

2 0 1 4 A N N U A L R E P O R T



MELCOR
LIVE. WORK. SHOP. PLAY.



MELCOR

LIVE. WORK. SHOP. PLAY.

About Melcor Developments Ltd.

We are a diversified real estate development and asset management company. We take real estate from raw land through to high-quality finished product in both residential and commercial built form.

We develop and manage mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses.

For 92 years, our focus has been the business of real estate. We've built over 90 communities across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage over 3.3 million sf in commercial real estate assets and 1,286 residential rental units.

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

2014 Financial Highlights

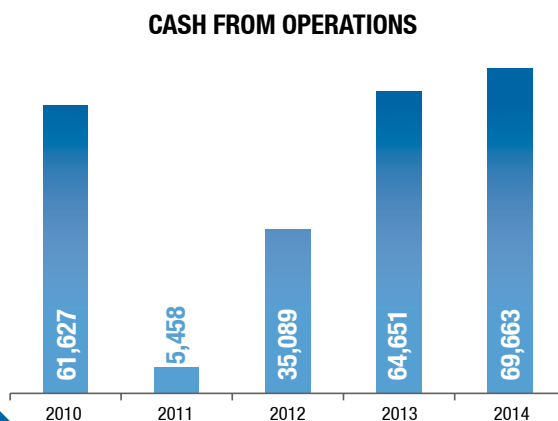
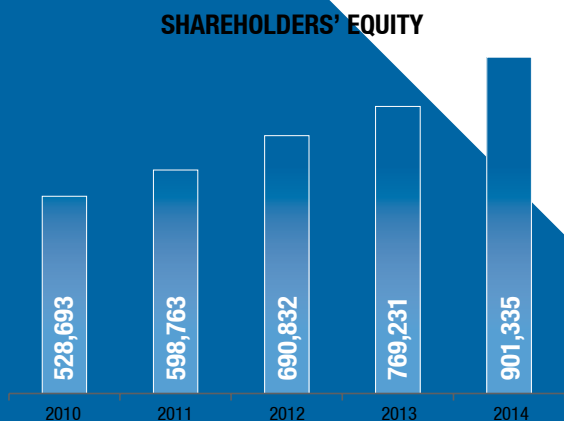
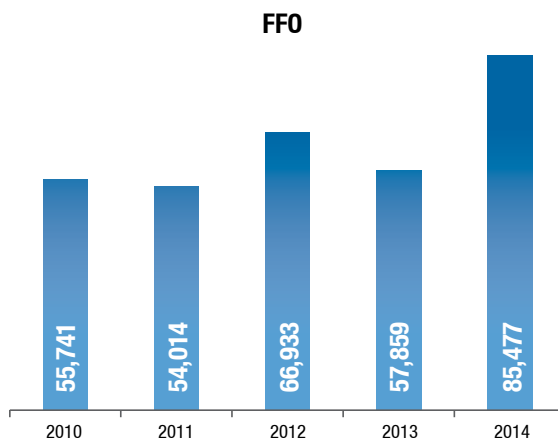
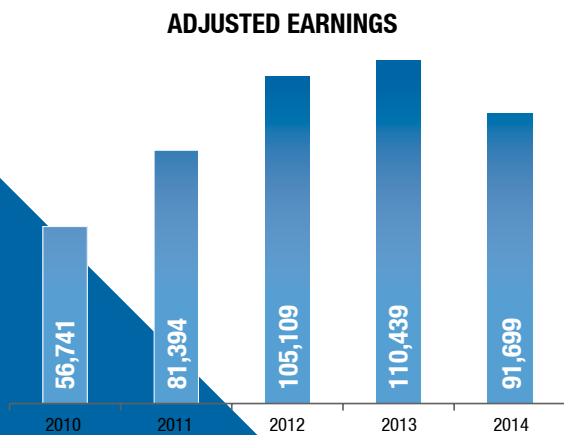
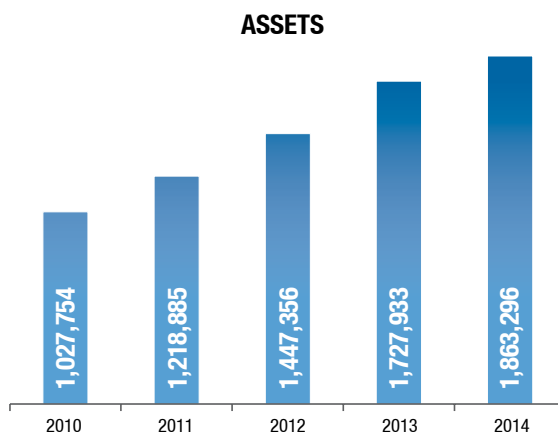
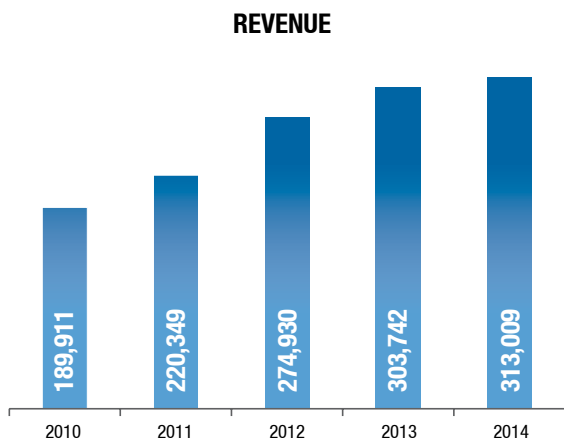
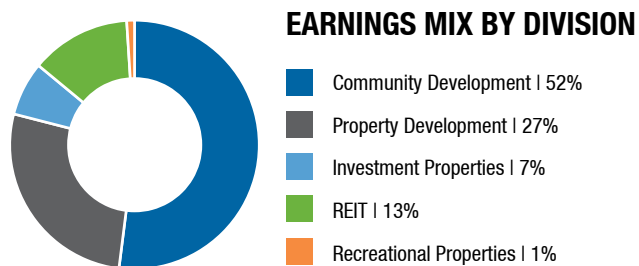
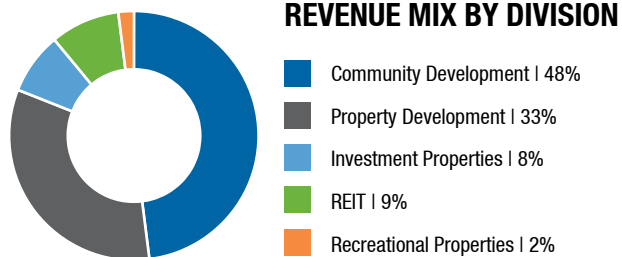
(\$000s except as noted)	2014	2013	Change
Revenue	313,009	303,742	3.1%
Fair value adjustment on investment properties	12,828	47,571	(73.0)%
Net income	100,719	98,623	2.1%
Funds from operations *	85,477	57,859	47.7%
Shareholders' equity	901,335	769,231	17.2%
Total assets	1,863,296	1,727,933	7.8%
\$ per share	2014	2013	Change
Basic earnings	3.18	3.24	(1.9)%
Funds from operations *	2.70	1.90	42.1%
Book value	27.22	25.03	8.7%
Average share price	22.98	19.04	20.7%
Dividends paid ^	0.58	0.50	16.0%
Shares outstanding (December 31)	33,115,691	30,729,074	7.8%

* refer to non-standard measures for definitions and calculations (pages 37-38)

^regular dividend only. In 2013, a \$0.50 special dividend was also paid following the REIT IPO.

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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 10,000 acres of land for residential and commercial development.

Investment Properties:

We own 978 residential rental units in the United States and 308 Canada. The rental market has been very strong, with occupancy at 97% in 2014.

Melcor Homes:

Melcor Homes built 20 semi-detached units in one of our communities in 2014. Sales have been strong and we will continue to seek opportunistic projects in the residential housing market as a result of current market conditions.



- 90+ communities developed
- 40,000 lots sold
- 1,286 residential rental units



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 track record of responding to over 97% of service requests within 30 minutes.

Investment Properties has been acquiring and improving commercial assets since the 1960s to provide stable cash flows to the company. Today, our Investment Properties team manages, leases and provides signature care for 3.3 million sf of gross leasable area, including the properties now owned by the Melcor REIT.

Property Development has been building commercial properties since 2001. We have developed over 2.2 million sf of commercial projects and are now amongst the most active developers in western Canada. Focused initially on retail properties, we began to develop mixed-use, industrial and business parks in 2013. Our Property Development team has over 6 million sf in developments with approved land use to complete over the next 5-10 years.



- **3.3 million sf commercial GLA owned (including properties owned by Melcor REIT)**
- **236,900 sf in new commercial GLA under development**
- **Over 6 million sf in approved commercial developments spanning the next 10-15 years.**



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 sf 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.



- 1,406,000 sf retail GLA under management (including properties owned by Melcor REIT)
- 962,000 sf retail assets developed
- 600,000+ sf retail space in current and near-term development



PLAY.

Play time is an important component of overall well-being, so we invest in planning that element of our communities. Storm management systems double as water features, pathways and trails connect communities, parks, 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.

We have owned and managed golf courses attached to our residential communities since 1997.



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

Executive Chairman Letter



Timothy Melton

It is my pleasure to report to you on behalf of Melcor's Board of Directors. Our company, for the fourth consecutive year, reported record-breaking results. Revenues in 2014 grew 3% to \$313 million compared with \$304 million last year. Total assets increased by 8%, to \$1.86 billion. Shareholder equity increased by 17% to \$901 million.

Alberta's strong economic conditions have had a very positive effect on real estate markets and certainly assisted our performance for the past several years. Today, with lower crude prices, the sentiment is decidedly more cautious. While we certainly note that things have changed, our conservative approach to growth and to debt – along with strategic planning and good governance – puts us in a good position today. We have solid assets that we have amassed over decades in strategic areas and we are growing a steady revenue base with our income-producing properties. Fiscal prudence has always been a part of our culture, and we continue to take steps to ensure that our balance sheet remains strong.

In our 90+ years in business, we have been through many fluctuations in the economy. Historically, we have taken advantage during downturns, making our business stronger by recognizing opportunities and managing our risk.

Melcor's strategic planning process looks at how we can diversify our business and continue to grow through any economic cycle. One of the strategies coming out of this process was the formation of Melcor REIT. This year, we enjoyed seeing the first results of the synergistic relationship between Melcor and the REIT as the two transactions completed in the year demonstrated how both companies benefit and grow. Together, these companies are fulfilling our vision of creating a stronger, wider base for our shareholders.

Building Caring Communities

Contributing to the broader Community by sharing our time and resources to make them stronger is an important part of who we are as a company. Our charitable giving focuses on organizations that support and enrich the communities where we operate.

In 2014, we continued to give to many worthwhile initiatives. Some of the initiatives that we are pleased to continue to support are the Melcor YMCA Village, the YMCA, Valour Place, and various organizations focused on family and children, healthcare, science, and arts and culture.

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

Return on Shareholder Investment

The company has continuously paid dividends to shareholders ever since becoming public in 1968. In 2014, dividends totaled \$0.58 per share. We remain committed to providing shareholders with a return on their investment, while at the same time ensuring the company maintains adequate financial resources, for operating purposes and to fund potential investment opportunities.

In Appreciation

On behalf of the board and all shareholders, I would like to thank Melcor's staff and leadership team for delivering outstanding results and their commitment to our ongoing growth and success. I would also like to thank our Board of Directors for their guidance and counsel, our customers and suppliers, and our shareholders for your continued support and confidence.



Chief Executive Officer Letter



Brian Baker

Dear Fellow Shareholders:

2014 was a very good year for our company and I am pleased at the success we achieved. Some results of note include:

- Record consolidated revenues of \$313 million.
- Net Income of \$101 million.
- Asset growth of 8% to \$1.86 billion.
- Gross margin of 48%, an increase of 4% over 2013.

We delivered strong operating performance and continued building our organization into one of Canada's leading real estate development and asset management firms.

