our outstanding shares and options.

Off Balance Sheet Arrangements

In the normal course of operations, Melcor engages in a variety of transactions that, under IFRS, are either not recorded on our consolidated Statements of Financial Position or are in amounts that differ from the full contract amounts. The main off-balance sheet arrangements we make include the issuance of guarantees and letters of credit.

A discussion of our letter of credit facility arrangements can be found on pages 27-28. Refer to note 19 to the consolidated financial statements for information pertaining to our guarantees and letters of credit.

Quarterly Results

The following table presents a summary of our unaudited operating results for the past eight quarters. This information should be read in conjunction with the applicable year-end financial statements, notes to the financial statements and management's discussion and analysis.

2013				
(\$000s)	Q4	Q3	Q2	Q1
Revenue	152,193	59,195	50,737	41,617
Net income	53,909	21,882	10,209	12,623
Per Share				
Basic earnings	1.76	0.72	0.35	0.41
Diluted earnings	1.64	0.68	0.33	0.40
Book value*	25.03	23.52	22.87	23.36
2012				
(\$000s)	Q4	Q3	Q2	Q1
Revenue	141,962	64,674	34,973	33,321
Net income	55,468	24,832	18,871	5,848
Per Share				
Basic earnings	1.84	0.83	0.63	0.19
Diluted earnings	1.72	0.78	0.60	0.19
Book value*	22.89	21.28	20.59	20.09

* See non-standard measures for definition.

We have historically experienced variability in our results of operations from quarter to quarter due to the seasonal nature of the development business and the timing of plan registrations with the municipalities. We typically experience the highest sales in our Community Development division in the fourth quarter, as this is when the majority of plans register. The fair value gains in our Property Development division are also seasonally affected, as the majority of construction in Alberta takes place during the spring and summer months.

Fourth Quarter

	Three Months Ended December 31	
(\$000s)	2013	2012
Revenue	152,193	141,962
Cost of sales	(87,389)	(87,654)
Gross profit	64,804	54,308
General and administrative expense	(7,724)	(7,332)
Fair value adjustment on investment properties	21,096	29,802
Adjustments related to REIT units	(6,247)	—
Gain on sale of assets	26	2
Operating earnings	71,955	76,780
Interest income	619	667
Interest expense	(4,533)	(4,385)
Net finance costs	(3,914)	(3,718)
Income before income taxes	68,041	73,062
Income tax expense	(14,132)	(17,594)
Net income for the period	53,909	55,468
Earnings per share attributable to Melcor's shareholders:		
Basic earnings per share	1.76	1.84
Diluted earnings per share	1.64	1.72

Segmented information for the fourth quarter is as follows:

Three Months Ended December 31, 2013	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Revenue	149,543	524	7,311	10,070	659	—	(15,914)	152,193
Cost of sales	(91,947)	—	(3,452)	(4,374)	(866)	(120)	13,370	(87,389)
Gross profit	57,596	524	3,859	5,696	(207)	(120)	(2,544)	64,804
General and administrative expense	(2,423)	(652)	(2,191)	(453)	(468)	(3,387)	1,850	(7,724)
Fair value adjustment on investment properties	—	12,346	(3,821)	9,488	—	—	3,083	21,096
Adjustments related to REIT units	—	—	—	—	—	—	(6,247)	(6,247)
Gain on sale of assets	—	—	—	—	26	1	(1)	26
Interest income	527	2	7	15	—	68	—	619
	55,700	12,220	(2,146)	14,746	(649)	(3,438)	(3,859)	72,574
Interest expense								(4,533)
Income before income taxes								68,041
Income tax expense								(14,132)
Net income for the period								53,909

Three Months Ended December 31, 2012	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Revenue	127,210	780	4,413	10,566	575	—	(1,582)	141,962
Cost of sales	(79,896)	—	(2,819)	(4,546)	(987)	(87)	681	(87,654)
Gross profit	47,314	780	1,594	6,020	(412)	(87)	(901)	54,308
General and administrative expense	(2,445)	(452)	(63)	(104)	(241)	(4,409)	382	(7,332)
Fair value adjustment on investment properties	—	4,276	14,041	11,371	—	—	114	29,802
Adjustments related to REIT units	—	—	—	—	—	—	—	—
Gain on sale of assets	—	—	—	—	2	—	—	2
Interest income	642	—	13	6	—	6	—	667
	45,511	4,604	15,585	17,293	(651)	(4,490)	(405)	77,447
Interest expense								(4,385)
Income before income taxes								73,062
Income tax expense								(17,594)
Net income for the period								55,468

Outlook

The majority of our assets are in Alberta, with a growing inventory of residential units in the US. We believe the economic indicators in these regions continue to provide a strong outlook for our business over the next several years.

Alberta fundamentals remain strong, with low unemployment rates, net in-migration, higher than the national average weekly earnings, strong capital investment, stabilizing inflation and relative stability in the price of oil. These fundamentals create a favorable environment for both residential and commercial property development.

The US continues its slow economic recovery with lingering uncertainty and volatility, limited access to capital and continued distress in the speculative and investment real estate markets. These fundamentals create an environment that favors rentals over home ownership.

Our key differentiators are our financial strength, proven track record and the experience and integrity of our personnel.

Formation of Melcor REIT

On May 1, 2013, we completed an initial public offering (IPO) of trust units of the REIT. The REIT initially issued 8,300,000 trust units at a price of \$10.00 per unit for total gross proceeds of \$83.00 million. The total proceeds received by the REIT, net of underwriters' fee was \$78.02 million.

On May 1, 2013, Melcor sold interests in a portfolio of 27 income-producing properties located in Western Canada to a subsidiary of the REIT (the "Partnership"). These Initial Properties are primarily retail, office and industrial assets with a total carrying value of \$397.90 million.

As partial consideration for the Initial Properties, Melcor received Class B LP Units of the Partnership and special voting units of the REIT. On May 10, 2013, the underwriters exercised their over-allotment option to purchase an additional 830,000 trust units from Melcor, at a price of \$10.00 per unit, for gross proceeds of \$8.30 million. The over-allotment was fulfilled through conversion of the Class B LP Units owned by Melcor into trust units. Following closing of the over-allotment option, Melcor, through an affiliate, holds an approximate 51.1% effective interest in the REIT through ownership of all remaining 9,530,798 Class B LP Units of the Partnership and a corresponding number of special voting units of the REIT. The Class B LP Units are economically equivalent to, and exchangeable for, trust units.

The REIT has assumed mortgages on certain properties totaling \$92.36 million at April 30, 2013. Deferred financing fees of \$0.10 million are netted against the assumed mortgages. Melcor retained the debt on certain properties (the Retained Debt) with a fair value of \$96.51 million at April 30, 2013. In consideration of the Retained Debt, Melcor received Class C LP Units of the Partnership. These units will receive priority distributions in an amount expected to be sufficient to cover the interest and principal on the Retained Debt, which Melcor will remain responsible for.

As we retain control over the REIT, we consolidate the REIT and record 100% of its revenues, expenses, assets and liabilities. We reflect the public's 48.9% interest in the REIT as a financial liability.

The effect of the transaction on the REIT, Melcor, and consolidated is illustrated in the following summary pro-forma consolidation.

(\$000s)	Melcor	REIT	Consolidated
<i>Initial Public Offering and Over-allotment</i>			
Initial Public Offering, net of transaction costs	73,062	—	73,062
Exercise of over-allotment, net of transaction costs	—	7,823	7,823
<i>Sale of Initial Properties</i>			
Sale of Investment Properties	(397,896)	397,896	—
Sale of working capital, net	2,680	(2,680)	—
Mortgages on properties assumed by the REIT, net	92,263	(92,263)	—
<i>Consideration received for Sale of Initial Properties</i>			
Issuance of Class B LP Units	103,608	(103,608)	—
Issuance of Class C LP Units	96,506	(96,506)	—
Net contribution by Melcor	36,823	(36,823)	—
Net change in cash	7,046	73,839	80,885

The \$80.89 million consolidated change reflects the net cash received from the IPO and over-allotment and the cost of the REIT units on May 1, 2013. The following table reconciles the allocation of cash received between Melcor and the REIT:

(\$000s)	
Gross IPO and over-allotment proceeds	91,300
Transaction costs	(10,415)
Net Proceeds	80,885
Over-allotment	7,823
Sale of Initial Properties	66,016
Consideration paid to Melcor	73,839
Consideration retained by the REIT	7,046

Net assets sold

Melcor and our subsidiaries transferred:

- legal and beneficial ownership of the Initial Properties which are 100% owned;
- our beneficial ownership interest in the Initial Properties which are owned with joint venture partners; and
- those shares owned by Melcor of the nominee companies which hold legal ownership of the Initial Properties which are owned with joint venture partners; and
- mortgages (excluding Retained Debt) on certain properties.

Cash balances, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, and other payables, which collectively comprise working capital, were transferred to the REIT on closing.

Melcor indemnified the REIT and the Partnership for any breach arising under the Acquisition Agreement and the Indemnity Agreement to a maximum liability of the net proceeds of the IPO. Melcor also indemnified the REIT and the Partnership related to environmental matters on certain properties for a specified period.

Melcor is indemnified by the Partnership with respect to obligations to pay the assumed mortgages; however, will continue to be liable as a guarantor.

The sale of the Initial Properties and structure of the Class C LP Units provides Melcor the ability to defer certain Canadian income tax consequences.

Consideration received

Class B LP Units - On May 1, 2013 the REIT issued 10,360,798 Class B LP Units to Melcor as partial consideration for the initial properties. These units have an equivalent number of special voting units and represent an approximate 55.5% effective interest in the REIT. Special voting units have no economic entitlement in the REIT or in the distribution of assets of the REIT but entitle the holder to one vote per unit at any meeting of the Unitholders. In addition, the Declaration of Trust grants Melcor the right to nominate certain Trustees of the REIT based on our direct and indirect ownership interest in the REIT.

On May 10, 2013 we exchanged 830,000 Class B LP Units for trust units to fulfill the over-allotment option; reducing our effective interest in the REIT to 51.1%.

We receive distributions on our Class B LP Units at an amount equivalent to those declared and paid on trust units. Distributions on Class B LP Units are of equal priority to trust units.

Class C LP Units - We received 9,454,411 Class C LP Units with a carrying value of \$94.54 million and a fair value of \$96.51 million in consideration of the Retained Debt. We remain responsible for the interest and principal payments on the Retained Debt. The Partnership makes distributions on the Class C LP Units in an amount expected to be sufficient to make these payments. Distributions on the Class C LP Units take priority over distributions to holders of trust units and Class B LP Units. The Retained Debt is secured by a charge on certain Initial Properties and a guarantee by the Partnership.

Cash - The purchase price received was reduced by approximately \$8.10 million in order to fund an interest rate subsidy, capital expenditure subsidy, tenant incentive and lease cost subsidy, and environmental expenditure subsidy. In addition, the purchase price otherwise payable by the REIT for the Initial Properties was adjusted on closing based on the actual working capital position at closing.

Net contribution by Melcor - The difference between the net assets sold and the consideration received is recognized as an additional contribution by Melcor, for which no form of compensation was received. This amount is presented as contributed surplus in the statements of Melcor REIT; however, does not represent an ownership interest or entitlement to the net assets or earnings of the REIT.

Arrangements between Melcor and the REIT

Melcor will continue to manage, administer and operate the REIT and the Initial Properties under an asset management agreement and property management agreement. The following summarizes services to be provided to the REIT and the compensation to be paid to Melcor.

Asset management agreement - we receive a quarterly management fee which is comprised of the following:

- a base annual management fee calculated and payable on a quarterly basis, equal to 0.25% of the REIT's gross book value;
- a capital expenditures fee equal to 5% of all hard construction costs incurred on capital projects in excess of \$0.10 million;
- an acquisition fee equal to 0.50% - 1.00% of the purchase price;
- a financing fee equal to 0.25% of the debt and equity of all financing transactions completed for the REIT to a maximum of actual expenses incurred by Melcor.

Property management agreement - we receive a monthly fee which is comprised of the following:

- a base fee of 3% of gross property revenue;
- a leasing fee equal to 5% of aggregate base rent for new leases for the first 5 years and 2.5% thereafter, and 2.5% of aggregate base rent for lease renewals and expansions for the first 5 years.

Capital project funding - as part of the transaction, we agreed to pay approximately \$1.40 million in costs associated with certain maintenance and capital projects at nine of the Initial Properties.

IPO transaction costs - Costs incurred by Melcor in relation to the REIT's IPO were reimbursed by the REIT to the extent that these costs were eligible for capitalization against the unit issuance.

Upon consolidation we eliminate Class B LP Units, Class C LP Units, distributions on Class B LP Units, distributions on Class C Units, and fees earned under the asset management agreement and property management agreement.