Here is a brief summary of several specific 2014 operational achievements:

- We added to our raw land portfolio by acquiring 845 acres in existing markets including 122 acres in the US as part of our regional diversification strategy. We now hold over 10,000 acres of land inventory for future development.
- We continued to develop our existing industry-leading communities in a high market demand environment which allowed us to increase margins in our Community Development division. We sold over 1,600 serviced lots in 2014.
- We had a record year in new commercial development, completing and transferring 555,010 sf of GLA valued at \$162 million. These properties are now included in - and contributed to the growth of - our income-producing property portfolio. We continue to develop our pipeline of new commercial projects and expect to complete over 6 million sf in the next 5 to 10 years. The success of this division and GLA produced becomes a systemic growth engine for Melcor and for the REIT.
- We now have 3.3 million sf of commercial property under management. The role of our Investment Properties team has transitioned to that of asset manager since the formation of Melcor REIT. Their primary role is to manage Melcor's income-producing portfolio, as well as lease up and prepare the Melcor properties under management for sale to the REIT.
- The REIT executed its strategy throughout 2014 and grew GLA by an impressive 62%. It completed two bundled purchases from Melcor consisting of 783,941 sf in 9 properties for \$151.75 million. The REIT has been, and will continue to be, an important financial resource and complementary company going forward.
- Our golf courses posted a record year, both in rounds played and revenue generated. Growth is expected to continue as we employ a strategy to brand these assets as central hubs in their surrounding communities, with winter hours for their food and beverage operations in addition to hosting events throughout the year.
- We increased our dividend by 16% over the regular dividend paid in 2013. Our dividend has more than doubled in the past five years.

For over 90 years, we have adapted our business to constantly changing times and we continue to do so.

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



CEO Letter

We remain committed to delivering value and superior quality in all that we do - whether we are developing master-planned communities, constructing and leasing business parks or managing our portfolio of revenue-generating properties.

Our business model consists of integrated and complementary operating divisions working in concert to create a dynamic value chain that is much more valuable than the sum of its parts. It provides a growth engine for the benefit of Melcor and our shareholders and differentiates us from our competitors in industry.

Our Community Development division supplies zoned and serviced land assets to our Property Development division, which constructs and leases a variety of retail, office and industrial income-producing asset. These assets, once complete, are transferred to the Investment Properties division where they are actively managed and either sold to the REIT or mortgaged to monetize the value created, which is then redeployed into operations to support future growth.

Our value chain is a powerful business model that provides Melcor with a competitive advantage that will continue to serve us exceedingly well.

A Strong & Diversified Asset Base

The one thing that is predictable about the real estate business is that it is fundamentally unpredictable and is constantly changing.

Melcor continues to operate from a foundation of financial strength and that is why, as we enter into an uncertain economic climate in 2015, we are well positioned not only to comfortably withstand this challenge, but also to benefit from it.

15 years ago, we began a purposeful transition to shift from our reliance on developed land sales towards a more diversified real estate offering. We did this by focusing our acquisition and development strategy on operational and geographic diversification.

Today, our revenue comes from a number of different real estate sources including land sales, commercial and residential rent, management fees, and distributions from the REIT.

2014 Highlights

- Record consolidated revenues of \$313.01 million.
- Net Income of \$101.72 million.
- Asset growth of 8% to \$1.86 billion.
- Gross margin of 48%, an increase of 4% over 2013 as a result of improved pricing in Community Development and growth in our highest margin segments: Investment Properties and the REIT.
- Annual dividends of \$0.58 per share, representing 16% growth over the regular dividends paid in 2013.

Prepared for the Unexpected

Our management team constantly considers and prepares for the external factors that could impact our operations, including the general economic climate and our reliance on the Alberta economy.

To ensure we are always prepared for the unexpected, we constantly monitor and adhere to key financial guidelines and performance metrics, including:

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



CEO Letter

Adhering to these metrics ensures our growth never outstrips our ability to fund it and also mitigates our risk of exposure to market cycles. This strategy of fiscal prudence has placed us in a strong financial position today and because of that we are in the enviable position of financial strength as we enter an uncertain economic climate. We believe that the current economic correction in Alberta will present buying opportunities and will reduce our commercial construction and land development costs, result in more efficient delivery of projects.

Our Team: Delivering Excellence

The Melcor team is a remarkably consistent and dedicated group. They have done, as they always do, a magnificent job driving top and bottom line results in 2014. Thank you all for consistently delivering excellence.

Our people set us apart and attracting, retaining and developing them is both our advantage and priority. We are very fortunate to have a complementary mix of new talent and seasoned experience, with 9 members of our Quarter Century Club still active within the company today.

A Strong Asset Base

- 10,249 acres of raw land inventory in active growth corridors
- Prospects for over 6 million sf of new development over 5-10 years based on existing assets
- Over 3.38 million sf of commercial property under management
- 1,286 residential rental units
- 4 championship golf courses

Outlook

The pace of change in today's economy can be a challenge. On the tail of four consecutive record years, we recognize this and know that we have a team that is ready to meet the test. Our vigilance remains undimmed and our fundamental goals as a corporation remain, as always:

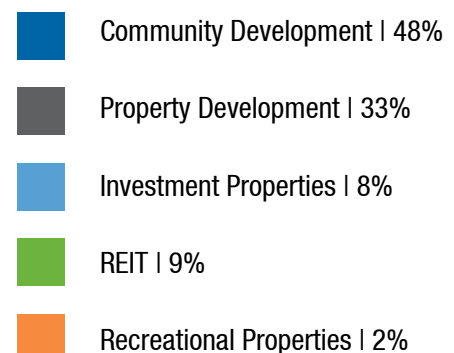
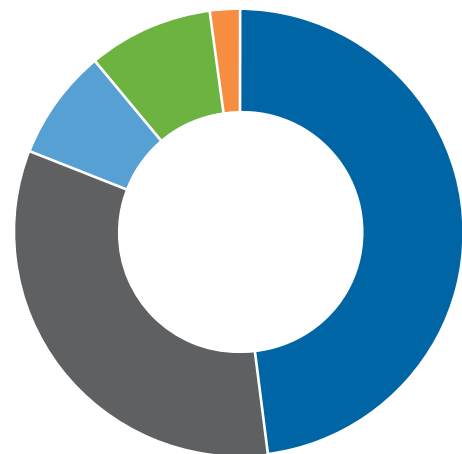
- To protect shareholder investment through prudent risk management and careful stewardship of company assets;
- To grow shareholder value by achieving strong operating performance and return on invested capital;
- To distribute corporate profit to shareholders through a reliable and growing dividend; and,
- To promote a strong and healthy corporate culture by taking care of our exceptional team.

Our history and our culture are the driving forces behind the company we have become today. We embrace the traditional values of a family-founded and run organization, the golden rule, and the building of deep relationships with our clients, our business partners and our employees.

We are well positioned for 2015 and beyond.

We have the resources, the ingenuity and the desire to keep moving forward successfully and to deliver on these goals. Of that, I am certain.

REVENUE DIVERSIFICATION



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, Allan Scott, who is independent of the company. Mr. Scott chairs the in camera sessions and ensures that the board conducts itself in accordance with good governance practices.

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 2014 Information Circular.

Melcor employees do not receive additional director compensation.



Ralph B. Young
Edmonton, Alberta, Canada
Related (Former CEO – Retired)
Chancellor, University of Alberta

Director Since	1976
2014 Attendance	88%
2014 Director Compensation	\$30,250
Common Shareholdings	1,427,633
Committees	Compensation & Governance



Gordon J. Clanachan
FCA, ICD.D
Edmonton, Alberta, Canada
Independent
Corporate Director & Consultant

Director Since	2009
2014 Attendance	100%
2014 Director Compensation	\$47,250
Common Shareholdings	8,000
Committees	Audit (Chair)



Ross A. Grieve
Edmonton, Alberta, Canada
Independent
Chairman, PCL Construction Holdings Ltd.

Director Since	2003
2014 Attendance	100%
2014 Director Compensation	\$33,250
Common Shareholdings	78,000
Committees	Compensation & Governance



Andrew J. Melton
 Calgary, Alberta, Canada
Related
 Chairman, Melcor REIT

Director Since	1985
2014 Attendance	100%
2014 Director Compensation	\$nil
Common Shareholdings	133,600
Committees	none



Timothy C. Melton
 Edmonton, Alberta, Canada
Related
 Executive Chairman, Melcor

Director Since	1973
2014 Attendance	100%
2014 Director Compensation	\$nil
Common Shareholdings	1,880,709
Committees	none



Eric P. Newell
 Edmonton, Alberta, Canada
Independent
 Corporate Director

Director Since	2014
2014 Attendance	71%
2014 Director Compensation	\$23,071
Common Shareholdings	10,000
Committees	Audit



Catherine M. Roozen
 Edmonton, Alberta, Canada
Independent
 Director & Secretary,
 Cathton Investments Ltd.

Director Since	2007
2014 Attendance	80%
2014 Director Compensation	\$33,250
Common Shareholdings	125,600
Committees	Audit



Allan E. Scott
 Edmonton, Alberta, Canada
Independent (Lead Director)
 Corporate Director

Director Since	2007
2014 Attendance	100%
2014 Director Compensation	\$40,875
Common Shareholdings	3,000
Committees	Compensation & Governance (Chair)



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March 11, 2015

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, 2014.

The financial statements underlying this MD&A, including 2013 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 11, 2015.

Non-standard Measures

We refer to terms that are not specifically defined in the CPA Canada 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.

For a definition of these measures, please refer to the section "Non-standard Measures" on pages 37 - 38.

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. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2015 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. We transform real estate from raw land to high quality finished product in both residential and commercial built form. We develop and manage mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses.

For 92 years, our focus has been the business of real estate. We've built over 90 communities across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage over 3.3 million square feet (sf) in commercial real estate assets and over 1.0 million sf in residential assets.

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

We have been a public company since 1968 (TSX:MRD). On May 1, 2013, we formed Melcor Real Estate Investment Trust (the REIT) through an initial public offering (the IPO). We retain a controlling 56.5% 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 operate four integrated divisions that together manage the full life cycle of real estate development:

- acquiring raw land and 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 (the REIT)

In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreation Properties. Melcor has over \$1.86 billion in assets.

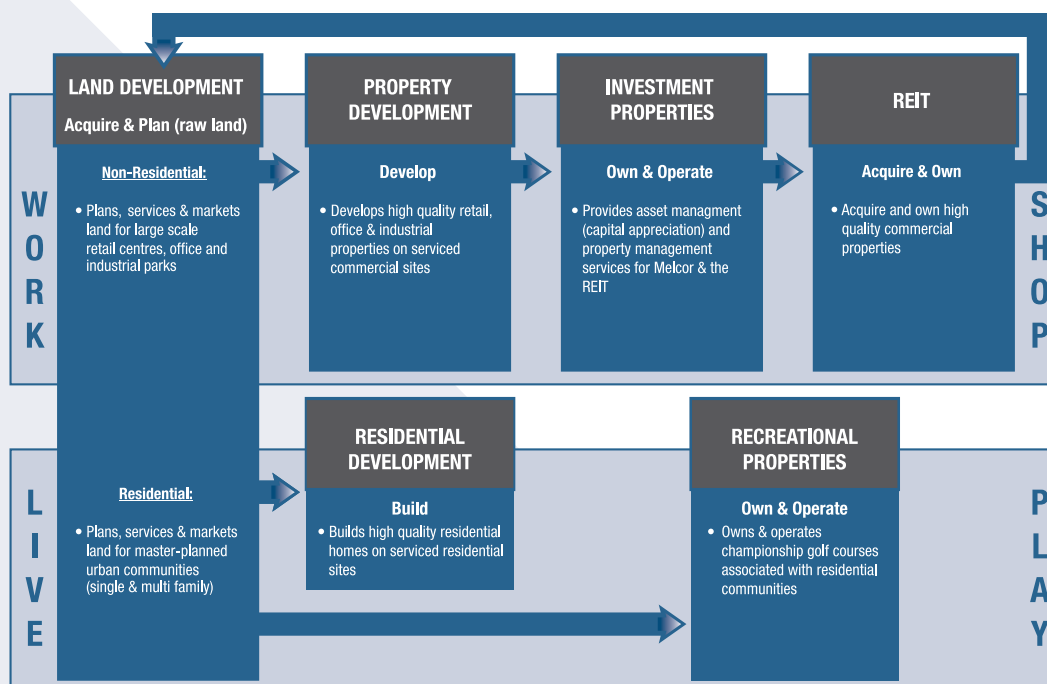
The diagram below illustrates how each of our operating divisions complements one another to create and enhance value from our real estate assets.

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 (BC), and in Phoenix, Arizona. Our developments span western Canada and the United States (US).

Our history and our culture are the driving forces of the company we have become today: the traditional values of a family-run organization, the golden rule, and building deep relationships with our clients, our business partners and our employees.



Strategy

Our fundamental goals are to:

- protect shareholder investment through prudent risk management and careful stewardship of company assets
- grow shareholder value by achieving strong operating performance and return on invested capital
- share profit with shareholders through a reliable and growing dividend
- promote a strong and healthy corporate culture by taking care of our exceptional team
- build strong and positive relationships with our stakeholders

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

We balance our capacity to take advantage of strategic opportunities with sustaining and improving our existing business.

Sustain & Improve

We execute our proven business model for sustainable results by:

- continuing to develop and manage real estate assets for revenue, earnings and cash flow growth
- continuing to drive key performance measures

Grow & Diversify

We build for future growth by:

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

Assets

Our raw and developed assets and conservative approach to debt 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.

Division	Assets	Strategy
Community Development	<ul style="list-style-type: none"> ▪ 10,249 acres of raw land inventory in strategic growth corridors 	<ul style="list-style-type: none"> ▪ Maintain right mix of inventory, available at the right time ▪ Increase market share
Property Development	<ul style="list-style-type: none"> ▪ Prospects for over 6 million sf of new development over 5-10 years based on existing plans ▪ Completed and transferred 555,010 sf in 2014 	<ul style="list-style-type: none"> ▪ Develop strong relationships with regional/national/multi-national tenants ▪ Ongoing development of high quality retail, business and industrial centres

Division	Assets	Strategy
Investment Properties & REIT	<ul style="list-style-type: none"> ▪ Over 3.3 million sf of commercial property and 1,286 residential units under management, diversified across 4 asset classes in 3 provinces and 2 states ▪ New buildings coming online as Property Development completes projects 	<ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> ▪ 4 championship golf courses 	<ul style="list-style-type: none"> ▪ Maintain strong reputation through consistent course quality and player experience

Diversification

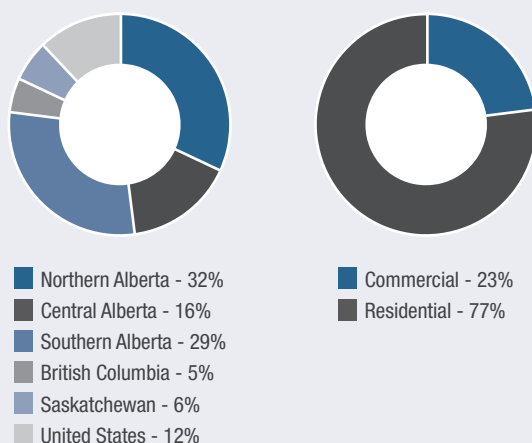
Our operating divisions diversify our revenue streams in a number of ways:

- 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 each asset generates (a mix of steady revenue from income-producing properties and revenue that fluctuates based on the season and market demand)

Community Development is our most geographically diversified division and is actively investing in the US and Canada to build inventory for future development. This division holds a variety of land types for future residential or commercial development in strategic growth corridors. It is also diversified through the life cycle 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.

Land Inventory

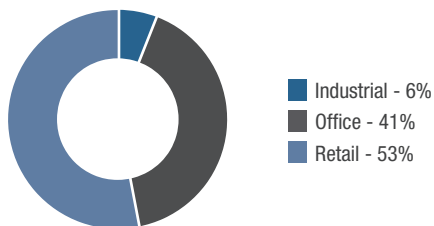


Property Development adds value to raw land by developing retail, office and industrial properties. The division has developments in high-growth regions of Alberta.

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 completing a value chain from raw land to annuity income. The properties may also be sold to the REIT pursuant to a right of first offer, which enables Melcor to monetize the value created while retaining an interest in the asset.

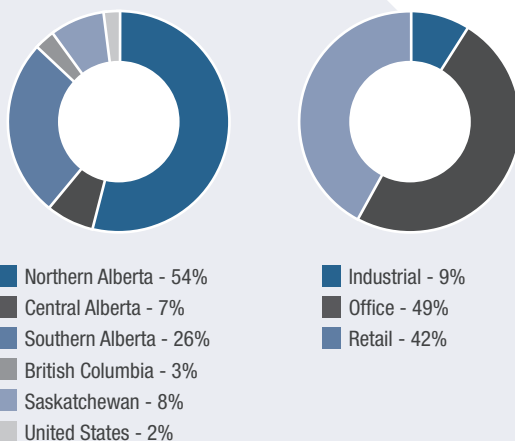
Melcor has been developing commercial properties since the 1970s and has built over 2.20 million sf. Our future development pipeline is over 6 million sf over the next 5 to 10 years based on current plans.

Development Pipeline Asset Class



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 in western Canada (the majority of these assets are owned by the REIT) and primarily residential in the US. 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 and prepare properties for vend-in to the REIT.

Total Gross Leasable Area Under Management



The REIT owns 2.7 million sf of income-producing assets that are managed by Investment Properties (1.69 million sf at December 31, 2013). The REIT is a vehicle for realizing the value created through the Melcor value chain as raw land is developed for commercial use (Community Development) and commercial properties are built (Property Development) or redeveloped (Investment Properties) 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.

Key Performance Drivers

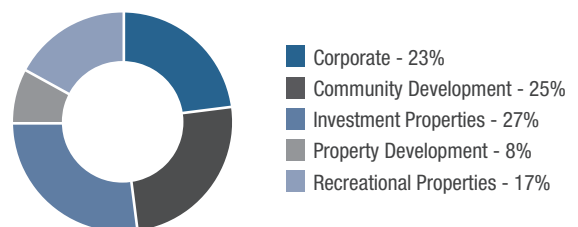
A High Performance Team

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 2014, we added 9 new positions for overall headcount growth of 7%. The majority of staff additions were made in the Investment Properties division as we have increased the GLA under management by 33% since last year. Over the past three years, we added 47 positions for employee growth of 55%.

On the other end of the spectrum, we have 17 team members (9 active) in Melcor's Quarter Century Club.

Even though we've grown our team significantly over the past few years, the average tenure of our full-time permanent staff is 6.87 years and over 12 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.

The Melcor Team by Division



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 over nine decades of strong corporate values. We offer rewarding career and development opportunities, competitive compensation and benefits, and employer-matched RRSP and employee share purchase programs (ESPP).

Financial Resources

Given the capital-intensive nature of our business, we require access to sufficient capital in order to continue to grow, develop land and take advantage of opportunities to acquire land or property that fit our growth strategy.

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, at the end of 2014, Melcor had project specific financings on four residential community projects and two commercial development projects totalling \$34.21 million.

In 2013, with the IPO of the REIT, we created a vehicle to realize the value of our investment property assets. We received total consideration of \$266.13 million in the IPO and retained 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.

In 2014, the REIT acquired eight assets from Melcor for total consideration of \$151.75 million. As at December 31, 2014 we retained an effective 56.5% ownership of the REIT.

Our operations are supported by a syndicated operating line of credit with total availability of \$195.37 million, 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 26-28.

Real Estate Inventory

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

- 10,249 acres of developable land
- 3.3 million sf of leasable commercial property and 1,286 residential units under management in 3 provinces and 2 states
- potential to develop over 6 million sf of new leasable property over the next 5 to 10 years (based on existing planned development)

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

2014 Highlights

	2014	2013	Change
(\$000s except as noted)			
Revenue	313,009	303,742	3.1%
Gross margin (%) *	48.0%	44.4%	8.1%
Fair value adjustment on investment properties	12,828	47,571	(73.0)%
Net income	100,719	98,623	2.1%
Net margin (%) *	32.2%	32.5%	(0.9)%
Adjusted earnings*	91,699	110,439	(17.0)%
Funds from operations *	85,477	57,859	47.7%
Shareholders' equity	901,335	769,231	17.2%
Total assets	1,863,296	1,727,933	7.8%
Cash from operations	69,663	64,651	7.8%
Per Share Data			
Basic earnings	3.18	3.24	(1.9)%
Diluted earnings	3.06	3.05	0.3%
Adjusted basic earnings*	2.89	3.63	(20.4)%
Adjusted diluted earnings*	2.75	3.35	(17.9)%
Funds from operations *	2.70	1.90	42.1%
Book value *	27.22	25.03	8.7%

* See non-standard measures for definitions and calculations.

A Record Year

With continued strong market demand, 2014 was the fourth consecutive year that we achieved record revenue. Key highlights of the year include:

- Record consolidated revenues of \$313.01 million.
- Asset growth of 8% to \$1.86 billion.
- Funds from operations grew 48% to \$85.48 million.
- Gross margin increased by 4% primarily as a result of increased pricing in Community Development and growth in our highest margin segments: Investment Properties and the REIT.

Building Strategically

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 122.85 acres of raw land in Goodyear, Arizona which will be allocated for residential development.
 - We increased our Canadian land holdings by 722.57 acres in our key regions and markets. The acquired land is primarily allocated to residential development.

- The Property Development division completed and transferred projects totaling \$161.05 million in 2014, compared to \$26.94 million in 2013, to our Investment Properties division. This includes 22 buildings representing 555,010 sf in new GLA (at 100%). This compares with 13 buildings and 103,388 sf last year.
- Our portfolio of managed properties grew by 48% through third party acquisitions and transfers of completed buildings from our Property Development division.
 - Melcor completed third party commercial property acquisitions, which included two office buildings in Phoenix, Arizona. These acquisitions added 59,220 sf at a cost of \$12.27 million (US\$11.12 million).
 - The REIT completed three third party property acquisitions, adding 249,361 sf at a cost of \$42.83 million.
- The REIT acquired six properties and two additional phases in existing properties (793,941 sf) from Melcor for \$151.75 million.
- Melcor and the REIT invested \$4.77 million in capital improvements to existing properties.

Return to Shareholders

We continue our tradition of distributing profit to our investors. During 2014, we paid annual dividends of \$0.58 per share, representing 16% growth over 2013 regular dividends.

For 2015, we changed our semi-annual dividend schedule to a quarterly dividend and declared a dividend of \$0.15 per share payable on March 31, 2015 to shareholders of record on March 17, 2015. We have been paying dividends since 1969.

Adjusted Earnings

Under IFRS, we consolidate 100% of the REIT and record the non-controlling interest (public's interest) as a financial liability. To more accurately reflect our shareholders' proportionate interest in the REIT (56.5% at December 31, 2014), we present adjusted earnings.

The adjustments are summarized as follows:

- we remove adjustments related to REIT units as detailed in note 26;
- we add back the management fees earned by Melcor, which are eliminated on consolidation; and
- we remove the public's interest (43.5%) in the REIT's earnings.

We consider 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)	2014	2013
Net income for the year	100,719	98,623
Adjustments related to REIT Units	(1,616)	18,176
Management fees earned from the REIT	1,997	1,070
Unitholders' portion of earnings of the REIT	(9,401)	(7,430)
Adjusted earnings	91,699	110,439
Adjusted basic EPS*	2.89	3.63
Adjusted diluted EPS*	2.75	3.35

*See non-standard measures for definitions and calculation.

Revenue & Margins

We earned record revenue of \$313.01 million in 2014 compared to \$303.74 million in 2013 for an increase of 3%. Our revenue diversification strategy resulted in significant growth in Property Development and investment properties under management. Transfers from Property Development to Investment Properties, in conjunction with third party acquisitions, contributed to 69% growth in GLA under management. We achieved revenue growth in both the Investment Properties (up 59%) and REIT (up 13%) divisions, prior to inter segment eliminations. Property Development revenue (up 442%) is eliminated on consolidation.

Gross margin increased 4% to 48% in 2014. Community Development achieved gross margin of 45% in 2014 compared to 40% in 2013. This increase was driven by strong demand in key markets and had a positive impact on our earnings.

Community Development gross margin is affected by a number of factors, including 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.

Funds from operations (FFO) is a measure used to report cash flows from operations, and excludes non-cash items that impact earnings, such as fair value adjustments. Year over year, FFO increased 48% as a result of increased cash profits earned in the year. On a per share basis, FFO increased \$0.80 per share, or 42%. Fair value adjustments were down by 73% compared to 2013. Stabilization in cap rates across income-producing assets (Investment Properties & REIT) contributed to a \$21.81 million reduction in fair value adjustments and Property Development fair value adjustments were \$12.51 million lower than 2013.

Net margin remained steady over 2013 at 32%. Gross profit was \$15.33 million higher compared to 2013. This was offset by fair value adjustments on investment properties and adjustments related to REIT units of \$14.95 million compared to 2013. Fair value adjustments fluctuate period by period based on market conditions.

Fair value gains of \$12.83 million were recorded in 2014 (2013: \$47.57 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 \$2.90 million (2013: \$4.30 million);
- leasing activity and completion of construction on Property Development projects resulting in fair value gains of \$13.65 million (2013: \$26.16 million); and
- decreased fair value adjustments in our Investment Properties and REIT divisions, compared to 2013, reflects increased stability in the portfolio.

Adjusted earnings, which reflects our proportionate interest in the earnings of the REIT, was \$91.70 million for the year, a decrease of 17% over 2013. Adjusted basic earnings per share were \$2.89, a decrease of 20% over 2013. The calculation for adjusted earnings includes fair value adjustments on investment properties which decreased \$34.74 million to \$12.83 million in the current year.