Business Environment & Risks

A discussion of credit risk, liquidity risk and market risk can be found in note 28 to the consolidated financial statements.

The following is an overview of certain risks factors that could adversely impact our financial condition, results of operations, and the value of our common shares.

General Risks

We are exposed to the micro- and macro-economic conditions that affect the markets in which we operate and own assets. In general, a decline in economic conditions will result in downward pressure on Melcor's margins and asset values as a result of lower demand for the services and products we offer. Specifically, general inflation and interest rate fluctuations; population growth and migration; job creation and employment patterns; consumer confidence; government policies, regulations and taxation; and availability of credit and financing could pose a threat to our ongoing business operations.

International economic forces and conditions will impact our business as our investment into the US grows. We adapt our business plan to reflect current conditions and we believe that we have sufficient resources to carry our operations through uncertain times.

We participate in joint arrangements under the normal course of business that may have an effect on certain assets and businesses. These joint arrangements may involve risks that would not otherwise be present if the third parties were not involved, including the possibility that the partners have different economic or business interests or goals. Also, within these arrangements, Melcor may not have sole control of major decisions relating to these assets and businesses, such as: decisions relating to the sale of the assets and businesses; timing and amount of distributions of cash from such entities to Melcor and its joint arrangement partners; and capital expenditures.

Industry Risk

Real estate investments are generally subject to varying levels of risk. These risks include changes to general economic conditions, government and environmental regulations, local supply/demand, and competition from other real estate companies. Real estate assets are relatively illiquid in down markets, particularly raw land. As a result, Melcor may not be able to quickly rebalance its portfolio in response to changing economic or investment conditions.

Financing Risk

We use debt and other forms of leverage in the ordinary course of business to enhance returns to shareholders. Most leveraged debt within the business has recourse only to the assets being financed or margined and has no recourse to Melcor.

We are subject to general risks associated with debt financing. The following risks may adversely affect our financial condition and results of operations:

- Cash flow may be insufficient to meet required payments of principal and interest;
- Payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses;
- We may not be able to refinance indebtedness on our assets at maturity due to company and market factors;
- The fair market value of the our assets;
- Liquidity in the debt markets;
- Financial, competitive, business and other factors, including factors beyond our control;
- Refinancing terms that are not as favourable as the original terms of the related financing.

We attempt to mitigate these risks through the use of long-term debt and diversifying terms and maturity dates.

The terms of various credit agreements and other financing documents require that we comply with a number of financial and other covenants, such as maintaining debt service coverage and leverage ratios, and minimum insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations.

If we are unable to refinance assets/indebtedness on acceptable terms, or at all, we may need to utilize available liquidity, which would reduce our ability to pursue new investment opportunities, or require that we dispose of one or more of our assets on disadvantageous terms. In addition, unfavourable interest rates or other factors at the time of refinancing could increase interest expense.

A large proportion of our capital is invested in physical, long-lived assets, which can be difficult to liquidate, especially if local market conditions are poor. This circumstance could limit our ability to diversify our portfolio of assets promptly in response to changing economic or investment conditions.

We may enter into financing commitments in the normal course of business and, as a result, may be required to fund these, particularly through joint arrangements. If we are unable to fulfill any of these commitments, damages could be pursued against Melcor.

Community Development

The Community Development division is subject to risks influenced by the demand for new housing in the regions where we operate. Demand is primarily impacted by interest rates, growth in employment, migration, new family formations and the size of these families. The division's ability to bring new communities to the market is impacted by municipal regulatory requirements and environmental considerations that affect the planning, subdivision and use of land. The planning and approval process can take up to eighteen months. During this period, the market conditions in general and / or the market for lots in the size and price range in our developments may change dramatically.

The division manages our assets to ensure that we have adequate future land assets to develop by ensuring appropriate approvals are in place and by balancing our inventory of land between long, medium and short-term development horizons against the cost of acquiring and holding these lands.

Property Development

The Property Development division is subject to risks that would normally be associated with the construction industry (such as fluctuating labour, material and consulting costs), combined with the normal leasing risks that the Investment Properties division faces (see below).

The division manages the overall costs of projects, project financing requirements, construction quality, and the suitability of projects in relation to the needs of the tenants who will occupy the completed building. The division is also subject to additional holding costs if an asset is not leased out on a timely basis.

Investment Properties

The Investment Properties division is subject to the market conditions in the geographic areas where we own and manage properties. Where strong market conditions prevail, we are able to achieve higher occupancy rates. Market conditions are influenced by outside factors such as government policies, demographics and employment patterns, the affordability of rental properties, competitive leasing rates and long-term interest and inflation rates.

Recreational Properties

The results of golf course operations may be adversely affected by weather, which limits the number of playing days; competition from other courses; the level of disposable income available to customers to spend on recreational activities; the popularity of the sport; and the cost of providing desirable playing conditions of the course.

While weather is outside our control, we manage our golf courses to provide consistent playing conditions to support the popularity of our courses.

Other Financial Information

Related Party Transactions

Please refer to note 24 to the consolidated financial statements for information pertaining to transactions with related parties.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with IFRS. In applying IFRS, we make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. We have discussed the development, selection and application of our key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee and the Board of Directors.

Our significant accounting policies and accounting estimates are contained in the consolidated financial statements. Please refer to note 3 to the consolidated financial statements for a description of our accounting policies and note 5 and 6 for a discussion of accounting estimates and judgments.

Changes in Accounting Policies and Adoption of IFRS

Refer to note 4 to the consolidated financial statements for information pertaining to accounting pronouncements that will be effective in future years.

Joint Arrangement Activity

We record only our proportionate share of the assets, liabilities, revenue and expenses of our joint arrangements. Refer to note 24 to the consolidated financial statements for a listing of our current joint arrangements. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to Melcor.

(\$000s)	Joint arrangement activity at 100%		Joint arrangement activity at Melcor's ownership %*	
	2013	2012	2013	2012
Revenue	224,797	175,109	115,716	94,387
Earnings	90,616	80,838	40,970	40,298
Assets	1,012,354	782,664	453,444	373,233
Liabilities	386,177	251,153	172,793	125,245

* Ownership in joint arrangements varies from 7%-60%.

Internal Control over Financial Reporting and Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant and material information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely manner. Under the supervision of the CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Canada by National Instrument 52-109 as of December 31, 2013. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures related to Melcor and its subsidiaries and joint arrangements were effective.

Internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management designed these controls based on the criteria set out in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992 Framework). The CEO and CFO have certified that the internal controls over financial reporting were properly designed and effective for the year ended December 31, 2013.

There has been no change to Melcor's disclosure controls and procedures or internal control over financial reporting during the year ended December 31, 2013, that materially affected, or is reasonably likely to materially affect, Melcor's internal control over financial reporting.

Notwithstanding the foregoing, no assurance can be made that Melcor's controls over disclosure and financial reporting and related procedures will detect or prevent all failures of people to disclose material information otherwise required to be set forth in Melcor's reports.

Non-Standard Measures

Throughout this MD&A, we refer to terms that are not specifically defined in the CICA Handbook and do not have any standardized meaning prescribed by IFRS. These non-standard measures may not be comparable to similar measures presented by other companies.

We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results.

The non-standard terms that we refer to in this MD&A are defined below.

Net operating income (NOI): this is a measure of revenue less direct operating expenses.

Same asset NOI: this measure compares the NOI on assets that have been owned for the entire current and comparative year, excluding management fees earned on inter-divisional services and the effects of foreign currency translation.

Funds from operations (FFO): this measure is commonly used to measure the performance of real estate operations.

Adjusted earnings attributable to Melcor's shareholders ("adjusted earnings"): this measure is calculated as earnings adjusted for the following: adjustments related to REIT units; management fees earned from the REIT; and unitholders' portion of earnings of the REIT.

Adjusted EPS and Adjusted diluted EPS: this measure is calculated as adjusted earnings attributable to Melcor's shareholders per basic and diluted weighted average shares outstanding.

Calculations

We use the following calculations in measuring our performance.

Book value per share = (shareholders' equity) / (number of common shares outstanding)

Gross margin (%) = (NOI) / (revenue) This measure indicates the relative efficiency with which we earn revenue

Net margin (%) = (net income) / (revenue) This measure indicates the relative efficiency with which we earn income

Debt to equity ratio = (total debt) / (total equity)

Net operating income (NOI) = (net income) +/- (fair value adjustments on investment properties) + (general and administrative expenses) – (interest income) + (amortization of operating lease incentives) +/- (straight-line rent adjustment). A reconciliation of NOI to the most comparable IFRS measure, net income, is as follows:

	Investment Properties		REIT	
	2013	2012	2013	2012
(\$000s)				
Divisional income	8,888	25,613	38,687	50,879
Fair value adjustment on investment properties	351	(18,637)	(16,953)	(30,163)
General and administrative expenses	3,608	76	1,722	1,369
Interest income	(45)	(32)	(61)	(23)
Amortization of operating lease incentives	1,586	661	2,297	2,447
Straight-line rent adjustment	(468)	(231)	(397)	(449)
Divisional NOI	13,920	7,450	25,295	24,060

Funds from operations (FFO) = (net income) + (amortization of operating lease incentives) +/- (fair value adjustment on investment properties) + (depreciation of property and equipment) + (stock based compensation expense) + (non-cash interest) +/- (gain (loss) on sale of asset) + (deferred income taxes) +/- (fair value adjustment on REIT Units). A reconciliation of FFO to the most comparable IFRS measure, net income, is as follows:

	Consolidated	
	2013	2012
(\$000s)		
Net income	98,623	105,019
Amortization of operating lease incentives	3,883	3,108
Fair value adjustment on investment properties	(47,571)	(59,103)
Depreciation on property and equipment	1,447	1,238
Stock based compensation expense	643	1,755
Non-cash interest	518	887
Gain (loss) on sale of asset	(35)	(2)
Deferred income taxes	(3,301)	14,031
Fair value adjustment on REIT units	3,652	—
FFO	57,859	66,933

	Investment Properties		REIT	
	2013	2012	2013	2012
(\$000s)				
Divisional income	8,888	25,613	38,687	50,879
Fair value adjustment on investment properties	351	(18,637)	(16,953)	(30,163)
Amortization of operating lease incentives	1,586	661	2,297	2,447
Divisional FFO	10,825	7,637	24,031	23,163

FFO per share = (FFO) / (basic weighted average common shares outstanding)

Adjusted earnings attributable to Melcor's shareholders (adjusted earnings): (net income) +/- (adjustments related to REIT units) + (management fees earned from the REIT) +/- (unitholders' portion of earnings of the REIT)

Adjusted basic EPS and Adjusted diluted EPS: (adjusted earnings attributable to Melcor's shareholders) / (basic/diluted weighted average number of common shares outstanding)

Management's Responsibility for Financial Reporting

The consolidated financial statements, management's discussion and analysis (MD&A) and all financial information contained in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, have incorporated estimates based on the best judgment of management.

To discharge its responsibility for financial reporting, management is responsible for implementing and maintaining adequate internal controls to provide reasonable assurance that the Company's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis.

The consolidated financial statements have been examined by PricewaterhouseCoopers LLP, the Company's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditor's report outlines the scope of their audit examination and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee is comprised of three financially literate and independent directors. This committee meets regularly with management and the external auditors to review significant accounting, financial reporting and internal control matters. PricewaterhouseCoopers LLP have unrestricted access to the Audit Committee with and without the presence of management. The Audit Committee reviews the financial statements, the auditor's report, and MD&A and submits its report to the Board of Directors for formal approval. The Audit Committee is also responsible for reviewing and recommending the annual appointment of external auditors and approving the external audit plan. These consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors for inclusion in the Annual Report based on the review and recommendation of the Audit Committee.