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 the REIT;
- The REIT, which owns and holds 38 income-producing properties; and
- Recreational Properties, which owns and operates championship golf courses associated with Melcor residential communities.

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

The following tables summarize 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)	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Revenue	232,897	251,323	161,966	29,880	37,986	23,878	44,509	39,325	9,029	8,410
Portion of total revenue	48%	71%	33%	8%	8%	7%	9%	11%	2%	2%
Cost of sales	(129,073)	(151,281)	(123,629)	(17,963)	(15,317)	(11,076)	(17,860)	(15,930)	(5,966)	(5,564)
Gross profit	103,824	100,042	38,337	11,917	22,669	12,802	26,649	23,395	3,063	2,846
Gross margin (%)	45%	40%	24%	40%	60%	54%	60%	59%	34%	34%
Portion of total gross profit	52%	66%	20%	8%	12%	8%	14%	15%	2%	2%
General and administrative expense	(9,403)	(10,102)	(2,261)	(1,924)	(3,272)	(3,608)	(2,134)	(1,722)	(2,184)	(1,999)
Fair value adjustment on investment properties	—	—	13,651	26,159	(5,305)	(351)	93	16,953	—	—
Gain on sale of assets	—	—	—	—	—	—	—	—	173	35
Interest income	2,709	2,114	—	7	28	45	72	61	—	—
Divisional income before tax	97,130	92,054	49,727	36,159	14,120	8,888	24,680	38,687	1,052	882

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 commercial properties on the land.

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 home builders 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.

As at December 31, 2014 we held 10,249 acres of raw land for future development which positions the division well for future growth. Our developed land inventory at December 31, 2014 includes 1,144 single-family lots, 67.6 acres for multi-family unit development, and 139.6 non-residential acres.

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 where overall market conditions were strong throughout 2014.

The following table summarizes our activity in 2014 and 2013:

Consolidated	2014	2013
Sales data:		
Single-family sales (number of lots)	1,616	1,776
Gross average revenue per single-family lot (\$)	166,400	143,300
Multi-family sales (acres)	17.60	47.36
Gross average revenue per multi-family acre (\$)	1,073,000	881,100
Commercial sales (acres)	8.35	32.63
Gross average revenue per commercial land acre (\$)	820,300	800,800
Other land sales - Industrial, Other (acres)	50.40	126.28
Gross average revenue per other land acre (\$)	402,600	164,500
Financial results:		
Revenue (\$000s)	232,897	251,323
Earnings (\$000s)	97,130	92,054

Regional Highlights

Edmonton & Region	2014	2013
Sales data:		
Single-family sales (number of lots)	828	923
Multi-family sales (acres)	9.78	17.24
Commercial sales (acres)	5.02	27.13
Other land sales - Industrial & Other (acres)	30.67	17.00
Financial results:		
Revenue (\$000s)	120,440	122,165
Earnings (\$000s)	47,083	38,487

The Edmonton region delivered solid results and improved margins due to strong market demand in our neighbourhoods throughout 2014. We continued to develop the Rosenthal community (West Edmonton), which produced 123 single-family lot sales and 2.94 acres of commercial land sales. This community was named a finalist for Best New Community in the Canadian Home Builders Association Awards of Excellence in Housing.

We introduced a new community - Tonewood - in Spruce Grove during the year and sold all 67 lots that registered. We also commenced construction at Jensen Lakes, which will be St. Albert's first and only lake community.

Our Aurora, Jagare Ridge and Glenriding communities in South Edmonton continued to achieve strong sales in 2014 and contributed 541 lot sales in the Edmonton region.

Other land sales in the Edmonton region include the sale of two industrial sites in Leduc to our Property Development division at a price of \$2.88 million.

Red Deer & Region	2014	2013
Sales data:		
Single-family sales (number of lots)	280	276
Multi-family sales (acres)	—	16.65
Commercial sales (acres)	—	—
Other land sales - Industrial & Other (acres)	4.42	15.1
Financial results:		
Revenue (\$000s)	41,334	52,831
Earnings (\$000s)	22,190	23,771

The Red Deer region continued to achieve consistent results, with 280 single-family lot sales and total revenue of \$41.33 million in 2014. Southeast Red Deer continues to be in high demand with new home buyers. Laredo, introduced in 2013, gained momentum in 2014 and produced 210 lot sales.

Red Deer is a key market where we hold an average 50% market share based on building permits issued. We are strategically expanding into surrounding communities to meet demand as Red Deer grows. In 2014, we launched The Vista in Ryders Ridge, our first project in the town of Sylvan Lake. This community produced 53 lot sales in the year.

In 2015, we will introduce the first phase in Oxford Landing (Penhold), which will be a mixture of permanent structure residential lots and land lease pad lots.

Calgary & Region	2014	2013
Sales data:		
Single-family sales (number of lots)	408	429
Multi-family sales (acres)	7.82	13.47
Commercial sales (acres)	3.33	5.50
Other land sales - Industrial, Other (acres)	7.83	8.38
Financial results:		
Revenue (\$000s)	59,257	60,425
Earnings (\$000s)	24,966	23,979

The Calgary region continued with strong results. During the year, we registered two additional phases of Sunset Ridge (Cochrane) and sold 183 single-family lots. We also continued to develop Kings Heights (Airdrie) and registered one new phase in 2014.

Development is underway at The District at North Deerfoot (North Calgary), where we are developing the first two phases of a regional business park. In 2014, we transferred 2.79 acres for commercial retail centre development to Property Development for \$2.80 million. We also transferred 2.10 acres in Kingsview Market (Airdrie) to Property Development for \$1.51 million.

Lethbridge	2014	2013
Sales data:		
Single-family sales (number of lots)	88	58
Other land sales - Industrial & Other (acres)	7.48	16.38
Financial results:		
Revenue (\$000s)	8,440	7,709
Earnings (\$000s)	2,266	2,701

Lethbridge region revenue increased 9% over 2013. We continue to actively develop three communities in Lethbridge and registered two new phases during the year. Legacy Ridge attained strong sales with 52 lots sold during the year. We invested in future residential and commercial development in the region with the purchase of 36.91 acres of raw land in 2014.

Kelowna	2014	2013
Sales data:		
Single-family sales (number of lots)	12	7
Financial results:		
Revenue (\$000s)	2,916	1,995
Earnings/(loss) (\$000s)	335	(251)

Revenue in Kelowna grew by 46% over 2013 with increased interest and activity in the area. We completed the construction of a four unit townhouse and sold all units in 2014. We expect the recovery in economic activity in this region to continue, and we are well positioned to take advantage when it occurs with a good inventory of finished lots and developable land.

Inventory

Inventory management is a critical component of the Community Development division's future success. Land development is a capital-intensive process requiring long time horizons to obtain 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:

(including joint arrangements at 100%)	December 31, 2014		
	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)
Open	1,498	70.9	181.1
New developments	1,262	14.3	(4.5)
Internal sales	—	—	(10.6)
Sales	(1,616)	(17.6)	(26.4)
	1,144	67.6	139.6

(including joint arrangements at 100%)	December 31, 2013		
	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)
Open	1,180	93.0	237.6
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

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)	2014	2013	Total Land Holdings
Edmonton & Region	300.94	347.12	3,244
Central Alberta	310.86	—	1,647
Calgary & Region	73.86	2.59	2,422
Lethbridge	36.91	72.10	536
British Columbia	—	155.00	541
Saskatchewan	—	—	616
United States	122.85	258.00	1,243
	845.42	834.81	10,249

Our land acquisitions in 2014 remained focused on securing land positions in strategic growth corridors. Included in the 845.42 acres purchased in 2014 is 122.85 acres of land in Goodyear, Arizona as we continue to diversify our land holdings.

During the year we entered into a new joint arrangement and purchased 147.72 acres (net of joint arrangement interest, 73.86 acres) of residential lands in Calgary to replenish inventory.

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

The Property Development division increases the value of land assets and delivers long-term sustainable returns with high profile anchor tenants such as ATB, Bank of Montreal, Canadian Tire, Canadian Western Bank, Cara, CIBC, Home Depot, Loblaw's, McDonald's, Rexall, Rona, Royal Bank, Save-on-Foods, Scotiabank, Shoppers Drug Mart, Staples, Starbucks, Subway, TD Canada Trust, Tim Hortons, Wal-Mart, Winners and many others.

Completed buildings are transferred from Property Development to Investment Properties at fair market value (based on third party appraisals) once construction and leasing activities near completion. The transfer revenue and related costs are eliminated on consolidation and do not impact overall earnings.

Management fee revenue is comprised of fees paid by joint arrangement partners and is a percentage of total development costs incurred, which fluctuate period to period depending on the development stage of active projects.

The Property Development division realizes fair value gains resulting from development and leasing activities as construction is in progress. We generally expect to see the majority of fair value increases in the third and fourth quarters as construction and leasing are completed.

Division Highlights

(\$000s and at JV%, except as noted)	2014	2013
Total revenue	161,966	29,880
Management fees	913	2,939
Gross margin (%) on property transfers	23%	33%
Square footage transferred (sf, at 100%)	555,010	103,388
Number of buildings transferred	22	13
Fair value gains	13,651	26,159

Property Development completed and transferred 22 buildings (555,010 sf) to Investment Properties during 2014. A further 236,900 sf remain under development. Construction was also advanced on several additional buildings in new phases of existing developments, which are expected to be completed in 2015.

Commercial development typically takes several years, depending on the scale of the project, so revenue and fair value adjustments will fluctuate from year to year based on the stage of construction and the number of active projects under development.

Regional Highlights

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

Fair Value Gains (\$000s)	2014	2013
Northern Alberta	10,420	23,847
Central Alberta	1,125	—
Southern Alberta	2,106	2,312
	13,651	26,159

Northern Alberta: This region transferred 510,767 sf (17 buildings in 7 developments) to Investment Properties. Notable properties completed and transferred in 2014 include:

- Stoneycreek Village, our first project in Fort McMurray. This three-year project includes 209,777 sf of office and retail space in 4 buildings. Interest in this property has been strong and it is currently 82% leased. It transferred in Q4-2014 for \$175.90 million (net of joint arrangement interest, \$52.77 million).
- The Village at Blackmud Creek, our first business campus, transferred 57,364 sf (2 buildings) in Q4-2014 (subsequently sold to the REIT). This master-planned business campus is designed to yield 725,000 sf of office and retail space at full build out.

Central Alberta: This region transferred 26,496 sf from Clearview Market, including an office building and a free-standing commercial retail unit (CRU) building. Development at Clearview Market is near completion with 141,120 sf developed to date and approximately 10,000 sf remaining under development.

Southern Alberta: This region transferred 17,747 sf (3 buildings in 2 developments) in 2014, including:

- A 5,668 sf CRU at Kingsview Market Square, bringing the total sf developed to date on the property to 117,265 sf.
- 12,079 sf in 2 CRUs (and a free-standing bank and a tire shop) at Chestermere Station.

2013 had an active construction season which resulted in the fair value gains of \$26.16 million being reported. The gains reported in 2013 primarily relate to properties that were completed and transferred in 2014. Transfers occur upon completion of the buildings, where the fair value gains are recorded over the course of construction.

Future development opportunities

We continually identify parcels of land from our land inventory that are well suited for commercial development in the near future. We also work with municipalities to gain approvals to commence development on new projects.

The following table is a summary of current and future development projects:

Current Projects						
Project	Location	Type	Total SF *	Developed to Date	SF Under Development	
The Village at Blackmud Creek	South Edmonton	Regional business park	725,000	57,364	120,000	
Telford Industrial	Leduc	Industrial park	500,000	88,699	44,000	
West Henday Promenade	West Edmonton	Regional mixed use centre	378,000	96,627	14,000	
Kingsview Market	Airdire	Regional shopping centre	331,000	117,265	16,900	
Chestermere Station	Chestermere	Neighbourhood shopping centre	308,361	218,966	9,230	
Clearview Market	Red Deer	Neighbourhood shopping centre	151,120	141,120	10,000	
The District at North Deerfoot	North Calgary	Regional business / industrial park	2,250,000	—	22,770	

Anticipated Future Projects						
Project	Location	Type	Total SF *	Ownership Interest	Expected Start (year)	
The Shops at Jagare Ridge	South Edmonton	Neighbourhood shopping centre	105,000	50%	2016	
The Shoppes at Canyons	Lethbridge	Neighbourhood shopping centre	105,000	100%	2016	
Greenwich	West Calgary	Regional mixed use centre	395,000	100%	2017	
Keystone Common	North Calgary	Regional power centre	775,000	100%	2018	
West Pointe Marketplace	Lethbridge	Regional power centre	750,000	100%	2018	
Jenson Lakes	St. Albert	Regional mixed use centre	173,000	100%	2017	
West Calgary Marketplace	West Calgary	Regional power centre	800,000	100%	2018	

* Size represents the estimated total square footage projected for full build out. 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 the REIT).

Our Investment Properties division oversees 3.3 million sf of income-producing commercial GLA and 1,286 residential units.

Our commercial property portfolio is primarily comprised of properties developed and transferred from our Property Development division. Our goal is to improve the operating efficiency of each property for stable and growing cash flows making them attractive assets for the REIT to purchase under its Right of First Offer (ROFO) option. In our management capacity we are committed to efficient property management for optimized operating costs, occupancy and rental rates, providing the REIT and our joint venture partners with best in class management services. 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 US properties provide the division with a stable income stream that diversifies our exposure to the western Canadian resource sector. We also own 7 parking lots and other assets which are held for the long-term providing current stable income and future re-development opportunities.

Our portfolio under management has high occupancy rates with long-term tenancies from high quality retail and commercial clients.

Operating Results

(\$000s except as noted)	2014	2013
Commercial properties GLA under management (sf, total)	3,291,326	2,480,328
Properties owned and managed (sf)	287,722	631,489
Properties managed (sf)	3,003,604	1,848,839
Revenue (total)	37,986	23,878
Commercial properties	18,387	8,894
US properties	13,737	11,228
Management fees	4,316	2,363
Parking lots and other assets	1,546	1,393
Net operating income (NOI) *	23,701	13,920
Funds from operations *	22,280	10,825
Funds from operations per share *	0.67	0.35

* See non-standard measures for calculation.

Since the formation of the REIT in 2013, the primary function of the Investment Properties division has changed to the role of asset manager and providing hands on property management. Growth in revenues reflects the increase in GLA as high quality properties were completed and transferred from the Property Development division and the increase in management fees as our properties under management increased 33% over 2013.

COMMERCIAL PROPERTIES

We experienced significant activity in our commercial properties portfolio with 22 buildings (555,010 sf at 100%) completed and transferred from Property Development. Approximately 213,878 sf of 2014 building transfers were subsequently sold to the REIT as part of two property sales completed during the year. In total, Investment Properties sold 8 properties with GLA of 793,941 sf to the REIT. Same asset revenues and NOI represent a small portion of commercial properties activity, underscoring the change in the division's role to that of asset manager. Revenues generated on assets acquired from Property Development and held at year-end were \$4.59 million (2013 - \$0.97 million). Occupancy on our owned commercial properties was 85% at December 31, 2014 compared to 91% in 2013. The decrease reflects the high churn in the portfolio as newer assets are brought in and are in the process of being leased up, while fully leased up assets are sold. Revenues recognized in 2014 on assets sold to the REIT were \$12.08 million (2013 - \$6.77 million). These assets will continue to generate revenues for the division under our management fee structure with the REIT.

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

(\$000s except as noted)	2014	2013
Same asset NOI *	1,290	742
Properties transferred from PD	3,591	706
Properties transferred to REIT	7,071	3,246
NOI before adjustments	11,952	4,694
Amortization of operating lease incentives	2,855	1,586
Straight-line rent adjustment	(1,801)	(468)
NOI	13,006	5,812

*See non-standard measures for definition.

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 \$0.55 million or 74% over 2013 driven by improved occupancy on specific assets through the success of our leasing program and efficient property management to maintain costs.

US PROPERTIES

During 2014 we increased our US portfolio through the acquisition of two commercial properties (59,220 sf on 3.05 acres) and the purchase of six residential units in the Greater Phoenix area. Revenues from newly acquired commercial assets were \$0.91 million (2013 - \$nil). Growth in our same asset

portfolio was due to improved occupancy on residential assets, higher rental rates and foreign currency gains. During 2014, occupancy and average rental rates increased, reflecting the improved economic environment in our US markets. Occupancy on our residential assets was 96% at December 31, 2014 compared to 94% in 2013, with average rental rates increasing modestly over 2013. Property acquisitions and organic growth in the portfolio, in conjunction with foreign currency gains led to revenue and NOI growth of 22% over 2013.

A reconciliation of same asset NOI is as follows:

(\$000s except as noted)	2014	2013
Same asset NOI *	5,418	5,098
Third party acquisitions	412	—
NOI before adjustments	5,830	5,098
Foreign currency translation	607	152
Straight-line rent adjustment	(22)	—
NOI	6,415	5,250

* See non-standard measures for definitions.

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 \$0.32 million or 6% over 2013 from higher occupancy and growth in average rental rates, while maintaining cost control.

MANAGEMENT FEES

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the asset manager. Management fees increased by \$1.95 million compared to 2013 reflecting both the 62% growth in the REIT's portfolio over Q4-13, and that 2014 included fees for the full year, compared to the post REIT formation period of eight months in 2013.

During 2014 we recognized \$1.55 million in revenues on our 516 parking stalls and other assets for growth of 11% over 2013. These revenues can fluctuate from period to period.

FUNDS FROM OPERATIONS

Funds from operations (FFO) increased by \$11.46 million over 2013. The increase is due to higher NOI from properties transferred from Property Development, increased fees earned under our management agreements, growth in our US portfolio and lower general and administrative expense. 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

	2014	2013
Fair value of portfolio (\$000s)	265,204	235,029
Weighted average capitalization rate	6.18%	6.72%
Weighted average discount rate	7.40%	8.09%
Weighted average terminal cap rate	6.43%	7.10%

The fair value of our portfolio increased by \$30.18 million over 2013 as a result of \$152.92 million in buildings acquired from Property Development and foreign current translation gains of \$3.23 million. These additions were offset by the sale of \$151.75 million in assets to the REIT and fair value losses.

Our investment properties were valued by independent valuation professionals as at December 31, 2014 and December 31, 2013. This resulted in fair value losses of \$5.31 million in 2014 and \$0.35 million in 2013 being recognized in income. Refer to note 29 to the consolidated financial statements for additional information on the calculation of fair value adjustments. Fair value losses during 2014 were driven by assets sold to the REIT where the carrying value exceeded the sale price.

REIT

The REIT owned 38 income-producing office, retail and industrial properties, comprising 2,735,467 sf of GLA and a land lease community at December 31, 2014. 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 56.5% effective interest in the REIT through ownership of all Class B LP Units (December 31, 2013 - 51.1%). As we have concluded that Melcor retains control of the REIT we consolidate 100% of the REIT's revenues, expenses, assets and liabilities. The comparative period in the tables below includes financial information for the pre-acquisition period as previously reported by the Investment Properties division.

Operating results

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

(\$000s except as noted)	2014	2013
Rental revenue	44,509	39,325
Net operating income (NOI) *	28,581	25,295
Same asset NOI (see calculation following)	22,839	22,954
Fair value adjustments	93	16,953
Occupancy	92.4%	90.6%
Funds from operations *	17,907	15,903
Funds from operations per share *	0.54	0.52

* See non-standard measures for definition and calculation.

Rental revenue for the year ended December 31, 2014 increased \$5.18 million or 13% over 2013. Higher revenue was driven by portfolio growth, with nine properties and additional phases at two existing properties acquired during 2014 increasing our GLA by 62% or 1,043,547 sf compared to December 31, 2013. Rental revenue generated by newly acquired properties was \$5.19 million in 2014 (2013 - \$0.59 million). Same-asset rental revenue grew by \$0.58 million or 2% over 2013 driven by recoveries on higher direct operating expenses incurred during the year.

Occupancy improved to 92% as a result of higher average occupancy on newly acquired properties. On a same-asset basis occupancy improved moderately as a result of leasing activity on new and renewed deals during the year.

Recoveries are amounts recovered from tenants for direct operating expenses incurred during the year and include a nominal administrative charge. During the year ended December 31, 2014, recoveries revenue increased by \$2.28 million or 16% and correlates with the increase in direct operating expenses which were 12% or \$1.93 million higher than 2013. Recovery revenue from newly acquired properties contributed \$1.37 million in 2014 (2013 - \$0.11 million).

Direct operating expenses increased by \$1.93 million or 12% over 2013. Excluding the impact of newly acquired properties, direct operating expenses increased by \$0.70 million over 2013. On a same-asset basis operating expenses were \$0.22 million or 3% higher than 2013 and reflect inflationary growth in the cost of goods and services, offset by lower snow removal costs and certain non-recoverable costs. Property taxes and utilities increased by \$0.47 million or 6% on a same-asset basis compared to 2013 and reflect higher property taxes on specific assets due to rising appraised values. These increases were partially offset by cost savings on utility contracts.

(\$000s except as noted)	2014	2013
Same asset NOI *	22,839	22,954
Acquisitions	3,810	441
NOI before adjustments	26,649	23,395
Amortization of operating lease incentives	2,539	2,297
Straight-line rent adjustment	(607)	(397)
Divisional NOI	28,581	25,295

* 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.

Property acquisitions completed in 2014 and the last half of 2013 contributed to the increase in NOI, which grew 13% over 2013. On a same-asset basis, NOI was steady over 2013.

FUNDS FROM OPERATIONS

Funds from operations ("FFO") increased by \$2.00 million or 13% over 2013. The increase reflects higher NOI, which was partially offset by higher general and administrative expenses and finance costs during the period.

Fair Value of REIT Portfolio

	2014	2013
Number of properties	38	29
Total GLA (sf)	2,829,885	1,786,447
GLA (REIT owned %) (sf)	2,735,467	1,691,920
Fair value of portfolio (\$000s)	644,288	440,349
Weighted average capitalization rate	6.49%	6.41%
Weighted average discount rate	7.69%	7.57%
Weighted average terminal cap rate	6.77%	6.69%

Our investment properties were valued by independent valuation professionals as at December 31, 2014 and December 31, 2013. This resulted in fair value gains of \$0.09 million in 2014 and \$16.95 million in 2013 being recognized in income. Refer to note 29 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

A breakdown of our fair value adjustment on investment properties by geographic region are as follows:

Fair Value Gains (\$000s)	2014	2013
Northern Alberta	(3,787)	7,969
Southern Alberta	2,955	6,178
Saskatchewan & British Columbia	925	2,806
	93	16,953

Fair value losses in Northern Alberta were primarily due to an increase in capitalization rates on three Edmonton office properties. Fair value gains in Southern Alberta and Saskatchewan & British Columbia were primarily driven by newly acquired properties where appraised fair value exceeded purchase price. Decreased fair value adjustments compared to 2013 reflects increased stability in the portfolio.

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)	2014	2013
Revenue	9,029	8,410
Gross profit	3,063	2,846
Gross margin (%)	33.9%	33.8%
Earnings	1,052	882

The financial performance of our golf courses is greatly influenced by the weather conditions during the golf season. Favourable weather conditions and an extended season coupled with effective and efficient operations management contributed to a 7% increase in revenue and a 19% increase in earnings in the 2014 season. The number of rounds played at Melcor managed courses increased by 6% over 2013, and total rounds at all four courses increased 7% to 114,332 rounds.

We continue to focus on food and beverage initiatives as part of our strategy of attracting tournaments and growing revenue. Food and beverage revenue was \$2.77 million, an increase of 8% over 2013.

		2014		
	Ownership Interest	Season opened	Season closed	Rounds of golf*
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 20	November 7	32,283
The Links (Spruce Grove)	100%	April 19	November 7	27,966
Black Mountain (Kelowna)	100%	March 28	November 12	30,235
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	April 30	October 20	23,848

		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

* Rounds of golf indicated at 100%.

General and Administrative Expense

General and administrative expense (G&A) for the year decreased \$4.28 million over 2013. During 2013, the Corporate Governance and Compensation Committee approved a one-time increase to the performance incentive program related to the REIT IPO, resulting in a higher expense in the prior year. The remainder of the decrease was due to cost containment initiatives in all divisions.

Financing

As at December 31, 2014, our total general debt outstanding was \$621.34 million compared to \$574.33 million in 2013. 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 December 31 (\$000s)		2014	2013
Melcor - revolving credit facilities	a	81,549	80,870
REIT - revolving credit facility	b	4,961	23,748
Project specific financing	c	34,205	64,383
Secured vendor take back debt on land inventory	d	80,335	77,194
Debt on investment properties and golf course assets	e	388,326	288,801
Melcor - convertible debenture	f	—	39,336
REIT - convertible debenture	g	31,965	—
		621,341	574,332

a) Melcor - revolving credit facilities

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, is renewable one year in advance of expiry and may be modified.