Brian Baker
President & Chief Executive Officer

Edmonton, Alberta
March 12, 2014



Jonathan Chia CA
Chief Financial Officer

Auditors' Report to Shareholders

We have audited the accompanying consolidated financial statements of Melcor Developments Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Melcor Developments Ltd. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

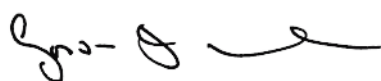
PricewaterhouseCoopers LLP
Edmonton, Alberta
March 12, 2014

Consolidated Statement of Income

For the years ended December 31 (\$000s)	2013	2012
Revenue (note 21)	303,742	274,930
Cost of sales (note 21)	(168,914)	(162,129)
Gross profit	134,828	112,801
General and administrative expense (note 21)	(30,304)	(22,786)
Fair value adjustment on investment properties (note 10, 21 and 29)	47,571	59,103
Adjustments related to REIT units (note 26)	(18,176)	—
Gain on sale of assets	35	2
Operating earnings	133,954	149,120
Interest income	2,309	2,318
Interest expense (note 20 and 23)	(16,419)	(17,048)
Net finance costs	(14,110)	(14,730)
Income before income taxes	119,844	134,390
Income tax expense (note 22)	(21,221)	(29,371)
Net income for the year	98,623	105,019
Net income (loss) attributable to:		
Melcor's shareholders	98,628	105,034
Non-controlling interest (NCI)	(5)	(15)
Net income for the year	98,623	105,019
Earnings per share attributable to Melcor's shareholders (note 17):		
Basic earnings per share	3.24	3.49
Diluted earnings per share	3.05	3.29

See accompanying notes to the consolidated financial statements

On behalf of Melcor's Board of Directors



Gordon J. Clanachan, FCA
Audit Committee Chair



Timothy C. Melton
Executive Chairman

Consolidated Statement of Comprehensive Income

For the years ended December 31 (\$000s)	2013	2012
Net income for the year	98,623	105,019
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences (note 18)	5,735	(2,393)
Comprehensive income	104,358	102,626
Comprehensive income (loss) attributable to:		
Melcor's shareholders	104,138	102,857
Non-controlling interest (NCI)	220	(231)
Comprehensive income	104,358	102,626

See accompanying notes to the consolidated financial statement

Consolidated Statement of Financial Position

(\$000s)	2013	2012
ASSETS		
Cash and cash equivalents	28,973	11,628
Restricted cash (note 3d)	5,969	—
Accounts receivable	21,542	21,966
Income taxes recoverable	—	1,069
Agreements receivable (note 8)	177,961	173,950
Land inventory (note 9)	658,590	603,576
Investment properties (note 10 and 29)	784,510	599,228
Property and equipment (note 11)	15,892	15,269
Other assets (note 12)	34,496	20,670
	1,727,933	1,447,356
LIABILITIES		
Accounts payable and accrued liabilities (note 13)	65,256	57,728
Income taxes payable	6,612	—
Provision for land development costs (note 14)	154,909	138,551
General debt (note 15)	574,332	490,532
Deferred income tax liability (note 22)	62,641	65,788
REIT units (note 26 and 29)	94,952	—
	958,702	752,599
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 16a)	23,405	15,580
Contributed surplus	3,357	4,460
Convertible debenture	639	639
Accumulated other comprehensive income (AOCI) (note 18)	3,380	(2,130)
Retained earnings	738,450	672,283
	769,231	690,832
Non-controlling interest (NCI)	—	3,925
	769,231	694,757
	1,727,933	1,447,356

See accompanying notes to the consolidated financial statement

Condensed Consolidated Statement of Changes in Equity

(\$000s)	Equity attributable to Melcor's shareholders					NCI	Total equity
	Share capital	Contributed surplus	Convertible debenture	AOCI	Retained earnings		
Balance at January 1, 2013	15,580	4,460	639	(2,130)	672,283	3,925	694,757
Net income (loss) for the year	—	—	—	—	98,628	(5)	98,623
Cumulative translation adjustment (note 18)	—	—	—	5,510	—	225	5,735
Contributions from non-controlling interest	—	—	—	—	—	324	324
Purchase of non-controlling interest in subsidiary (note 3b)	—	—	—	—	(1,790)	(4,469)	(6,259)
Transactions with equity holders							
Dividends	—	—	—	—	(30,671)	—	(30,671)
Employee share options							
Value of services recognized	—	643	—	—	—	—	643
Share issuance	7,825	(1,746)	—	—	—	—	6,079
Balance at December 31, 2013	23,405	3,357	639	3,380	738,450	—	769,231

(\$000s)	Equity attributable to Melcor's shareholders					NCI	Total equity
	Share capital	Contributed surplus	Convertible debenture	AOCI	Retained earnings		
Balance at January 1, 2012	14,446	2,810	639	47	580,821	3,981	602,744
Net income (loss) for the year	—	—	—	—	105,034	(15)	105,019
Cumulative translation adjustment (note 18)	—	—	—	(2,177)	—	(216)	(2,393)
Contributions from non-controlling interest	—	—	—	—	—	175	175
Transactions with equity holders							
Dividends	—	—	—	—	(13,572)	—	(13,572)
Employee share options							
Value of services recognized	—	1,755	—	—	—	—	1,755
Share issuance	1,134	(105)	—	—	—	—	1,029
Balance at December 31, 2012	15,580	4,460	639	(2,130)	672,283	3,925	694,757

See accompanying notes to the consolidated financial statement

Condensed Consolidated Statement of Cash Flows

For the years ended December 31 (\$000s)	2013	2012
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	98,623	105,019
Non cash items:		
Amortization of tenant incentives (note 12)	3,883	3,108
Depreciation of property and equipment (note 11)	1,447	1,238
Stock based compensation expense	643	1,755
Non cash interest	518	887
Straight-line rent adjustment	(865)	(680)
Fair value adjustment on investment properties (note 10, 21 and 29)	(47,571)	(59,103)
Fair value adjustment on REIT units (note 26 and 29)	3,652	—
Gain on sale of asset	(35)	(2)
Deferred income taxes (note 22)	(3,301)	14,031
	56,994	66,253
Agreements receivable	(4,011)	(34,110)
Development activities (note 3u)	(3,485)	(6,991)
Operating assets and liabilities (note 3u)	15,153	9,937
	64,651	35,089
INVESTING ACTIVITIES		
Purchase of land inventory (note 9)	(18,123)	(7,633)
Payment of tenant incentives (note 12)	(9,982)	(5,735)
Purchase of investment properties	(58,881)	—
Additions to investment properties (note 10)	(63,246)	(49,341)
Purchase of property and equipment (note 11)	(2,072)	(3,579)
Proceeds from disposal of asset	37	14
Change in restricted cash	(3,141)	—
	(155,408)	(66,274)
FINANCING ACTIVITIES		
Proceeds from issuance of trust units (note 7)	91,300	—
Revolving credit facilities	11,449	2,138
Proceeds from general debt	152,636	82,367
Repayment of general debt	(114,131)	(39,961)
Change in restricted cash	(2,828)	—
Contributions from non-controlling interest	324	175
Purchase of non-controlling interest in subsidiary	(6,259)	—
Dividends paid	(30,671)	(13,572)
Share capital issued	6,079	1,029
	107,899	32,176
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	203	(66)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	17,345	925
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	11,628	10,703
CASH AND CASH EQUIVALENTS, END OF THE YEAR	28,973	11,628

See accompanying notes to the consolidated financial statement

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

1. Description of the Business

We are a real estate development company with community development, property development, investment property and recreational property divisions. We develop, manage and own mixed-use residential communities, business and industrial parks, office buildings, retail commercial centers, and golf courses.

The parent company is Melcor Developments Ltd. ("Melcor" or "we") and is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD". As at December 31, 2013 Melton Holdings Ltd. holds approximately 48% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling party of Melcor.

On May 1, 2013, we completed an initial public offering (the "Offering") of trust units of Melcor REIT (the "REIT" or the "Trust"). On closing of the Offering, we sold interests in a portfolio of 27 income-producing properties to the REIT. We retain a controlling 51.1% interest in the REIT and continue to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. We reflect the public's 48.9% interest in the REIT as a liability in our financial statements (see note 7). Trust units of Melcor REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

2. Basis of Presentation

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as set out in Part I of the Handbook of the Canadian Institute of Chartered Accountants ("CICA").

Our consolidated financial statements have been prepared in accordance with IFRS. The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 12, 2014, the date the Board of Directors approved the statements.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

a. Basis of measurement

Our consolidated financial statements have been prepared under the historical cost convention, except for investment properties and REIT units which are measured at fair value.

We prepare our financial statements in conformity with IFRS which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions change. We believe that the underlying assumptions are appropriate. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in notes 6 and 5 respectively.

b. Basis of consolidation

These consolidated financial statements include:

- I. The accounts of Melcor Developments Ltd. and its wholly-owned subsidiary companies:
 - Melcor Developments Arizona, Inc.
 - Melcor Lakeside Inc.
 - Stanley Investments Inc.
 - Melcor Holdings GP Inc.
 - Melcor Holdings Limited Partnership
- II. The accounts of Melcor REIT Limited Partnership (51.1% owned by Melcor Developments Ltd). The remaining 48.9% publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to notes 7 and 26 for details related to our interest in the REIT.
- III. The accounts of Melcor T/C Aurora, LLC (100% owned by Melcor Developments Arizona, Inc). During 2013, Melcor Developments Arizona, Inc. purchased the 25% non-controlling interest equity interest in the entity which was previously held by outside parties.
- IV. Investments in 28 joint arrangements (2012 – 25) with interests ranging from 7% to 60%. These arrangements are undivided interests in the assets, liabilities, revenue and expenses and we record our proportionate share in accordance with the agreements. Refer to note 24 for details on joint arrangements.

All intercompany transactions and balances are eliminated on consolidation.

c. Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term deposits with maturity dates of less than three months from the date they were acquired.

d. Restricted cash

Restricted cash can only be used for specified purposes. Our restricted cash represents subsidies funded by Melcor as part of the Offering to reduce the effective interest rate on debt assumed by the REIT, and to fund capital expenditures, environmental expenditures, tenant incentives and lease costs in the REIT. As at December 31, 2013 we had a restricted cash balance of \$5,969.

e. Land inventory

Land inventory is recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less costs to complete the development and selling costs. Cost includes all costs incurred to purchase development land, capitalized carrying costs related to holding the land under development, and development costs to build infrastructure. The estimated unexpended portion of costs to complete building the infrastructure, which are classified as "provision for land development costs" (refer to 3j), are recorded as a liability upon the approval of the development plan with the municipality.

The cost of land and carrying costs is allocated to each phase of development based on a prorated acreage of the total land parcel at the time a plan is registered with a municipality. The cost of sale of a lot is allocated on the basis of the estimated total cost of the project prorated by the anticipated selling price of the lot over the anticipated selling price of the entire project at the date of plan registration.

Where we acquire land subject to deferred payments greater than one year, it is initially recognized at the fair value of the future estimated contractual obligations.

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

f. Investment properties

Investment properties include commercial, industrial, and residential properties, and a manufactured home community held for the long term to earn rental income or for capital appreciation, or both. It also includes properties under development for future use as investment properties.

Acquired investment properties are measured initially at cost, including related transaction costs associated with the acquisition. Costs capitalized to properties under development include direct development and construction costs, borrowing costs, and property taxes.

After initial recognition, investment properties are recorded at their fair value, which is determined by discounting projected future cash flows based on property specific capitalization rates. Valuations are performed as of the period end date by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases based on current market conditions. The value also reflects any cash outflows that could be expected in respect of the property. Changes in fair value are recognized in the consolidated statement of income.

Fair value measurement of an investment property under development is only applied if the fair value is considered to be reliably measurable. In rare circumstances, investment property under development is carried at cost until its fair value becomes reliably measurable. It may sometimes be difficult to determine reliably the fair value of an investment property under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers the following factors, among others:

- the provisions of the construction contract;
- the stage of completion;
- whether the project or property is standard (typical for the market) or non-standard;
- the level of reliability of cash inflows after completion;
- the development risk specific to the property;
- past experience with similar construction; and
- status of construction permits.

Subsequent expenditures are capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to Melcor and the cost of the item can be measured reliably. All repairs and maintenance costs are expensed when incurred.

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties.

g. Property and equipment

Property and equipment is initially measured at cost, which includes expenditures that are directly attributable to the acquisition of the asset. Subsequent to its initial recognition, property and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses.

The major categories of property and equipment are depreciated using the declining balance method of depreciation as follows:

Buildings	4%
Golf course greens and tees	6%
Golf course equipment	20-30%
Corporate assets	10-30%

Property and equipment is tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of an asset's fair value less costs to sell and the discounted expected future cash flows of the relevant asset or group of assets. An impairment loss is recognized for the amount by which the asset or group of assets' carrying amount exceeds its recoverable amount.

We evaluate impairment losses for potential reversals when events or circumstances warrant such consideration.

h. Other assets

Other assets include prepaid expenses, inventory, deposits, straight-line rent adjustments and tenant incentives incurred in respect of new or renewed leases. Tenant incentives are amortized on a straight-line basis over the lease term and are recorded as a reduction of revenue.

i. Borrowing costs

General and specific borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets. Borrowing costs are capitalized while acquisition or construction is actively underway and ceases once the asset is substantially complete, or suspended if the development of the asset is suspended. The amount of borrowing cost capitalized is determined by applying a weighted average cost of borrowings to qualifying assets. Qualifying assets include our land under development and investment properties under development assets. All other borrowing costs are recognized as interest expense in the consolidated statement of income in the period in which they are incurred.

j. Provision for land development costs

We recognize a provision for land development related to the construction, installation and servicing of municipal improvements related to subdivisions under development once we have an approved development agreement with the municipality, as this is the point in time when an obligation arises. The provision is recognized as a liability with an equal amount capitalized to land inventory. Provisions for land development are measured at management's best estimate of the expenditure required to complete the approved development plan at the end of the reporting period. Adjustments are made to the liability with a corresponding adjustment to cost of sales as actual costs are incurred. Provisions are discounted, where material, by discounting the expected future cash flows at a rate that reflects risk specific to the provision and the time value of money.

k. Provision for decommissioning obligations

Decommissioning obligations are measured at the present value of the expected cost to settle the obligation. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows as well as any changes in the discount rate. Increases or decreases in the provision are recognized as an expense or income. Actual costs incurred upon settlement of the decommissioning obligation are recorded against the provision.