A summary of the credit facility is as follows:

As at December 31 (\$000s)		2014	2013
Credit limit approved	i)	195,370	178,000
Supportable credit limit	ii)	190,119	172,477
Credit used		(81,549)	(80,870)
Credit available		108,570	91,607

i) The portion of these loan limits that relate solely to Melcor Developments Ltd. is \$120.00 million (2013 - \$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 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 December 31 (\$000s)	2014	2013
Total letter of credit facility	74,495	69,516
Letters of credit issued	(55,863)	(51,774)
Available for issue	18,632	17,742

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 \$25.00 million for general purposes, including a \$3.00 million swingline sub-facility. The agreement also provides the REIT with \$5.00 million in available letters of credit which bear interest at 2.25%. The facility matures on May 1, 2015, with a one year extension period at the discretion of the lenders. Depending on the form under which the credit facility is accessed, rates of interest will vary between prime plus 1.25% or bankers acceptance plus 2.25% stamping fee. Interest payments are due and payable based upon the form of the facility drawn upon, and principal is due and payable upon maturity. The agreement also bears a standby fee of 0.50% for the unused portion of the revolving facility. 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. During the year ended December 31, 2014, we amended our revolving credit facility agreement, pledging two additional recently acquired and unencumbered properties as collateral for the facility.

As at December 31, 2014 we had \$5.00 million drawn from the facility, and posted letters of credit of \$nil, which is presented net of unamortized transaction costs and discounts on outstanding bankers acceptance.

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 December 31 (\$000s)	2014	2013
Project specific debt on investment properties under development, with fixed interest rates between 3.37% and 5.00%	18,852	46,607
Project specific debt on land, with fixed interest rates between 3.53% - 3.75%	15,353	17,776
	34,205	64,383
Weighted average effective interest rate	3.70%	3.70%

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 2015 to 2020.

As at December 31 (\$000s)	2014	2013
Agreements payable with interest at the following contractual rates:		
Fixed rates of 3.13% - 6.16%	78,444	68,144
Variable rates of prime plus 0.75% to prime plus 1.50% (3.75% - 4.50% at Dec. 31/14 and Dec. 31/13)	1,891	9,050
	80,335	77,194
Weighted average effective interest rate	5.15%	4.69%

e) Debt on investment properties and golf course assets

We use fixed rate, long-term mortgage financing on our investment property 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 \$388.33 million reflects financing placed on investment properties that have a carrying value of \$696.65 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 3.40% to 3.61% in 2014.

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

As at December 31 (\$000s)	2014	2013
Canadian mortgages at fixed rates (2014: 3.01% to 6.16%, 2013: 2.90% to 7.46%)	304,371	184,519
Canadian mortgages at variable rates (2014: 3.50% to 4.60%, 2013: 3.50% to 4.60%)	23,709	53,847
US mortgages at fixed rates (2014: 5.21% to 6.06%, 2013: 3.74% to 6.06%)	41,998	32,348
US mortgages at variable rates (2014: 3.02% to 3.74%, 2013: 3.02% to 3.25%)	19,302	18,087
	389,380	288,801
Weighted average effective interest rate	4.12%	4.32%

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
2015	41,603	4.89%	8
2016	52,499	5.03%	6
2017	6,584	3.20%	3
2018	43,668	4.21%	8
2019	72,337	3.32%	10
2020	12,587	5.22%	4
2021	14,501	5.21%	1
2022	9,060	3.74%	1
2023	15,461	4.00%	2
2024	34,406	3.63%	4
2025	5,171	3.50%	1

As at December 31, 2014, \$13.46 million of debt was payable in US dollars (2013: \$9.65 million).

f) Melcor - convertible debenture

On June 25, 2014 Melcor issued a Notice of Redemption to holders of the \$40.00 million convertible debenture ("debentures") due February 8, 2017. The debentures were redeemable for an amount equal to the principal amount of the debentures plus accrued unpaid interest up to, but excluding, the redemption date. On August 6, 2014 we received Notices of Conversion from all holders and the debentures have been converted to 2,160,993 common shares at a conversion price of \$18.51.

g) REIT - convertible debenture

On December 3, 2014, the REIT issued a 5.50% extendible convertible unsecured subordinated debenture ("REIT debenture") to the public for gross proceeds of \$34.50 million, including \$4.50 million issued pursuant to the exercise of an over-allotment option. The REIT debenture bears interest at an annual rate of 5.50% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2015. The maturity date of the REIT debenture is December 31, 2019.

The REIT debenture was a source of financing and the funds were used to complete property acquisitions.

Liquidity & Capital Resources

The following table represents selected information as at December 31, 2014, compared to December 31, 2013.

(\$000s except as noted)	2014	2013
Cash & cash equivalents	19,011	28,973
Restricted cash	2,945	5,969
Accounts receivable	21,407	21,542
Agreements receivable	167,773	177,961
Revolving credit facilities	86,510	104,618
Accounts payable and accrued liabilities	56,077	65,256
Total assets	1,863,296	1,727,933
Total liabilities	961,961	958,702
Debt to equity ratio *	1.07	1.25

*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 or trust units. 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, paying distributions on the REIT units 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 7, 2014 the REIT completed the issuance of 1,900,000 trust units at a price of \$10.65 per unit to a syndicate of underwriters, on a bought deal basis, for gross proceeds of \$20.24 million. Subsequently, the underwriters exercised their over-allotment option to purchase an additional 245,000 trust units at a price of \$10.65 for gross proceeds of \$2.61 million. The issuance was qualified under a short form prospectus dated April 30, 2014.

On December 3, 2014, the REIT completed the issuance of a 5.50% extendible convertible unsecured subordinated debenture (REIT debentures) to the public for gross proceeds of \$34,500, including \$4,500 issued pursuant to the exercise of an over-allotment option. The REIT debentures can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 79.0514 trust units per one thousand principal amount of the REIT debentures. The issuance was qualified under a short form prospectus dated November 25, 2014.

During 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.

We do not currently have any other plans to raise additional capital through the issuance of common shares, trust units, 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:

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt on investment properties and golf course assets	389,380	66,464	79,955	137,206	105,755
Revolving credit facilities	86,510	86,510	—	—	—
Secured vendor take back debt on land inventory	80,335	26,718	23,928	23,224	6,465
Project specific financing	34,205	34,205	—	—	—
REIT debenture	34,500	—	—	34,500	—
Operating leases	270	270	—	—	—
Total contractual obligations	625,200	214,167	103,883	194,930	112,220

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:

	2014	2013
Cash flows from operating activities	69,663	64,651
Cash flows used in investing activities	(139,976)	(155,408)
Cash flows from financing activities	60,246	107,899

Cash from operations was \$5.01 million higher in 2014. FFO increased \$27.62 million over 2013 driven by strong results in all operating divisions. A portion of cash was reinvested in land development activities, which increased \$11.10 million from 2013.

During the year we continued to invest in growing and improving our asset base through strategic acquisitions and value enhancing projects. On April 23, 2014 we acquired two office properties in the Greater Phoenix area for a purchase price of \$12.27 million. During the year, the REIT acquired an industrial building, office building and an office and retail complex from third parties, which contributed to the cash used in investing activities. Overall cash spent on property development decreased by \$28.72 million as we neared completion on several development projects, as indicated by the completion and transfer of 22 buildings at a fair value of \$161.05 million.

Cash from financing activities decreased by \$47.65 million over 2013. In 2013 we generated \$91.30 million in gross proceeds as a result of the REIT IPO. In the current year, the REIT issued

1,900,000 trust units to the public at \$10.65 per unit and on May 16, 2014 an additional 245,000 trust units were issued to the public at \$10.65 per unit. These offerings contributed \$22.84 million to cash from financing activities (net of transaction costs). In 2014 we declared and paid dividends of \$0.58 per share, for a total cash outflow of \$18.57 million. This compares to \$30.67 million paid in 2013 which included \$0.50 per share in regular dividends as well as a \$0.50 special dividend declared to distribute part of the funds from the REIT IPO to our shareholders. During the year we realized net cash inflows of \$38.32 million from our various debt facilities. Proceeds from financing arrangements allowed us reduce the amount drawn on the REIT revolving credit facility. On December 3, 2014 the REIT received \$31.93 million from the issuance of a 5.50% convertible debenture, net of transaction costs. Funds were used to complete property acquisitions.

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, 2014 there were 33,115,691 common shares issued and outstanding and 948,966 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 arrangement can be found on page 27. 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.

2014				
(\$000s)	Q4	Q3	Q2	Q1
Revenue	121,452	93,484	66,062	32,011
Net income	50,077	26,193	17,585	6,864
Per Share				
Basic earnings	1.56	0.83	0.57	0.22
Diluted earnings	1.46	0.83	0.55	0.22
Book value *	27.22	25.96	25.49	25.35
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

*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

(\$000s)	Three Months Ended December 31	
	2014	2013
Revenue	121,452	152,193
Cost of sales	(63,985)	(87,389)
Gross profit	57,467	64,804
General and administrative expense	(6,596)	(7,724)
Fair value adjustment on investment properties	10,712	21,096
Adjustments related to REIT units	2,296	(6,247)
Gain on sale of assets	6	26
Operating earnings	63,885	71,955
Interest income	729	619
Foreign exchange gains	494	—
Interest expense and other finance charges	(6,545)	(4,533)
Net finance costs	(5,322)	(3,914)
Income before income taxes	58,563	68,041
Income tax expense	(8,486)	(14,132)
Net income for the period	50,077	53,909
Basic earnings per share	1.56	1.76
Diluted earnings per share	1.46	1.64

Outlook

We own a high quality portfolio of assets, including raw land, developed land inventory (including residential lots and acres for multi-family and commercial development), income-producing properties and championship golf courses. Alberta, our largest market, has undergone dramatic changes in economic outlook over the past few months as a result of lower oil prices.

Despite this, we continue to see active interest in our residential communities and land inventory as well as leasing activity for our income-producing and under-development commercial properties.

We will continue to take advantage of opportunities to diversify our asset base both geographically and by product type. Our business model has adapted to changing times for over 90 years. We continue to operate with a disciplined, conservative approach designed to ensure that we remain profitable while achieving our fundamental goals of protecting shareholder investment and sharing corporate profit with our shareholders.

The section titled Outlook 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.

Interest in the REIT

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust dated January 25, 2013, which was subsequently amended and restated May 1, 2013.

The REIT began operations on May 1, 2013 when trust units were issued for cash pursuant to the initial public offering (Offering or IPO). Units of the REIT trade on the Toronto Stock Exchange under the symbol MR.UN. The REIT is externally managed, administered and operated by Melcor pursuant to the property management and asset management agreements entered into in conjunction with the IPO.

As of March 11, 2015, Melcor holds an approximate 56.5% (December 31, 2013 - 51.1%) effective interest in the REIT through ownership of all Class B LP Units of the partnership through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP Units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

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 43.5% (December 31, 2013 - 49.9%) 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
Initial Public Offering and Over-allotment			
Initial Public Offering, net of transaction costs	73,062	—	73,062
Exercise of over-allotment, net of transaction costs	—	7,823	7,823
Sale of Initial Properties			
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)	—
Consideration received for Sale of Initial Properties			
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
Consideration paid to Melcor	
Over-allotment	7,823
Sale of Initial Properties	66,016
	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 represented 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 thereby 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 the 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 continues 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. a base annual management fee calculated and payable on a quarterly basis, equal to 0.25% of the REIT's gross book value;
- b. a capital expenditures fee equal to 5% of all hard construction costs incurred on capital projects in excess of \$0.10 million;
- c. an acquisition fee equal to 0.50% - 1.00% of the purchase price;
- d. 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. a base fee of 3% of gross property revenue;
- b. 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 risk 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.

Concentration of Assets Risk

The majority of our assets are located in Alberta. Adverse changes in the economic conditions in Alberta may have a material adverse effect on our business, cash flows, financial condition and results of operations and ability to pay dividends. The Alberta economy is sensitive to the price of oil and gas. To

mitigate against this risk, we endeavor to diversify our revenue mix by product and location.

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 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 and REIT

The Investment Properties and REIT divisions are 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. Refer to Business Environment & Risks, page 27 of the REIT's annual MD&A filed on SEDAR and incorporated by reference.

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 on 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 23 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.

Subsequent Events

Please refer to note 30 to the consolidated financial statements for information pertaining to subsequent events.

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 %*	
	2014	2013	2014	2013
Revenue	219,057	224,797	112,658	115,716
Earnings	95,763	90,616	43,204	40,970
Assets	1,050,532	1,012,354	456,130	453,444
Liabilities	400,304	386,177	169,014	172,793

* 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, 2014. 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 2013 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, 2014.