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

l. Recognition of revenue

Revenue is generated from the sale of developed land, rental of investment properties and the operation of golf courses.

Revenue from the sale of developed land is recognized when a minimum of 15% of the sale price has been received, the sale is unconditional and possession has been granted.

Revenue from rental of investment properties includes base rents, recoveries of operating expenses including property taxes, parking revenue and incidental income. Tenant leases are accounted for as operating leases given that we have retained substantially all of the risks and benefits of the ownership of our investment properties. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in other assets, is recorded for the difference between the rental revenue recognized and the contractual amount received. When incentives are provided to our tenants, the cost of these incentives is recognized over the lease term, on a straight-line basis, as a reduction to rental revenue. Recoveries from tenants are recognized as revenues in the period in which the corresponding costs are incurred.

Revenue from golf courses is recognized in the accounting period in which the services are provided.

m. Income taxes

Current income tax is the expected amount of tax payable to the taxation authorities, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the liability method based on the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are the result of recognizing the benefit associated with deductible temporary differences, unused tax credits, and tax loss carryforwards. The carrying amount of the deferred tax liabilities and assets is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the reporting period date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

We presume that investment property measured at fair value will be recovered entirely through sale. Measurement of the related deferred taxes reflects the tax consequences of recovering the carrying amount through sale.

The REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) ("Tax Act") and as a real estate investment trust eligible for the 'REIT Exception', as defined in the rules applicable to Specified Investment Flow-Through ("SIFT") trusts and partnerships in the Tax Act. We expect to allocate all of the REIT's taxable income and to continue to qualify for the REIT Exception. As the REIT is a flow-through entity, we record current and deferred taxes on our 51.1% interest in the REIT.

n. Stock based compensation

We use the Black-Scholes option pricing model to fair value stock options granted to our employees. The estimated fair value of options on the

date of grant is recognized as compensation expense on a graded vesting basis over the period in which the employee services are rendered. We estimate the number of expected forfeitures at the grant date and make adjustments for actual forfeitures as they occur.

o. Earnings per share

Basic earnings per share ("EPS") is calculated by dividing our net income for the period by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants, and similar instruments is computed using the treasury stock method. Our potentially dilutive common shares comprise stock options granted to employees as well as the dilutive impact of the convertible debentures issued and outstanding.

p. Foreign currency

The consolidated financial statements are presented in Canadian dollars, which is the functional currency for our Canadian operations and our presentation currency.

Assets and liabilities of our US operations, for which the functional currency is the US dollar, are translated into our presentation currency at the exchange rates in effect at the reporting period end date and revenues and expenses are translated at average exchange rates for the period. Gains or losses on translation of foreign operations are recognized as other comprehensive income or loss.

q. Financial instruments

At initial recognition, we classify our financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to third parties and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if necessary. Loans and receivables are comprised of accounts receivable, agreements receivable, restricted cash and cash and cash equivalents.

At each reporting date, we assess whether there is objective evidence that a financial asset is impaired, considering delinquencies in payments and financial difficulty of the debtor. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of any losses is recognized in income.

Financial liabilities

Other liabilities are initially recognized at fair value, net of any transaction costs incurred. Subsequently, other liabilities are measured at amortized cost using the effective interest method.

We record our financial liabilities at fair value on initial recognition. Subsequently, "other liabilities" are measured at amortized cost using the effective interest rate method and financial liabilities designated as

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

fair value through profit or loss ("FVTPL") are remeasured at fair value with changes in their fair value recorded through income. Other liabilities include accounts payable and accrued liabilities, and general debt. REIT Units are classified as FVTPL.

r. Financial instruments: non-controlling interest in Melcor REIT

We hold an effective 51.1% interest in the REIT through ownership of all Class B LP Units. A non-controlling interest, REIT units, has been recognized on the statement of financial position to reflect the 48.9% interest held by the public through ownership of all trust units. The trust units are redeemable at the option of the holder and, therefore, are considered a puttable instrument in accordance with International Accounting Standard ("IAS") 32, Financial Instruments – Presentation ("IAS 32"). Certain conditions under IAS 32 allow the REIT to present the trust units as equity; however, on consolidation we do not meet these conditions and therefore must present the non-controlling interest as a financial liability.

As a financial liability designated as fair value through profit or loss ("FVTPL") we recorded the REIT units at fair value on initial recognition. Subsequent to initial recognition we remeasure the liability each period at fair value based upon the trust unit's closing trading price. Fair value gains and losses are recorded through income in the period they are incurred.

Distributions on trust units are recognized in the period in which they are approved and are recorded as an expense in income. For presentation purposes we aggregate the distribution expense with the fair value adjustment on the trust units under the caption 'adjustments related to REIT units'.

s. Convertible debenture

Our compound financial instrument is comprised of a convertible debenture that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. We also have the ability to convert the debenture into share capital; however the number of shares to be issued at conversion varies with the market price of the shares.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

t. Operating segments

Our operating segments are strategic business units that offer different products and services, and are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. They are managed separately because each business unit requires different management skills and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

u. Statement of cash flows

Development activities is defined as the net change of land inventory and the provision for land development costs and excludes the purchase of land inventory. Purchase of land inventory is the cost of land net of vendor financing received (see note 9 – Land Inventory).

Operating assets and liabilities is defined as the net change of accounts receivable, deposits, prepaids and inventory, income taxes payable or receivable, and accounts payable and accrued liabilities. Excluded from operating assets and liabilities are investment property additions that are unpaid and included in accounts payable at year end.

4. Accounting Standard Changes

New and amended standards adopted

We have adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

- a. **IFRS 10, Consolidated Financial Statements**, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

We assessed our consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of our subsidiaries and investees.

- b. **IFRS 11, Joint Arrangements**, supersedes IAS 31, Interests in Joint Ventures, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, Investments in Associates and Joint Ventures (amended in 2011). The amendments to IAS 28 did not affect our accounting policies.

We have concluded that the adoption of IFRS 11 did not result in any changes in the accounting for our joint arrangements.

- c. **IFRS 12, Disclosures of Interest in Other Entities**, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosure and also introduces significant additional disclosures that address the nature of, and risks associated with an entity's interest in other entities.

We have amended our disclosures related to our joint arrangements and interest in Melcor REIT as detailed in notes 24 and 26 respectively, to comply with the requirements as set forth in IFRS 12.

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

- d. **IFRS 13, Fair Value Measurement**, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. We adopted IFRS 13 on January 1, 2013 on a prospective basis.

The adoption of IFRS 13 did not require any adjustments to the valuation techniques we used to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

- e. **IAS 1, Presentation of Financial Statements**, has been amended effective January 1, 2013 and requires other comprehensive income items to be grouped by those that will be reclassified subsequently to profit or loss and those that will not be reclassified.

We have amended our presentation of comprehensive income reported in the comparative period to state that it may be reclassified subsequently to net income. This change did not result in any adjustments to comprehensive income.

New standards not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2014 with earlier application permitted.

- a. **IFRIC 21, Levies** is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

This standard is required to be applied for accounting periods beginning on or after January 1, 2014, with earlier adoption permitted.

- b. **IFRS 9, Financial Instruments** addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The standards also results in one impairment method replacing the numerous impairment methods in IAS 39 that arise from the different classification categories.

This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

We are currently assessing the impact of adopting the above standards on our consolidated financial statements.

5. Critical Accounting Estimates

We make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. The estimates and assumptions that are critical to the determination of the amounts reported in the financial statements relate to the following:

a. **Valuation of agreements receivable**

We review our agreements receivable on a regular basis to estimate the risk of default on outstanding balances. Factors such as the related builder's reputation and financial status, the geographic location of the lot, and length of time the agreement receivable has been outstanding are all considered when estimating any impairment on agreements receivable. Refer to note 28a for further information related to credit risk associated with agreements receivable.

b. **Valuation of land inventory**

We review our land inventory on a regular basis to estimate the net realizable value. Factors such as current market conditions and recent sales activity are considered when estimating the net realizable value of land. Refer to note 8 for further information related to land inventory.

c. **Fair value of investment properties**

Investment properties are valued using a discounted cash flow approach, as completed by qualified valuers. Key estimates and assumptions regarding the discounted cash flows include expected occupancy rates and lease payments, as well as expenditures for operating costs and capital expenditures. Refer to note 29 for further information about methods and assumptions used in determining fair value.

d. **Determination of the provision for land development costs**

We estimate the future costs of completing the development of land by preparing internal budgets of costs and reviewing these estimates regularly to determine if adjustments to increase or decrease the provision for land development costs are required. This estimate impacts the measurement of cost of sales reported given that land inventory is sold prior to all costs being committed or known as the nature of land development considers a long-term time frame to complete all municipal requirements.

e. **Income taxes**

Significant estimates are required in determining our provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provision.

The deferred tax assets recognized at December 31, 2013 are supported by future profitability assumptions over a five-year horizon. In the event of changes in these profitability assumptions the tax assets recognized may be adjusted.

f. **Decommissioning obligation**

We have determined that a decommissioning obligation exists for one of our commercial properties. The obligation has been estimated using the present value of expected future cash outflows. These cash flows were estimated based on quotes from third party remediation specialists.

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

Significant estimates were required in determining the expected cash outflows and discount period applied to this provision.

6. Significant Judgments

In the process of applying our accounting policies, we make various judgments, apart from those involving estimations, that can significantly impact the amounts recognized in the financial statements. These include:

a. Capitalization of borrowing costs

IAS 23, Borrowing Costs, requires the capitalization of borrowing costs to qualifying assets. IAS 23 also requires the determination of whether the borrowings are specific to a project or general in calculating the capitalized borrowing costs. Judgment is involved in identifying directly attributable borrowing costs to be included in the carrying value of qualifying assets and in determining if funds borrowed are for general purposes or specifically for the construction of qualifying assets. We consider our centrally managed treasury function with assessment of the circumstances surrounding individual borrowings in making this judgment. Capitalization to land inventory occurs when the land is classified to land under development and ceases when the land is considered developed and ready for sale. Borrowing costs are capitalized to investment properties when under active development. We have determined that all of our borrowings are general as the decision on how to deploy operating and acquisition funds is a centrally managed corporate decision.

b. Transfer of land to investment property

We typically acquire raw land with the intent of developing it in our Community Development division. When development plans are formulated, we may decide that specific land holdings will be developed into investment properties. Once appropriate evidence of a change in use is established, typically in the form of an operating lease for the investment property, the land is transferred to investment properties. At that time, the land is recognized at fair value in accordance with our accounting policy for investment properties, and any gain or loss is reflected in earnings in the period the transfer occurs.

c. Classification of tenant payments

Payments are often made to tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with SIC 15, Operating leases – Incentives.

d. Investment properties

Our accounting policies related to investment properties are described in note 3f. In applying this policy, judgment is required in determining whether certain costs are additions to the carrying amount of an investment property and, for properties under development, identifying the point at which substantial completion of the property occurs.

The fair value of investment properties is determined using valuation techniques. Further details on the judgments and assumptions made are detailed in note 29.

e. Business combinations under common control

Business combinations under common control (“BCUCC”) are business combinations involving entities or businesses under common control, in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination. BCUCC are not within the scope of IFRS 3, Business Combinations.

As the REIT is a newly formed entity and Melcor will retain control over the REIT, the Offering and sale of the Initial Properties is accounted for as a reorganization and recapitalization using the continuity of interests method. Under this method, the REIT records the assets acquired and liabilities assumed at their carrying amounts on the closing date of the transaction. The difference between the consideration given and the aggregate value of the net assets acquired by the REIT is recorded as an adjustment to the REIT’s unitholders’ equity. As we retain control over the REIT, we consolidate the REIT and record revenues, expenses, assets and liabilities of the REIT. We reflect the 48.9% non-controlling interest in the REIT as a financial liability.

f. Compliance with REIT legislation

Under current tax legislation, a real estate investment trust is not liable for Canadian income taxes provided that its taxable income is fully allocated to unitholders during the year. In order for the Trust to continue to be taxed as a mutual fund trust, we need to maintain its REIT status. At inception, the Trust qualifies as a REIT under the specified investment flow-through (“SIFT”) rules in the Canadian Income Tax Act. The Trust’s current and continuing qualification as a REIT depends on the Trust’s ability to meet the various requirements imposed under the SIFT rules, which relate to matters such as its organizational structure and the nature of its assets and revenues. We apply judgment in determining whether it continues to qualify as a REIT under the SIFT rules. Should the Trust cease to qualify, it would be subject to income tax on its earnings.

7. Formation of Melcor REIT

On May 1, 2013, we completed an initial public offering (the “Offering”) of trust units of Melcor Real Estate Investment Trust (the “REIT”). The Offering raised gross proceeds of \$83,000 through the issuance of 8,300,000 trust units at a price of \$10.00 per trust unit. The total proceeds received by the REIT, net of underwriters’ fee, was \$78,020. On closing of the Offering, we sold to a subsidiary of the REIT (the “Partnership”), interest in a portfolio of 27 income-producing properties located in Western Canada, comprised primarily of retail, office and industrial properties (the “Initial Properties”). As part of the acquisition of the Initial Properties, the REIT also assumed mortgages on certain properties totaling \$92,360 at April 30, 2013. Deferred financing fees of \$97 are netted against the assumed mortgages. In addition, the working capital, which is comprised of cash balances, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, and other liabilities were transferred on closing. The purchase price was satisfied with cash consideration of \$66,016 and issuance of 10,360,798 Class B LP Units. We retained the debt on certain properties (the “Retained Debt”) with a fair value of \$96,506 at April 30, 2013. In consideration of the Retained Debt, Melcor received Class C LP Units of the Partnership on which we receive priority distributions.

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

The carrying value of the assets and liabilities sold and the fair value of consideration received is detailed as follows:

Net assets sold:	
Real estate properties	\$397,896
Working capital, net	(2,680)
Mortgages on properties, net	(92,263)
	302,953
Consideration received:	
Class C LP Units	\$96,506
Class B LP Units	103,608
Cash paid out by the REIT	66,016
	266,130
Net contribution by Melcor	\$36,823

On May 10, 2013, the underwriters exercised, in full, their over-allotment option to purchase an additional 830,000 trust units from Melcor, at a price of \$10.00 per unit, for gross proceeds of \$8,300 (\$7,823 net of underwriters' fee). In aggregate, total proceeds from issuance of 9,130,000 trust units was \$91,300.

Following closing of the over-allotment option, we, through an affiliate, hold an effective 51.1% interest in the REIT through ownership of all remaining 9,530,798 Class B LP Units of the Partnership.

We have assessed and concluded that Melcor retains control over the REIT in accordance with IFRS 10, Consolidated Financial Statements, through ownership interest of 51.1%. Business combinations which do not result in a change of control are classified as Business Combinations Under Common Control and not within the scope of IFRS 3, Business Combinations. As described in note 6e, the transaction is accounted for as a reorganization and recapitalization, applying the continuity of interests method, with Melcor consolidating the REIT and recording 100% of its revenues, expenses, assets and liabilities. The remaining 48.9% publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to note 26 for summary financial information of the REIT at December 31, 2013.

Transaction costs directly related to the Offering and acquisition of the Initial Properties were \$10,415. Under IAS 39, Financial instruments: recognition and measurement, transaction costs related to financial liabilities classified as fair value through profit or loss must be expensed in the current period. As we have concluded that the non-controlling interest in the REIT is a financial liability measured at fair value through profit or loss we expensed these costs through current period income as part of adjustments related to REIT units (refer to note 26).

8. Agreements Receivable

Agreements receivable are due within one year except for \$28,773 which are due in 2015 (2012 - \$39,966 due in 2014). Subsequent to the interest adjustment date, which provides an interest relief period to qualifying registered builders; these receivables earn interest at prime plus two percent (5.00% at December 31, 2013 and 2012) and are collateralized by the specific real estate sold. A provision for impairment was not recorded at December 31, 2013 (2012 - \$nil).

9. Land Inventory

As at December 31	2013	2012
Raw land held	286,504	266,487
Land under development	136,317	106,090
Developed land	235,769	230,999
	658,590	603,576

A breakdown of our land purchases are as follows:

As at December 31	2013	2012
Land purchases	545 acres	405 acres
Land cost	47,609	24,137
Vendor financing	29,486	16,504
Net cash to close	18,123	7,633

During the year, certain land inventories were reclassified to investment properties, and fair value gains of \$4,302 (2012 - \$1,826) were recognized in the consolidated financial statements. For the purposes of segment reporting, this is disclosed as revenue of \$18,759 (2012 - \$4,286) and cost of sales of \$14,457 (2012 - \$2,460) for the Community Development division.

The weighted average interest rate used for capitalization of borrowing costs to land under development is 4.82% for the year ended December 31, 2013 (2012 - 4.64%). Borrowing costs capitalized to land inventory during the year were \$4,255 (2012 - \$3,672).

Land inventory expensed to cost of sales during the year was \$136,825 (2012 - \$132,091).

The net realizable value exceeds the carrying cost of all land inventories at December 31, 2013 and 2012, such that no provisions for impairment are required.

10. Investment Properties

Investment properties consists of the following:

	2013	2012
Investment properties	642,275	537,358
Properties under development	142,235	61,870
Total	784,510	599,228

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

The following table summarizes the change in investment properties during the year:

2013	Investment properties	Properties under development	Total
Balance - beginning of year	537,358	61,870	599,228
Additions			
Direct acquisition	49,047	11,466	60,513
Transfer from land inventory	—	7,522	7,522
Direct leasing costs	1,480	—	1,480
Property improvements	4,763	—	4,763
Property development	—	55,973	55,973
Capitalized borrowing costs	—	1,030	1,030
Transfers	26,142	(26,142)	—
Net fair value adjustment on investment properties	17,055	30,516	47,571
Change in provision (note 13)	109	—	109
Foreign currency translation (included in OCI)	6,321	—	6,321
Balance - end of year	642,275	142,235	784,510

2012	Investment properties	Properties under development	Total
Balance - beginning of year	465,787	27,733	493,520
Additions			
Direct acquisition	3,596	7,020	10,616
Transfer from land inventory	—	2,460	2,460
Direct leasing costs	827	—	827
Property improvements	6,521	—	6,521
Property development	—	30,856	30,856
Capitalized borrowing costs	—	789	789
Disposals	(268)	—	(268)
Transfers	17,846	(17,846)	—
Net fair value adjustment on investment properties	48,245	10,858	59,103
Change in provision (note 13)	(3,317)	—	(3,317)
Foreign currency translation (included in OCI)	(1,879)	—	(1,879)
Balance - end of year	537,358	61,870	599,228

On July 31, 2013 we completed the purchase of our joint venture partner's 50% interest in LethCentre Inc. ("LethCentre"), one of our commercial properties, for a total purchase price of \$29,450. The purchase price was partially settled through the assumption of \$11,042 in debt. The net assets recognized on closing included \$20,863 of investment properties and \$4,687 of other assets and working capital.

On September 12, 2013, the REIT completed the purchase of Coast Home Centre ("Coast"), located in Edmonton, Alberta. We acquired 100% interest in the property for total consideration of \$12,338 (including transaction costs).

On November 27, 2013, we purchased 15.57 acres of developed land from one of our joint ventures for a total purchase price of \$11,466.

On December 24, 2013, the REIT acquired Liberty Crossing ("Liberty"), located in Red Deer, Alberta. We acquired 100% interest in the property for total consideration of \$13,256 (including transaction costs).

During the year we also purchased 29 condo units in Arizona at a cost of \$2,590 (US\$2,515).

These purchases have been accounted for as asset purchases, in accordance with our policy, as detailed in note 3f.

In accordance with our policy, as detailed in note 3f, we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized NOI, while development activity on properties under development and leasing activity drive fair value adjustments on properties under development. Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 29.

Properties transferred from property under development to commercial properties during the year totaled \$26,142 (2012 - \$17,846).

Presented separately from investment properties is \$27,973 (2012 - \$16,627) in tenant incentives and \$1,545 (2012 -\$680) in straight-line rent adjustments (included in note 12). The fair value of investment properties has been reduced by these amounts.

The weighted average interest rate used for capitalization of borrowing costs to investment properties under development is 4.64% for the year ended December 31, 2013 (2012 - 4.64%).

Our investment properties are leased to tenants primarily under long term operating leases. Rentals are receivable from tenants monthly. Minimum lease payments under non-cancellable operating leases of investment properties are receivable as follows:

	2013	2012
Within one year	31,865	25,236
Later than one year but not later than 5 years	96,702	70,719
Later than 5 years	75,805	57,136
Total	204,372	153,091

11. Property & Equipment

	Golf course assets					Total
	Land	Buildings	Equipment	Greens & tees	Corporate	
January 1, 2013						
Cost	1,293	7,557	7,135	6,177	3,461	25,623
Accumulated depreciation	—	(1,550)	(5,092)	(1,978)	(1,734)	(10,354)
Opening net book value	1,293	6,007	2,043	4,199	1,727	15,269
Additions	—	372	329	267	1,104	2,072
Disposals	—	—	(2)	—	—	(2)
Depreciation	—	(324)	(421)	(251)	(451)	(1,447)
Net Book Value - December 31, 2013	1,293	6,055	1,949	4,215	2,380	15,892

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

	Golf course assets				Corporate	Total
	Land	Buildings	Equipment	Greens & tees		
January 1, 2012						
Cost	1,293	5,493	6,774	6,177	2,427	22,164
Accumulated depreciation	—	(1,313)	(4,633)	(1,713)	(1,563)	(9,222)
Opening net book value	1,293	4,180	2,141	4,464	864	12,942
Additions	—	2,064	414	—	1,101	3,579
Disposals	—	—	(7)	—	(7)	(14)
Depreciation	—	(237)	(505)	(265)	(231)	(1,238)
Net Book Value - December 31, 2012	1,293	6,007	2,043	4,199	1,727	15,269

12. Other Assets

	2013	2012
Tenant incentives	27,973	16,627
Deposits and prepaids	4,639	2,900
Straight-line rent adjustments	1,545	680
Inventory	339	463
	34,496	20,670

During the year we provided tenant incentives of \$9,982 (2012 - \$5,735), recorded \$3,883 (2012 - \$3,108) of amortization expense. In accordance with SIC 15, Operating leases - incentives, amortization of tenant incentives are recorded on a straight-line basis over the term of the lease against rental revenue. As part of the purchase of LethCentre we recorded \$5,143 in tenant incentives and straight-line rent adjustments.

13. Accounts Payable and Accrued Liabilities

	2013	2012
Trade accounts payable	32,118	29,764
Distribution payable	514	—
Other payables	30,983	26,164
Provision for decommissioning obligation	1,641	1,800
	65,256	57,728

As described in note 3r distributions on trust units are recognized in the period in which they are approved and are recorded as an expense. As at December 31, 2013, distribution payable pertains to the December 2013 monthly distribution which was subsequently paid on January 15, 2014.

Decommissioning obligation relates to one of our commercial properties held by Melcor REIT. The total decommissioning obligation is estimated based on the future obligation and timing of the expenditures to be incurred. We estimate the net present value of the obligation based on an undiscounted total future provision of \$2,298 (2012 - \$2,428). At December 31, 2013, a discount rate of 4.0% (2012 - 4.5%) and an inflation rate of 2.0% (2012 - 2.0%) were used to calculate the net present value of the obligation. Due to uncertainty surrounding the nature and timing of this obligation amounts are subject to change.

14. Provision for Land Development

	2013	2012
Balance - beginning of year	138,551	92,946
New development projects	162,875	114,226
Changes to estimates	(3,515)	301
Cost incurred	(143,002)	(68,922)
Balance - end of year	154,909	138,551

15. General Debt

General debt consists of the following:

	2013	2012	
Melcor - revolving credit facility	a	80,870	93,232
REIT - revolving credit facility	b	23,748	—
Project specific financing	c	64,383	30,037
Secured vendor take back debt on land inventory	d	77,194	72,184
Debt on investment properties and golf course assets	e	288,801	255,941
Convertible debenture	f	39,336	39,138
		574,332	490,532

a. Melcor - revolving credit facility

We have an available credit facility with approved loan limits of \$178,000 (2012 - \$160,500) with a syndicate of major chartered banks. The portion of these loan limits that pertain solely to Melcor Developments Ltd. is \$120,000 (2012 - \$120,000) with the remaining balance pertaining to specific joint arrangements.