There has been no change to Melcor's disclosure controls and procedures or internal control over financial reporting during the year ended December 31, 2014, 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 the 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 the 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	
	2014	2013	2014	2013
(\$000s)				
Divisional income for the year	14,120	8,888	24,680	38,687
Fair value adjustment on investment properties	5,305	351	(93)	(16,953)
General and administrative expenses	3,272	3,608	2,134	1,722
Interest income	(28)	(45)	(72)	(61)
Amortization of operating lease incentives	2,855	1,586	2,539	2,297
Straight-line rent adjustment	(1,823)	(468)	(607)	(397)
Divisional NOI	23,701	13,920	28,581	25,295

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	
	2014	2013
(\$000s)		
Net income for the year	100,719	98,623
Amortization of operating lease incentives	5,394	3,883
Fair value adjustment on investment properties	(12,828)	(47,571)
Depreciation on property and equipment	1,598	1,447
Stock based compensation expense	475	643
Non-cash interest	1,369	518
Gain on sale of asset	(173)	(35)
Deferred income taxes	58	(3,301)
Fair value adjustment on REIT units	(11,135)	3,652
FFO	85,477	57,859

	Investment Properties		REIT	
	2014	2013	2014	2013
(\$000s)				
Divisional income for the year	14,120	8,888	24,680	38,687
Fair value adjustment on investment properties	5,305	351	(93)	(16,953)
Amortization of operating lease incentives	2,855	1,586	2,539	2,297
Divisional FFO	22,280	10,825	27,126	24,031

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

Adjusted earnings attributable to Melcor's shareholders

(adjusted earnings): (net income attributable to Melcor's shareholders) +/- (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 auditors 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 auditors 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 MD&A 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 11, 2015



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, 2014 and December 31, 2013 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, 2014 and December 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Accountants
Edmonton, Alberta
March 11, 2015

Consolidated Statements of Income

For the years ended December 31 (\$000s)	2014	2013
Revenue (note 21)	313,009	303,742
Cost of sales (note 21)	(162,856)	(168,914)
Gross profit	150,153	134,828
General and administrative expense (note 21)	(24,769)	(29,048)
Fair value adjustment on investment properties (note 10, 21 and 29)	12,828	47,571
Adjustments related to REIT units (note 26)	1,616	(18,176)
Gain on sale of assets	173	35
Operating earnings	140,001	135,210
Interest income	2,812	2,309
Foreign exchange gains	494	—
Interest expense and other finance charges (note 20 and 23)	(20,159)	(17,675)
Net finance costs	(16,853)	(15,366)
Income before income taxes	123,148	119,844
Income tax expense (note 22)	(22,429)	(21,221)
Net income for the year	100,719	98,623
Net income (loss) attributable to:		
Melcor's shareholders	100,719	98,628
Non-controlling interest (NCI)	—	(5)
Net income for the year	100,719	98,623
Earnings per share attributable to Melcor's shareholders (note 17):		
Basic earnings per share	3.18	3.24
Diluted earnings per share	3.06	3.05

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 Statements of Comprehensive Income

For the years ended December 31 (\$000s)	2014	2013
Net income for the year	100,719	98,623
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences (note 18)	6,643	5,735
Comprehensive income	107,362	104,358
Comprehensive income attributable to:		
Melcor's shareholders	107,362	104,138
Non-controlling interest (NCI)	—	220
Comprehensive income	107,362	104,358

Consolidated Statements 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, 2014	23,405	3,357	639	3,380	738,450	—	769,231	
Net income for the year	—	—	—	—	100,719	—	100,719	
Cumulative translation adjustment (note 18)	—	—	—	6,643	—	—	6,643	
Transactions with equity holders								
Dividends	—	—	—	—	(18,571)	—	(18,571)	
Conversion of Debenture	40,639	—	(639)	—	—	—	40,000	
Employee share options								
Value of services recognized	—	475	—	—	—	—	475	
Share issuance	3,723	(885)	—	—	—	—	2,838	
Balance at December 31, 2014	67,767	2,947	—	10,023	820,598	—	901,335	

(\$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	—	—	—	—	(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	

See accompanying notes to the consolidated financial statements

Consolidated Statements of Financial Position

For the years ended December 31 (\$000s)	2014	2013
ASSETS		
Cash and cash equivalents	19,011	28,973
Restricted cash	2,945	5,969
Accounts receivable	21,407	21,542
Agreements receivable (note 8)	167,773	177,961
Land inventory (note 9)	688,453	658,590
Investment properties (note 10 and 29)	901,104	784,510
Property and equipment (note 11)	16,848	15,892
Other assets (note 12)	45,755	34,496
	1,863,296	1,727,933
LIABILITIES		
Accounts payable and accrued liabilities (note 13)	56,077	65,256
Income taxes payable	5,256	6,612
Provision for land development costs (note 14)	108,268	154,909
General debt (note 15)	621,341	574,332
Deferred income tax liability (note 22)	64,357	62,641
REIT units (note 26 and 29)	106,662	94,952
	961,961	958,702
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 16a)	67,767	23,405
Contributed surplus	2,947	3,357
Convertible debenture	—	639
Accumulated other comprehensive income (AOCI) (note 18)	10,023	3,380
Retained earnings	820,598	738,450
	901,335	769,231
	1,863,296	1,727,933

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended December 31 (\$000s)	2014	2013
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	100,719	98,623
Non cash items:		
Amortization of tenant incentives (note 12)	5,394	3,883
Depreciation of property and equipment (note 11)	1,598	1,447
Stock based compensation expense	475	643
Non cash interest	1,369	518
Straight-line rent adjustment	(2,430)	(865)
Fair value adjustment on investment properties (note 10, 21 and 29)	(12,828)	(47,571)
Fair value adjustment on REIT units (note 26 and 29)	(11,135)	3,652
Gain on sale of assets	(173)	(35)
Deferred income taxes (note 22)	58	(3,301)
	83,047	56,994
Agreements receivable	10,188	(4,011)
Development activities (note 3u)	(14,581)	(3,485)
Operating assets and liabilities (note 3u)	(8,991)	15,153
	69,663	64,651
INVESTING ACTIVITIES		
Purchase of land inventory (note 9)	(34,611)	(18,123)
Payment of tenant incentives (note 12)	(14,744)	(9,982)
Purchase of investment properties	(56,498)	(58,881)
Additions to investment properties (note 10)	(33,779)	(63,246)
Purchase of property and equipment (note 11)	(2,673)	(2,072)
Proceeds from disposal of assets	292	37
Change in restricted cash	2,037	(3,141)
	(139,976)	(155,408)
FINANCING ACTIVITIES		
Proceeds from issuance of trust units (note 7)	22,844	91,300
Proceeds from issuing convertible debenture, net of costs (note 15g)	31,927	—
Revolving credit facilities	(18,099)	11,449
Proceeds from general debt	149,302	152,636
Repayment of general debt	(110,982)	(114,131)
Change in restricted cash	987	(2,828)
Contributions from non-controlling interest	—	324
Purchase of non-controlling interest in subsidiary	—	(6,259)
Dividends paid	(18,571)	(30,671)
Share capital issued	2,838	6,079
	60,246	107,899
FOREIGN EXCHANGE GAIN ON CASH HELD IN A FOREIGN CURRENCY	105	203
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(9,962)	17,345
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	28,973	11,628
CASH AND CASH EQUIVALENTS, END OF THE YEAR	19,011	28,973

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

(\$000s except unit and per unit amounts)

1. DESCRIPTION OF THE BUSINESS

We are a real estate development company with Community Development, Property Development, Investment Properties, REIT and Recreational Property divisions. We develop, manage and own mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres, 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, 2014 Melton Holdings Ltd. holds approximately 47.4% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling party of Melcor.

As at March 11, 2015, Melcor, through an affiliate, holds an approximate 56.5% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the 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 Chartered Professional Accountants ("CPA") Handbook.

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 11, 2015, 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 REIT Holdings GP Inc.
 - Melcor REIT Holdings Limited Partnership
 - Melcor Homes Ltd.
- ii. The accounts of Melcor REIT Limited Partnership (56.5% owned by Melcor Developments Ltd). The remaining 43.5% 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. Investments in 29 joint arrangements (2013 – 28) 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 formation of the REIT to subsidize finance costs on assumed debt and Class C LP Units, and to fund capital expenditures, environmental expenditures, tenant incentives and lease costs.

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 note 3j), are recorded as a liability upon the approval of the development plan with the municipality.

The cost of land and carrying costs are 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 unit and per unit 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 when the acquisition is accounted for as an asset purchase. 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 properties 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. All direct leasing costs are external expenditures and no amounts for internal allocations are capitalized with respect to the negotiation or arranging of tenant leases.

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 and other finance costs 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 unit and per unit amounts)

L. RECOGNITION OF REVENUE

Revenue is generated from the sale of developed land, rental of investment properties, management fees, 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.

Management fee revenue is comprised of fees paid by our joint arrangement partners based on development and/or sales activities, which fluctuates period to period depending on the stage of various projects.

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 carry-forwards. 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 56.5% 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.

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. Gains or losses on the settlement of debt or on foreign exchange cash balances are recognized in income in the period realized.

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.

Notes to the Consolidated Financial Statements

(\$000s except unit and per unit amounts)

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 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. NON-CONTROLLING INTEREST IN MELCOR REIT

We hold an effective 56.5% 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 43.5% 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. COMPOUND FINANCIAL INSTRUMENT

Our compound financial instrument is comprised of a convertible debenture that can be converted to trust units at the option of the holder, and the number of units to be issued does not vary with changes in their fair value. We also have the ability to redeem the debenture at a price equal to the principal amount thereof plus accrued and unpaid interest. We also have the ability to convert the debenture into trust units; however, the number of units to be issued at conversion varies with the market price of the units.

On initial recognition, the convertible debenture is separated into two financial liability components: the host instrument and the conversion feature. The conversion feature is required to be presented as a financial liability as the feature permits the holder to convert the debenture into trust units that, except for the available exemption under IAS 32, would normally be presented as a liability due to their redemption feature. Both components are measured based on their respective estimated fair values at the date of issuance. The host instrument financial liability is recognized initially at the fair value of a similar liability that does not have conversion feature. The conversion feature is recognized at fair value. The fair value of the host instrument is recorded net of any related transaction costs.

Subsequent to initial recognition, the host instrument is measured at amortized cost using the effective interest method. The conversion feature derivative of the convertible debenture is classified as FVTPL and measured at fair value.

FINANCIAL DERIVATIVES

Our financial derivatives is comprised of the conversion feature on our convertible debenture. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Derivative instruments are recorded in the consolidated statement of financial position at their fair value. Changes in fair value of derivative instruments that are not designated as hedges for accounting purposes are recognized in the income statement.

Melcor has not designated any derivatives as hedges for accounting purposes.

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. 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, and accounts payable and accrued liabilities. Excluded from operating assets and liabilities are investment property additions that are unpaid and included in accounts payable and accrued liabilities at year end.

4. ACCOUNTING STANDARD CHANGES

NEW AND AMENDED STANDARDS ADOPTED

We have adopted the following new standard interpretation effective January 1, 2014.

- 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.

Melcor is not subject to significant levies, other than with respect to property taxes. The adoption of IFRIC 21 did not result in any adjustments to the method of accounting for property taxes on our investment properties, land holdings or depreciable property.

Other standards, amendments and interpretations that are effective for the year beginning January 1, 2014 are not material to Melcor.

NEW STANDARDS NOT YET ADOPTED

- a. **IFRS 15, Revenue from Contracts with Customers** was issued in May 2014 by the IASB and supersedes IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine

Notes to the Consolidated Financial Statements

(\$000s except unit and per unit amounts)

how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria.

IFRS 15 is to be applied retrospectively or through the recognition of the cumulative effect to opening retained earnings and is effective for periods beginning on or after January 1, 2017, with earlier application permitted, subject to Canadian adoption.

- b. **IFRS 9, Financial Instruments** was issued in its finalized version in July 2014 to replace IAS 39. The IASB has previously published versions of IFRS 9 that introduced a new classification and measurement model with only two classification categories, 'amortized cost' and 'fair value' (in 2009 and 2010), and a new hedge accounting model in 2013.

This final version introduces a third measurement category, 'fair value through other comprehensive income', for financial assets, as well as an expected loss impairment model that requires more timely recognition of expected credit losses. Additional disclosures on transition from IAS 39 to IFRS 9 will be required under IFRS 7, the application of which is effective on adoption of IFRS 9.

IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted.

- c. **IFRS 8, Operating Segments** was amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard was further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.

This amendment is effective for years beginning on or after July 1, 2014.

- d. **IAS 24, Related Party Transactions** was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

This amendment is effective for years beginning on or after July 1, 2014.