The amount of the total credit facilities currently used is \$80,870 (2012 - \$93,232). We have pledged agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral for our credit facility. The carrying value of assets pledged as collateral is \$342,116 (2012 - \$345,050). The facility matures on July 31, 2015, renewable one year in advance of expiry. Depending on the form under which the credit facility is accessed, rates of interest will vary between prime plus 1.5% to prime plus 2.25% or banker's acceptance rate plus a 3.00% stamping fee resulting in interest rates ranging from 4.50% to 5.25% at December 31, 2013 (2012 - 4.50% to 5.25%).

b. REIT - revolving credit facility

The revolving credit facility was entered into subsequent to the formation of the REIT with two major Canadian chartered banks. Under the terms of the agreement, the REIT has an available credit limit based upon the carrying values of specific investment properties, as calculated quarterly, up to a maximum of \$25,000 for general purposes. The agreement also provides the REIT with \$5,000 in available letters of credit which bear interest at 2.25%. As at December 31, 2013 the REIT supported a lending base of \$25,000. The facility matures on May 1, 2015, with a one year extension period at the discretion of the lenders. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the facility. We capitalized \$252 in transaction costs associated with the facility which are presented net of the outstanding balance. During the year the REIT drew \$24,000 from the facility, which is presented net of unamortized transaction costs.

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

c. Project specific financing

	2013	2012
Project specific debt on investment properties under development, with fixed interest rates between 3.37% and 5.00%	46,607	5,250
Project specific debt on land, with fixed interest rates between 3.53% - 3.75%	17,776	24,787
	64,383	30,037

Specific investment properties under development with a December 31, 2013 carrying value of \$108,890 (2012 - \$10,880), have been pledged as collateral on project specific debt on investment properties under development. Land inventory and agreements receivable with a December 31, 2013 carrying value of \$38,271 (2012 - \$50,769) have been pledged as collateral on project specific debt on land. The debts are due on demand by the lenders. The weighted average interest rate on the above debts, based on year end balances, is 3.70% (2012 - 3.73%).

d. Secured vendor take back debt on land inventory

	2013	2012
Agreements payable with interest at the following contractual rates:		
Fixed rates of 3.13% - 6.16%	68,144	67,745
Variable rates of prime plus 0.75% to prime plus 1.50% (3.75% - 4.50% at Dec. 31/13 and Dec. 31/12)	9,050	4,439
	77,194	72,184

As at December 31, 2013 \$9,653 (2012 - \$9,100) of debt was payable in US dollars (US\$9,076) (2012 - US\$9,149). The debts mature from 2018 to 2019.

Land inventory with a December 31, 2013 carrying value of \$210,344 (2012 - \$214,829), has been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 4.69% (2012 - 4.61%).

The minimum contractual principal payments due within each of the next five years are as follows:

2014	33,715
2015	13,313
2016	10,786
2017	7,807
2018	8,933
Thereafter	2,640
	77,194

e. Debt on investment properties and golf course assets

	2013	2012
Variable rate mortgages amortized over 10 to 30 years at variable rates ranging from 3.02% to 4.60% (4.10% to 4.25% at Dec. 31, 2011)	71,934	27,084
Mortgages amortized over 15 to 30 years at fixed rates varying from 3.01% to 6.16% (2012: 2.90% to 7.46%)	216,867	228,857
	288,801	255,941

As at December 31, 2013 \$50,435 (2012 - \$47,332) of debt was payable in US dollars (US\$47,420) (2012 - US\$47,568). The debts mature from 2017 to 2022.

Specific investment properties and golf courses with a carrying value of \$548,223 (2012 - \$526,867) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 4.32% (2012 - 4.68%).

The minimum contractual principal payments due within each of the next five years and thereafter are as follows:

2014	57,780
2015	56,078
2016	42,130
2017	14,069
2018	48,021
Thereafter	70,723
	288,801

f. Convertible debenture

We issued a 6.25% \$40,000 unsecured subordinated convertible debenture on February 8, 2011. The debenture matures six years from the issue date at its nominal value or can be converted into shares at the holders' option at the maturity date at the conversion rate of \$18.51 per share. The values of the liability component and the equity conversion component were determined at issuance of the debenture. For the period from February 1, 2014 until January 31, 2016, we will have the option to redeem the debenture at a price equal to the principal amount, plus any accrued and unpaid interest, provided the weighted average trading price of the common shares is 125% of the conversion price for a specified period of time. Commencing February 1, 2016, we will have the option of redeeming the debenture at a price equal to the principal amount plus any accrued and unpaid interest. We can convert the outstanding debenture to common shares at a rate of 95% of the weighted average trading price of the common shares for 20 consecutive trading days ending five trading days preceding the date fixed for redemption.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity net of income taxes.

During the year ended December 31, 2013, we recognized \$58 (2012 - \$58) of expense related to amortization of transaction costs and \$2,698 (2012 - \$2,689) of interest expense.

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

16. Share Capital

a. Common Shares

2013		
(# of shares)	Number of shares issued	Amount (\$00s)
Common shares, beginning of the year	30,181,624	15,580
Share options exercised	547,450	7,825
Common shares, end of the year	30,729,074	23,405
2012		
(# of shares)	Number of shares issued	Amount (\$00s)
Common shares, beginning of the year	30,033,297	14,446
Share options exercised	148,327	1,134
Common shares, end of the year	30,181,624	15,580

Authorized:

- Unlimited common shares
- Unlimited common shares, non-voting
- Unlimited first preferred shares
- Unlimited first preferred shares, non-voting

b. Stock-Based Compensation Plans

On September 28, 2000, the Company's Board of Directors approved a stock-based compensation plan (the "2000 Plan"). Under the 2000 Plan, the Company may grant options to full-time, salaried employees and designated contractors after one year of service. The 2000 Plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. The options vest at 20% per year and expire seven (7) years from the date of issuance. The 2000 Plan was approved by the Company's shareholders at the Shareholders Annual Meeting in May 2001. The Company has 90,400 shares reserved for issuance under the 2000 Plan (2012 – 118,400).

On February 23, 2007 the Company's Board of Directors approved a stock-based compensation plan (the "2007 Plan"). Under the 2007 Plan, the Company may grant options to full-time, salaried employees and designated contractors after one year of service. The 2007 Plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. At the discretion of the board, the options vest over a period of three years and expire no longer than seven (7) years from the date of issuance. The 2007 Plan was approved by the Company's shareholders at the Shareholders Annual Meeting in April 2007. The Company has 2,144,056 shares reserved for issuance under the 2007 Plan (2012 – 2,663,506).

c. Stock Options Available for Granting

2000 Plan	2013	2012
Stock options available, beginning of the year	83,400	79,400
Stock options expired	7,000	4,000
Stock options available, end of the year	90,400	83,400
2007 Plan	2013	2012
Stock options available, beginning of the year	1,264,066	1,247,066
Stock options granted	(209,100)	—
Stock options expired	144,500	17,000
Stock options available, end of the year	1,199,466	1,264,066

d. Stock Options Outstanding Under the 2000 & 2007 Plans

2013		
	Number of options	Weighted average exercise price
Stock options outstanding, beginning of the year	1,434,440	13.07
Stock options granted	209,100	19.26
Stock options exercised	(547,450)	11.10
Stock options expired	(151,500)	19.21
Stock options outstanding, end of the year	944,590	14.59
2012		
	Number of options	Weighted average exercise price
Stock options outstanding, beginning of the year	1,603,767	12.55
Stock options exercised	(148,327)	6.94
Stock options expired	(21,000)	14.31
Stock options outstanding, end of the year	1,434,440	13.07

The weighted average share price at the date of exercise was \$19.12 (2012 - \$14.97). During the year, 209,100 stock options (2012 - nil) were issued to employees of the company.

e. Stock Options Outstanding and Exercisable Under the 2000 & 2007 Plans

Stock option expiry date	Outstanding Stock Options (#)	Exercise Price Per Share (\$)	Stock Options Exercisable at 31-Dec-13
December 17, 2014	82,400	10.94	82,400
November 4, 2015	33,333	13.10	33,333
December 13, 2015	248,473	13.74	248,473
February 2, 2016	10,000	14.38	—
June 3, 2016	75,000	16.05	50,000
December 20, 2016	286,284	12.76	169,452
December 12, 2018	209,100	19.26	—
	944,590		583,658

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

f. Stock Based Compensation Expense

The following assumptions were used in the Black-Scholes option pricing model for options granted. Expected volatility was based on historical volatility.

	2013	2012
Expected volatility	22%	—%
Risk-free interest rate	1.40%	—%
Annual dividend rate	3.00%	—%
Expected life of options in years	3.72	—

The weighted average grant date fair value of stock options granted during the year was \$2.54 per stock option (no options were issued in 2012). Current year vesting of options resulted in a \$643 (2012 - \$1,755) charge to stock-based compensation expense and corresponding credit to contributed surplus.

17. Per Share Amounts

(# of shares)	2013	2012
Basic weighted average common shares outstanding during the year	30,464,771	30,121,543
Dilutive effect of options	334,085	276,100
Dilutive effect of convertible debenture	2,160,994	2,160,994
Diluted weighted average common shares	32,959,850	32,558,637

Stock options expiring on December 12, 2018, totaling 209,100 options (2012 - 254,500 options), have been excluded from the calculation of 2013 diluted earnings per share due to their anti-dilutive effect.

Diluted earnings per share was calculated based on the following:

	2013	2012
Profit attributable to shareholders	98,623	105,019
Interest expense on convertible debenture, net of tax	2,024	2,017
Profit for computation of diluted earnings per share	100,647	107,036

18. Accumulated Other Comprehensive Income

	2013	2012
Balance, beginning of the year	(2,130)	47
Other comprehensive gain (loss)	5,510	(2,177)
Balance, end of the year	3,380	(2,130)

This adjustment represents the net unrealized foreign currency translation gain (loss) on our net investment in our foreign operations.

19. Contingent Liabilities

In the normal course of operations, we issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. As at December 31, 2013 we had \$51,774 (December 31, 2012 - \$41,609) in letters of credit outstanding and recorded a net liability of \$154,909 (December 31, 2012 - \$138,551) in provision for land development costs in respect of these development agreements.

Normally, obligations collateralized by the letters of credit diminish as the developments proceed, through a series of staged reductions over a period of years (average of three to four years) and are ultimately extinguished when the municipality has issued final completion certificates.

We enter into joint arrangements and, in doing so, may take on risk beyond our proportionate interest in the joint arrangement. These situations generally arise where preferred financing terms can be arranged on the condition that the strength of our company's covenant will backstop that of the other joint arrangement participant(s) who also provide similar guarantees. We will have to perform on our guarantee only if a joint arrangement participant was in default of their guarantee. At December 31, 2013 we had guaranteed \$20,678 (December 31, 2012 - \$2,803) in loans and \$6,096 (December 31, 2012 - \$5,362) in letters of credit in support of other participants' interests.

The loan guarantees include those which are ongoing, as they relate to the relevant lines of credit, and those which have staged reductions as they relate to the financing of specific assets or projects such as infrastructure loans, short-term land loans or mortgages.

To mitigate the possibility of financial loss, we are diligent in our selection of joint arrangement participants. As well, we have remedies available within the joint arrangement agreement, to address the application of the guarantees. In certain instances there are reciprocal guarantees amongst joint arrangement participants.

20. Interest Expense

	2013	2012
Interest on Melcor - revolving credit facility	3,228	3,737
Interest on REIT - revolving credit facility	182	—
Interest on convertible debenture	2,698	2,689
Interest on general debt	15,596	15,083
	21,704	21,509
Less: capitalized interest	(5,285)	(4,461)
	16,419	17,048

Cumulative interest capitalized on land inventory at the end of the year is \$27,375 (2012 - \$23,120). Interest paid during the year was \$21,257 (2012 - \$19,927).

21. Revenue and Expense by Nature

a. Revenue:

The components of revenue are as follows:

	2013	2012
Sale of land	227,862	209,723
Rental income	59,829	52,727
Management fees	7,764	4,942
Golf course revenue	8,287	7,538
Total revenue	303,742	274,930

b. Cost of sales:

The components of cost of sales are as follows:

	2013	2012
Cost of land sold	136,825	132,091
Investment property direct operating expenses	26,074	24,596
Direct golf course expenses	4,568	4,204
Depreciation expense	1,447	1,238
Total cost of sales	168,914	162,129

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

c. General and administrative expenses:

The components of general and administrative expenses are as follows:

	2013	2012
Employee salary & benefits		
Salaries and wages	17,320	11,260
Employee benefits	741	613
Stock based compensation	643	1,755
Finance Fees	1,256	1,447
Management Fees	903	747
Other	9,441	6,964
Total	30,304	22,786

Included in employee salary and benefits is the compensation of key management. Key management includes our directors and members of the executive management team. Compensation awarded to key management includes:

	2013	2012
Salaries and wages	7,389	4,824
Employee benefits	72	58
Stock based compensation	359	1,083
Total	7,820	5,965

d. Fair value adjustment on investment properties

The components of the fair value adjustment are as follows:

	2013	2012
Land transferred to investment properties	4,302	1,826
Property under development	26,159	9,032
Commercial and residential properties	17,110	48,245
Total	47,571	59,103

22. Income Tax

Current tax expense:

	2013	2012
Current tax expense		
Current year	24,610	15,428
Adjustment to prior years	(88)	(88)
	24,522	15,340
Deferred tax expense		
Origination and reversal of temporary differences	(3,301)	14,046
Reduction in tax rate	—	(15)
	(3,301)	14,031
Total tax expense	21,221	29,371

Reconciliation of effective tax rate:

	2013	2012
Income before taxes	119,844	134,390
Statutory rate	25%	25%
	29,961	33,598
Non-taxable portion of capital gains, fair value adjustment, and recovery on REIT transfer	(11,766)	(4,795)
Non-taxable portion of REIT income	(2,190)	—
Impact of higher tax rates in subsidiary	204	674
Gain on disposal of REIT units	1,097	—
Non-deductible expenses	3,915	442
Impact of substantively enacted tax rates	—	(548)
Total tax expense	21,221	29,371

Movement in deferred tax balances during the year:

	2013			
	Opening	Recognized in profit or loss	Foreign currency translation	Closing
Investment property and capital assets	54,789	(3,014)	386	52,161
Reserves for tax purposes	16,151	(280)	—	15,871
Interest deducted for tax purposes	(906)	(483)	—	(1,389)
Provision for decommissioning obligation	(450)	244	—	(206)
Convertible debenture	162	(32)	—	130
Tax loss carry-forwards	(3,958)	264	(232)	(3,926)
Deferred tax liability	65,788	(3,301)	154	62,641
	2012			
	Opening	Recognized in profit or loss	Foreign currency translation	Closing
Investment property and capital assets	40,432	14,357	—	54,789
Reserves for tax purposes	14,817	1,334	—	16,151
Interest deducted for tax purposes	(453)	(453)	—	(906)
Provision for decommissioning obligation	(1,275)	825	—	(450)
Convertible debenture	191	(29)	—	162
Tax loss carry-forwards	(1,955)	(2,003)	—	(3,958)
Deferred tax liability	51,757	14,031	—	65,788

The above table includes a net deferred income tax liability of \$2,752 (2012 – deferred income tax liability of \$2,137) recorded by a wholly owned US subsidiary. Income tax paid during the year was \$16,840 (2012 - \$15,197).

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

23. Related Party Transactions

During the ended December 31, 2013, there were debenture coupon payments of \$1,375 (2012 - \$1,375) paid to companies controlled by two members of our executive management team who are also directors of our company.

These transactions occurred in the normal course of operations and were measured at their exchange amount, which approximates carrying value.

24. Joint Arrangements

The table below discloses our proportionate share of the assets, liabilities, revenue, and earnings of 28 arrangements (2012 – 25) that are recorded in these financial statements as follows:

Joint Venture	Interest	Principle activity
Anders East Developments	33%	Active land development with investment property
Anders East Two Communities	50%	Non-active land development
Blackmud Communities	50%	Non-active land development
Black Knight Communities	50%	Active land development
Capilano Investments	50%	Investment property
Chestermere Communities	50%	Active land development with investment property
Highview Communities	60%	Active land development activities
HV Nine	7%	Non-active land development
Jagare Ridge Communities	50%	Active land development and recreational property
Jesperdale Communities	50%	Active land development activities
Kinwood Communities	50%	Active land development activities
Lakeside Communities	50%	Non-active land development
Larix Communities	50%	Active land development activities
Lethcentre*	100%	Investment property
Lewis Estates Communities	60%	Active land development and recreational property
MLS Industrial Developments	50%	Active land development activities
Rosenthal Communities	50%	Active land development activities
Stonecreek Shopping Centre	30%	Investment property under development
Sunset Properties	60%	Active land development activities
Terwillegar Pointe Communities	50%	Non-active land development
Watergrove Developments	50%	Manufactured home community
West 33 Developments	50%	Non-active land development
Westmere Properties	50%	Investment property
Whitecap Communities	50%	Non-active land development
Windermere	50%	Active land development activities
Windermere at Glenriding	35%	Non-active land development
Winterburn Developments	50%	Active land development activities
Villeneuve Communities	50%	Non-active land development

* During 2013 Melcor Developments Ltd., through its wholly owned subsidiary Stanley Investments Inc., purchased the 50% interest previously held by a third party.

The following summarizes financial information about our share of assets, liabilities, revenue and earnings of our interest in joint arrangements that are recorded in our accounts for the year ended December 31, 2013.

	2013	2012
Assets	453,444	373,233
Liabilities	172,793	125,245
Revenue	115,716	94,387
Net Earnings	40,970	40,298

Contingent liabilities arising for liabilities of other venturers are disclosed in note 19.

25. Segmented Information

In the following schedules, earnings from operations before income tax expense has been calculated for each segment by deducting from revenues of the segment all direct costs and administrative expenses which can be specifically attributed to the segment, as this is the basis for measurement of segment performance. Common costs, which have not been allocated, are the costs of corporate debt and general corporate expenses.

The allocation of these costs on an arbitrary basis to the segments would not assist in the evaluation of the segments' contributions.

Inter-segment transactions are entered into under terms and conditions similar to those with unrelated third parties.

Community Development: This division is responsible for purchasing and developing land to be sold as residential, industrial and commercial lots.

Property Development: This division develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed primarily from our community development division. Once substantial completion of construction and leasing are complete, these properties are transferred to our investment property division at fair value (refer to note 10).

Investment Properties: This division owns 8 leasable commercial and retail buildings (2012 – 7 buildings) and other rental income producing assets such as parking lots and land leases.

REIT: This division owns 29 leasable commercial and retail buildings (2012 – 27 buildings) and other rental income producing assets such as residential property, parking lots and land leases.

Recreation Properties: This division owns and manages three 18-hole golf course operations (one of which is 60% owned), and has a 50% ownership interest in one 18-hole golf course.

US Operations: The Company has a wholly owned subsidiary with operations in the US, which includes a Community Development division and an Investment Property division. The subsidiary's related balances are below.

A reconciliation of our revenues and assets by geographic location is as follows:

(in Canadian dollars)	External Revenue		Total Assets (at December 31)	
	2013	2012	2013	2012
United States	15,010	10,031	132,219	122,735
Canada	288,732	264,899	1,595,714	1,324,621
Total	303,742	274,930	1,727,933	1,447,356

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

Our divisions reported the following results:

2013	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Revenue (note 21)	251,323	2,939	23,878	39,325	8,410	—	(22,133)	303,742
Cost of sales (note 21)	(151,281)	—	(11,076)	(15,930)	(5,564)	(451)	15,388	(168,914)
Gross profit	100,042	2,939	12,802	23,395	2,846	(451)	(6,745)	134,828
General and administrative expense (note 21)	(10,102)	(1,924)	(3,608)	(1,722)	(1,999)	(14,625)	3,676	(30,304)
Fair value adjustment on investment properties (note 10, 21 and 29)	—	26,159	(351)	16,953	—	—	4,810	47,571
Adjustments related to REIT units (note 26)	—	—	—	—	—	—	(18,176)	(18,176)
Gain on sale of assets	—	—	—	—	35	3,157	(3,157)	35
Interest income	2,114	7	45	61	—	82	—	2,309
	92,054	27,181	8,888	38,687	882	(11,837)	(19,592)	136,263
Interest expense (note 20 and 23)								(16,419)
Income before income taxes								119,844
Income tax expense (note 22)								(21,221)
Net income for the year								98,623

2012	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Revenue (note 21)	217,487	1,353	16,193	37,485	7,649	—	(5,237)	274,930
Cost of sales (note 21)	(134,551)	—	(9,173)	(15,423)	(5,211)	(231)	2,460	(162,129)
Gross profit	82,936	1,353	7,020	22,062	2,438	(231)	(2,777)	112,801
General and administrative expense (note 21)	(7,370)	(1,814)	(76)	(1,369)	(1,774)	(11,334)	951	(22,786)
Fair value adjustment on investment properties (note 10, 21 and 29)	—	9,032	18,637	30,163	—	—	1,271	59,103
Adjustments related to REIT units (note 26)	—	—	—	—	—	—	—	—
Gain on sale of assets	—	—	—	—	2	—	—	2
Interest income	2,161	—	32	23	—	102	—	2,318
	77,727	8,571	25,613	50,879	666	(11,463)	(555)	151,438
Interest expense (note 20 and 23)								(17,048)
Income before income taxes								134,390
Income tax expense (note 22)								(29,371)
Net income for the year								105,019

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

26. Non-Controlling Interest in Melcor REIT

In accordance with our policy, as detailed in notes 3r and 29, we account for the 48.9% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at December 31, 2013 the REIT units had a fair value of \$94,952. We recorded adjustments related to REIT units for the year of \$18,176. As illustrated in the table below, the adjustment is comprised of:

	2013	2012
Fair value adjustment on REIT units	3,652	—
Distributions to REIT unitholders	4,109	—
Transaction costs on REIT IPO		
Capitalized against REIT trust units (note 7)	8,591	—
Expensed in Melcor	1,824	—
Adjustments related to REIT units	18,176	—

The following tables summarize the financial information relating to Melcor's subsidiary, the REIT, that has material non-controlling interest (NCI), before intra-group eliminations (presented at 100%).

	2013	2012
Assets	454,743	396,845
Liabilities	225,005	228,514
Net assets	229,738	168,331
Cost of NCI	82,709	—
Fair value of NCI	94,952	—

	2013	2012
Revenue	39,325	37,485
Net income and comprehensive income	62,719	35,490
Cash flows from operating activities	10,502	13,922
Cash flows used in investing activities	(34,867)	(12,921)
Cash flows from (used in) financing activities, before distributions to REIT unitholders	33,717	(1,185)
Cash flows used in financing activities - cash distributions to REIT unitholders	(4,109)	—
Net increase (decrease) in cash and cash equivalents	5,243	(184)

27. Management of Capital Resources

We define capital as share capital, contributed surplus, accumulated other comprehensive income and retained earnings. Our objective when managing capital is to utilize debt to improve our performance, support the growth of our assets, and finance capital requirements arising from the cyclical nature of our business. Specifically, we plan to utilize shorter term debt for financing infrastructure, land inventory, receivables and development activities and to utilize longer term debt and equity for the purchase of property and land assets.

We manage the capital structure through adjusting the amount of long-term debt, credit facilities, the amount of dividends paid, and through normal course issuer bids.

There were no changes to the way we define capital, our objectives, and our policies and processes for managing capital from the prior fiscal period.

We are subject to financial covenants on our \$120,000 (2012 - \$120,000) Melcor revolving credit facility. The covenants include a maximum debt to total capital ratio of 1.25, a minimum interest coverage ratio of 3, and a minimum net book value of shareholder's equity of \$300,000. As at December 31, 2013, we were in compliance with our financial covenants with a debt to total capital ratio of 0.89, an interest coverage ratio of 8.39 and net book value of shareholder's equity of \$769,230. In addition, we are subject to financial covenants on our \$25,000 (2012 - \$nil) REIT revolving credit facility. The covenants include a maximum debt to total capital ratio of 60%, a minimum interest coverage ratio of 1.50, and a minimum net book value of unitholders' equity of \$140,000. As at December 31, 2013, the REIT was in compliance with its financial covenants with a debt to total capital ratio of 51%, interest coverage ratio of 1.71, and a net book value of unitholders equity, based on the definition of unitholders equity in its revolving credit facility agreement, of \$220,715. We also have financial covenants on certain mortgages for investment properties. At December 31, 2013, and throughout the period, we were in compliance with our financial covenants on our mortgages. We prepare financial forecasts to monitor the changes in our debt and capital levels and our ability to meet our financial covenants.

28. Risk Management

We are exposed to the following risks as a result of holding financial instruments:

a. Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Our financial assets that are exposed to credit risk consist of cash and cash equivalents, restricted cash, accounts receivable, and agreements receivable. Our maximum exposure to credit risk is the carrying amount of cash and cash equivalents, restricted cash, accounts receivable and agreements receivable.

We invest our cash in bank accounts and short-term deposits with a major Canadian chartered bank. Accounts receivable balances include amounts due from other joint arrangement participants for their portion of management fees due to us as well as other various smaller balances due from municipal governments, other developers and tenants. There have been no impairment adjustments made to these accounts.

We manage our credit risk in the Investment Property and REIT Divisions through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan review for smaller tenants. We manage our concentration risk in the Investment Property Division by renting to an expansive tenant base, with no dependency on rents from any one specific tenant.

Agreements receivable are collateralized by specific real estate sold. Agreements receivable relate primarily to land sales in Alberta and, accordingly, collection risk is related to the economic conditions of that region. We manage credit risk by selling to certain qualified registered builders. Concentration risk is low as we sell to a large builder base, and no receivables are concentrated to one specific builder.

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

Management has reviewed all agreements receivable balances as at December 31, 2013 and considered the following in assessing credit risk:

- I. The credit quality of agreements receivable that are neither past due nor impaired is determined based on whether balances are due from builders on our approved builder list, and based on geographic location. The approved builder list contains those builders which have a long standing track record, good volumes, positive perception in the industry, and a strong history of repayment. At December 31, 2013, 94% of agreements receivable are due from approved builders (2012 – 92%).
- II. At December 31, 2013, we have identified \$7,176 (2012 - \$6,711) in agreements receivable which have indications of possible impairment. The factors that we considered in determining that these assets may be impaired was primarily the geographic location in which the receivables were associated and agreements receivable in arrears. We have determined on a loan by loan basis that there is no impairment provision required as balances are expected to be collected in full (2012 - \$nil).

Agreements receivable which are past due but were not considered impaired.

	2013	2012
0 - 6 months past due	6,595	6,538
Greater than 6 months past due	581	173

We have reviewed these agreements and expect full repayment in respect of these balances.

- III. Total loans included in agreements receivable that would have otherwise been past due or impaired at December 31, 2013, but whose terms have been renegotiated is \$10,543 (2012 - \$6,815).

b. Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk to ensure that we have sufficient liquid financial resources to finance operations and meet long-term debt repayments. We monitor rolling forecasts of our liquidity, which includes cash and cash equivalents and the undrawn portion of the operating loan, on the basis of expected cash flows. In addition, we monitor balance sheet liquidity ratios against loan covenant requirements and maintain ongoing debt financing plans. We believe that we have access to sufficient capital through internally generated cash flows, external sources and undrawn committed borrowing facilities to meet current spending forecasts.

Refer to note 15 for the maturity analysis of general debt and details on the bank indebtedness. Accounts payable and accrued liabilities are expected to be repaid in the next twelve months.

c. Market Risk

We are subject to interest rate cash flow risk as our operating credit facilities and certain of our general debt bear interest at rates that vary in accordance with prime borrowing rates in Canada. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately \$1,856 (2012 - \$1,130) based upon applicable year end debt balances. We are not subject to other significant market risks pertaining to our financial instruments.

29. Fair Value Measurement

Fair value is the price that market participants would be willing to pay for an asset or liability in an orderly transaction under current market conditions at the measurement date.

The fair value of Melcor's financial instruments were determined as follows:

- the carrying amounts of cash and cash equivalents, restricted cash, accounts receivables and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.
- fair values of general debt is estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).
- fair value of REIT units are estimated based on the closing trading price of the REIT's trust units (Level 1).

In addition, Melcor carries its investment properties at fair value, as detailed in note 3f, which is determined by discounting future cash flows at a property specific discount rate (Level 3).

The following table summarizes the REIT's assets and liabilities carried at fair value and its financial assets and liabilities where carrying value does not approximate fair value.

	December 31, 2013			
	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value
Non-financial assets				
Investment properties	784,510	—	784,510	784,510
Financial liabilities				
General debt	—	574,332	574,332	580,651
REIT units	94,952	—	94,952	94,952

	December 31, 2012			
	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value
Non-financial assets				
Investment properties	599,228	—	599,228	599,228
Financial liabilities				
General debt	—	490,532	490,532	511,211
REIT units	—	—	—	—

The table below analyzes assets and liabilities carried at fair value in the consolidated statement of financial position, by the levels in the fair value hierarchy. The fair hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

- Level 1: quote prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

There were no transfers between the levels of the fair value hierarchy during the year.

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

	Level 1	Level 2	Level 3	Total
Non-financial assets				
Investment properties	—	—	784,510	784,510
Financial liabilities				
REIT units	94,952	—	—	94,952

Investment properties

Investment properties are remeasured to fair value on a recurring basis and categorized as Level 3 in the fair value hierarchy. Investment properties were valued by qualified independent external valuation professionals as at December 31, 2013 and December 31, 2012. Fair values of investment properties were revised based on the updated data and model variables with fair value gains of \$47,571 (2012 - \$59,103) recorded as fair value adjustment on investment properties in income. The following table summarizes the valuation approach, significant unobservable inputs, and the relationship between the inputs and the fair value:

Asset	Valuation approach	Significant unobservable inputs	Relationship between inputs and fair value
Investment properties	Direct capitalization or discounted cash flows	<ul style="list-style-type: none"> Capitalization rate Discount rate Terminal rate Stabilized NOI Cash flows 	Inverse relationship between capitalization, discount and terminal rates and fair value (higher rates result in decreased fair value); whereas higher stabilized NOI or cash flows results in increased fair value.
Properties under development	Direct capitalization less cost to complete	<ul style="list-style-type: none"> Capitalization rate Stabilized NOI Costs to complete 	Inverse relationship between capitalization rate and fair value (higher capitalization rate results in lower fair value); whereas higher stabilized NOI results in increased fair value.
Properties under development - undeveloped land	Direct comparison	<ul style="list-style-type: none"> Comparison to market transactions for similar assets 	Land value reflects market value.

The significant unobservable inputs in the Level 3 valuation under the above methods are as follows:

- Capitalization rate - based on actual location, size and quality of the property and taking into consideration available market data as at the valuation date;
- Stabilized net operating income - revenue less direct operating expenses adjusted for items such as average lease up costs, vacancies, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items;
- Discount rate - reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Terminal rate - taking into account assumptions regarding vacancy rates and market rents; and
- Cash flows - based on the physical location, type and quality of the property and supported by the terms of existing leases, other contracts or external evidence such as current market rents for similar properties.

In determining the fair value of our investment properties judgment is required in assessing the 'highest and best use' as required under IFRS 13, Fair value measurement. We have determined that the current uses of our investment properties are their 'highest and best use'.

Melcor's executive management team is responsible for determining fair value measurements including verifying all major inputs included in the valuation and reviewing the results with the independent valuator. Management, along with the Audit Committee, discuss the valuation process and key inputs on a quarterly basis.

Weighted average stabilized net operating income for investment properties is \$1,364 (2012 - \$1,118). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

December 31, 2013	Investment Properties			Properties Under Development		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	9.00%	6.46%	6.00%	7.00%	6.07%
Terminal capitalization rate	5.75%	9.25%	6.77%	6.25%	7.25%	6.33%
Discount rate	6.50%	10.00%	7.66%	7.00%	7.75%	7.45%

December 31, 2012	Investment Properties			Properties Under Development		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	7.75%	6.51%	6.25%	6.25%	6.25%
Terminal capitalization rate	5.75%	8.00%	6.41%	6.50%	6.50%	6.50%
Discount rate	6.50%	8.75%	7.24%	7.25%	7.25%	7.25%

A change in capitalization rates by a 50 basis points increase or decrease would change the carrying amount of investment properties by \$44,883 or \$38,437 (2012 - \$37,500 or \$32,147) respectively.

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as Level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At December 31, 2013 the fair value of the REIT units was \$94,952, resulting in a fair value loss of \$3,652 in the statement of income and comprehensive income.

Notes to the Consolidated Financial Statements (\$000s except per share and acre amounts)

30. Subsequent Event

On January 10, 2014 the REIT completed the acquisition of an industrial property, LC Industrial, located in Lethbridge, Alberta for \$5,934 (excluding closing costs). The purchase has been accounted for as an asset purchase, in accordance with our policy, as detailed in note 3e.

On January 16, 2014 the REIT declared a distribution of \$0.05625 per unit for the months of January, February and March 2014. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
January 2014	January 31, 2014	February 17, 2014	\$0.05625 per unit
February 2014	February 28, 2014	March 17, 2014	\$0.05625 per unit
March 2014	March 31, 2014	April 15, 2014	\$0.05625 per unit

31. Comparative Figures

We have reclassified \$1,238 in depreciation expense to cost of sales in the 2012 comparative figures in the statement of income and comprehensive income to conform to the current years presentation. Certain 2012 comparative figures in the notes to these consolidated financial statements have been reclassified to conform to the current year's presentation.

Five Year Performance Measures (unaudited)

	2013 (IFRS)	% change	2012 (IFRS)	% change	2011 (IFRS)	% change	2010 (IFRS)	% change	2009 (GAAP)
Assets (\$000s)	1,727,933	19.4%	1,447,356	18.7%	1,218,885	18.6%	1,027,754	45.1%	708,203
Shareholders' Equity (\$000s)	769,231	11.3%	690,832	15.4%	598,763	13.3%	528,693	61.9%	326,520
Revenue (\$000s)	303,742	10.5%	274,930	24.8%	220,349	16.0%	189,911	39.0%	136,608
Gross Margin	44.4%		41.0%		42.9%		47.9%		43.5%
Administrative Expenses/Revenue	10.0%		8.3%		8.4%		7.9%		8.1%
Adjusted Earnings Before Tax (\$000s)	131,660	(2.0%)	134,390	30.7%	102,855	38.8%	74,080	137.5%	31,196
Adjusted Basic Earnings Per Share (\$)	3.63	4.0%	3.49	29.3%	2.70	43.6%	1.88	141.0%	0.78
Average Share Price (\$)	19.13	29.2%	14.81	6.5%	13.91	15.1%	12.09	61.4%	7.49
Dividend Per Share (\$)	1.00	122.2%	0.45	12.5%	0.40	14.3%	0.35	40.0%	0.25
Dividend Yield	5.0%		3.0%		2.9%		2.9%		3.3%
Book Value Per Share (\$)	25.03	9.3%	22.89	14.8%	19.94	13.6%	17.56	62.9%	10.78
Average Book Value Per Share (\$)	23.96	11.9%	21.42	14.2%	18.75	11.7%	16.79	58.4%	10.60
Average Market/Average Book	0.80		0.67		0.74		0.72		0.71
Price/Adjusted Earnings Ratio	5.3		4.2		5.1		6.4		9.6
Adjusted Return on Equity (before tax)	18.0%		19.5%		18.2%		14.6%		9.8%
Adjusted Return on Assets (before tax)	8.3%		9.3%		9.2%		7.6%		4.4%
Debt/Equity Ratio	1.12		1.10		1.03		0.94		1.17
Asset Turnover	17.6%		19.0%		18.1%		18.5%		19.3%

Calculations:

Adjusted Earnings Before Tax is before tax earnings adjusted for REIT related items, including management fees earned and the unitholders' portion of REIT earnings

Adjusted Basic Earnings per share is adjusted earnings (including tax) divided by the basic weighted average shares outstanding.

Price/Adjusted Earnings Ratio is the average share price for the year divided by the adjusted basic earnings per share

Adjusted Return on Equity (before tax) is adjusted earnings before tax for the year divided by the average equity during the year

Adjusted Return on Assets (before tax) is adjusted earnings before tax for the year divided by the average assets during the year

Debt/Equity Ratio is debt, excluding REIT units, divided by shareholders' equity

Asset Turnover is revenue for the year divided by total assets

Refer to Non-Standard Measures (page 37) for additional definitions and calculations

Corporate & Shareholder Information

Annual General Meeting

Please join us at our annual general meeting. We look forward to seeing you there. Note: lunch will be served following the meeting.

April 24, 2014
11:00 am MDT
Fairmont Hotel Macdonald, Empire Ballroom

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Andrew J. Melton, Executive Vice-Chairman
Brian Baker, President & Chief Executive Officer
Jonathan Chia, CA, Chief Financial Officer
Darin Rayburn, Executive Vice-President, Investment Properties

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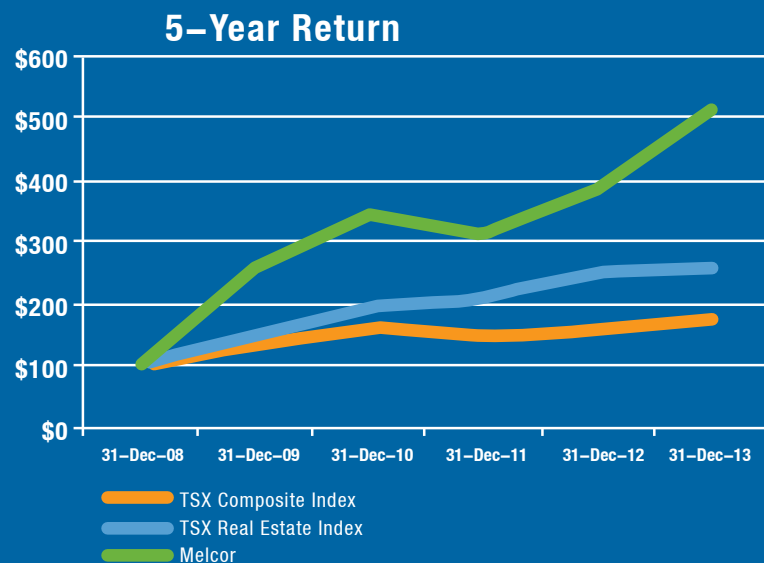
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Performance Graph



Key Dates

Annual General Meeting: April 24, 2014

Earning Dates:

Q1 - May 9, 2014
Q2 - August 7, 2014
Q3 - November 5, 2014
Q4 - March 11, 2015



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