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 investment properties**

Investment properties are valued using either a direct capitalization or discounted cash flow approach, as completed by qualified external professional valuers with key assumptions reviewed and updated quarterly. Key estimates and assumptions include expected occupancy rates and lease payments, expenditures for operating costs and capital expenditures as well as discount and capitalization rate. Refer to note 29 for further information about methods and assumptions used in determining fair value.

- c. **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.

- d. **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, 2014 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.

5. 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

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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 incentives

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.

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

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 was a newly formed entity and Melcor retained control over the REIT, the IPO 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 retained control over the REIT, we consolidate the REIT and record revenues, expenses, assets and liabilities of the REIT. We reflect the 43.5% 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. INTEREST IN MELCOR REIT

On May 1, 2013, we completed an initial public offering (the "IPO") of trust units of Melcor Real Estate Investment Trust (the "REIT"). The IPO 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 IPO, 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.

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, held an effective 51.1% interest in the REIT through ownership of all remaining 9,530,798 Class B LP Units of the Partnership.

Transaction costs directly related to the IPO 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 income as part of adjustments related to REIT units (refer to note 26).

On May 7, 2014 the REIT issued 1,900,000 trust units at \$10.65 per unit for gross proceeds of \$20,235. On May 16, 2014 an additional 245,000 trust units were issued at \$10.65 per unit pursuant to the underwriters over-allotment option for gross proceeds of \$2,609, and total proceeds of \$22,844.

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On May 9, 2014, we sold to the Partnership two multi-tenant retail properties for a purchase price of \$13,500. The REIT satisfied approximately \$7,400 of the purchase price by issuing 694,836 Class B LP Units at \$10.65 per unit. The remainder of the purchase price was funded through available cash raised from the issuance of trust units. Transaction costs directly related to the unit issuance were \$2,391 and are included in income as part of adjustments related to REIT units (refer to note 26).

On December 18, 2014, we sold to the Partnership six properties located in western Canada, comprised of retail, office and industrial investment property for a purchase price of \$138,250. As part of the purchase, the REIT also assumed mortgages on certain properties totaling \$78,444. The REIT satisfied approximately \$45,000 of the purchase price by issuing 4,390,244 Class B LP Units at \$10.25 per unit. The remainder of the purchase price was funded through available cash raised through the issuance of a convertible debenture (note 15g).

We assessed and concluded that Melcor retained control over the REIT in accordance with IFRS 10, Consolidated Financial Statements, through ownership interest of 56.5% (2013 - 51.1%). Business combinations which do not result in a change of control are classified as Business Combinations Under Common Control and are not within the scope of IFRS 3, Business Combinations. As described in note 6e, the transaction was 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 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, 2014.

As at December 31, 2014 we hold a 56.5% ownership interest in the REIT through ownership of all 14,615,878 Class B LP Units of the Partnership.

8. AGREEMENTS RECEIVABLE

Agreements receivable are due within one year except for \$36,452 which are due in 2016 (2013 - \$28,773 due in 2015). 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, 2014 and 2013) and are collateralized by the specific real estate sold. A provision for impairment was not recorded at December 31, 2014 (2013 - \$nil).

9. LAND INVENTORY

As at December 31	2014	2013
Raw land held	337,292	286,504
Land under development	156,480	136,317
Developed land	194,681	235,769
	688,453	658,590

A breakdown of our land purchases are as follows:

	2014	2013
Land purchases	772 acres	545 acres
Land cost	62,265	47,609
Vendor financing	27,654	29,486
Net cash to close	34,611	18,123

During the year, certain land inventories were reclassified to investment properties, and fair value gains of \$2,898 (2013 - \$4,302) were recognized in the consolidated financial statements. For the purposes of segment reporting, this is disclosed as revenue of \$6,459 (2013 - \$18,759) and cost of sales of \$3,561 (2013 - \$14,457) for the Community Development division.

The weighted average interest rate used for capitalization of borrowing costs to land under development is 4.31% for the year ended December 31, 2014 (2013 - 4.82%). Borrowing costs capitalized to land inventory during the year were \$4,791 (2013 - \$4,255).

Land inventory expensed to cost of sales during the year was \$125,512 (2013 - \$136,825).

The net realizable value exceeds the carrying cost of all land inventories at December 31, 2014 and 2013, such that no provisions for impairment are required.

10. INVESTMENT PROPERTIES

Investment properties consists of the following:

As at December 31	2014	2013
Investment properties	863,966	642,275
Properties under development	37,138	142,235
Total	901,104	784,510

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

2014	Investment properties	Properties under development	Total
Balance - beginning of year	642,275	142,235	784,510
Additions			
Direct acquisition	44,226	—	44,226
Acquisition through business combination	12,272	—	12,272
Transfer from land inventory	—	3,561	3,561
Direct leasing costs	663	1,268	1,931
Property improvements	4,768	—	4,768
Property development	640	25,531	26,171
Capitalized borrowing costs	—	909	909
Transfers	152,915	(152,915)	—
Net fair value adjustment on investment properties	(3,721)	16,549	12,828
Change in decommissioning obligation (note 13)	381	—	381
Foreign currency translation (included in OCI)	9,547	—	9,547
Balance - end of year	863,966	37,138	901,104

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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	1,080	2,560
Property improvements	4,763	—	4,763
Property development	—	54,893	54,893
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 decommissioning obligation (note 13)	109	—	109
Foreign currency translation (included in OCI)	6,321	—	6,321
Balance - end of year	642,275	142,235	784,510

DIRECT ACQUISITIONS:

On January 10, 2014 the REIT completed the acquisition of an industrial warehouse, LC Industrial, located in Lethbridge, Alberta for \$5,968 (including transaction costs).

On May 26, 2014 the REIT completed the acquisition of an office building, 107 Avenue Building, located in Edmonton, Alberta for \$5,614 (including transaction costs).

On December 8, 2014, the REIT acquired an office and retail complex, White Oaks, in Edmonton, Alberta for \$31,515 (including transaction costs). As part of the purchase the REIT also assumed a mortgage on the property with a carrying value of \$15,068. As a financial liability we recorded the assumed mortgage at its fair value on initial recognition. The fair value of the mortgage was calculated using a market interest rate for an equivalent mortgage and resulted in a fair value adjustment of \$453 being recorded on the mortgage and the cost of the building.

During the year we also purchased six condo units in Arizona at a cost of \$676 (US\$525).

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

BUSINESS COMBINATIONS:

On April 23, 2014 we completed the acquisition of two office properties in the Greater Phoenix area for a purchase price of \$12,272 (US\$11,124). The purchase price was satisfied with cash on hand. These acquisitions were accounted for as business combinations.

Judgment is required in determining if an acquisition is an asset purchase or a business combination. Unlike the other acquisitions completed during the period, Melcor will not directly manage these buildings and acquired all the inputs, processes and outputs related to these buildings to meet the definition of a business under IFRS 3, Business Combinations.

The amount of revenue and net income before tax related to these properties since the acquisition date and included in income for the year are \$918 and \$287 respectively (US\$830 and US\$260 respectively).

We are unable to present pro forma revenue and earnings as though the acquisition date had been January 1, 2014 as the information necessary to determine these amounts is not available.

DIRECT ACQUISITIONS IN THE COMPARATIVE YEAR

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 \$152,915 (2013 - \$26,142).

Presented separately from investment properties is \$37,323 (2013 - \$27,973) in tenant incentives and \$3,975 (2013 - \$1,545) 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 4.63% for the year ended December 31, 2014 (2013 - 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:

	2014	2013
Within one year	42,983	31,865
Later than one year but not later than 5 years	139,105	96,702
Later than 5 years	125,035	75,805
Total	307,123	204,372

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11. PROPERTY & EQUIPMENT

	Golf course assets				Corporate	Total
	Land	Buildings	Equipment	Greens & tees		
January 1, 2014						
Cost	1,293	7,929	7,328	6,444	4,565	27,559
Accumulated depreciation	—	(1,874)	(5,379)	(2,229)	(2,185)	(11,667)
Opening net book value	1,293	6,055	1,949	4,215	2,380	15,892
Additions	—	39	1,344	—	1,290	2,673
Disposals	—	—	(119)	—	—	(119)
Depreciation	—	(312)	(512)	(239)	(535)	(1,598)
Net Book Value - December 31, 2014	1,293	5,782	2,662	3,976	3,135	16,848

	Golf course assets				Corporate	Total
	Land	Buildings	Equipment	Greens & tees		
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

12. OTHER ASSETS

	2014	2013
Tenant incentives	37,323	27,973
Deposits and prepaids	4,005	4,639
Straight-line rent adjustments	3,975	1,545
Inventory	452	339
	45,755	34,496

During the year we provided tenant incentives of \$14,744 (2013 - \$9,982), recorded \$5,394 (2013 - \$3,883) 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. In 2013, 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

	2014	2013
Trade accounts payable	30,134	32,118
Distribution payable	634	514
Other payables	23,899	30,983
Provision for decommissioning obligation	1,410	1,641
	56,077	65,256

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, 2014, distribution payable pertains to the December 2014 monthly distribution which was subsequently paid on January 15, 2015 (2013 - December 2013 monthly distribution paid on January 15, 2014).

Decommissioning obligation relates to one of our commercial properties held by the REIT. The total decommissioning obligation is estimated based on the future obligation and timing of these expenditures to be incurred. We estimate the net present value of the obligation based on an undiscounted total future provision of \$2,064 (December 31, 2013 - \$2,298). At December 31, 2014, a discount rate of 4.00% (December 31, 2013 - 4.00%) and an inflation rate of 2.00% (December 31, 2013 - 2.00%) 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

	2014	2013
Balance - beginning of year	154,909	138,551
New development projects	93,103	162,875
Changes to estimates	(5,650)	(3,515)
Cost incurred	(134,094)	(143,002)
Balance - end of year	108,268	154,909

15. GENERAL DEBT

General debt consists of the following:

		2014	2013
Melcor - revolving credit facilities	a	81,549	80,870
REIT - revolving credit facility	b	4,961	23,748
Project specific financing	c	34,205	64,383
Secured vendor take back debt on land inventory	d	80,335	77,194
Debt on investment properties and golf course assets	e	388,326	288,801
Melcor - convertible debenture	f	—	39,336
REIT - convertible debenture	g	31,965	—
		621,341	574,332

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A. MELCOR - REVOLVING CREDIT FACILITIES

We have available credit facilities with approved loan limits of \$195,370 (2013 - \$178,000) with a syndicate of major chartered banks. The portion of these loan limits that pertain solely to Melcor is \$120,000 (2013 - \$120,000) with the remaining balance pertaining to specific joint arrangements.

The amount of the total credit facilities currently used is \$81,549 (2013 - \$80,870). We have pledged agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral for our credit facilities. The carrying value of assets pledged as collateral is \$388,364 (2013 - \$342,116).

The facility pertaining solely to Melcor matures on July 31, 2015, renewable one year in advance of expiry. Depending on the form under which the credit facilities are accessed, rates of interest will vary between prime plus 1.50% to prime plus 2.25% or banker's acceptance rate plus a 3.00% stamping fee resulting in interest rates ranging from 4.15% to 5.25% at December 31, 2014 (2013 - 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, including a \$3,000 swingline sub-facility. The agreement also provides the REIT with \$5,000 in available letters of credit which bear interest at 2.25%. The facility matures on May 1, 2015, with a one year extension period at the discretion of the lenders. The lenders hold demand debentures on the REIT, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the facility. During the year ended December 31, 2014 we amended our revolving credit facility agreement, pledging two additional recently acquired and unencumbered properties as collateral for the facility.

As at December 31, 2014, the carrying value of pledged properties was \$80,500 (December 31, 2013 - \$66,700).

As at December 31, 2014, we had \$5,000 (December 31, 2013 - \$24,000) drawn from the facility, which is presented net of unamortized transaction fees and discount on bankers acceptance; and posted letters of credit of \$nil (December 31, 2013 - \$nil). The weighted average effective interest rate on borrowings, based on period end balances, is 3.52% (December 31, 2013 - 3.72%).

C. PROJECT SPECIFIC FINANCING

	2014	2013
Project specific debt on investment properties under development, with fixed interest rates between 3.37% and 5.00%	18,852	46,607
Project specific debt on land, with fixed interest rates between 3.53% - 3.75%	15,353	17,776
	34,205	64,383

Specific investment properties under development with a December 31, 2014 carrying value of \$54,692 (2013 - \$108,890), have been pledged as collateral on project specific debt on investment properties under development. Land inventory and agreements receivable with a December 31, 2014 carrying value of \$34,268 (2013 - \$38,271) 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% (2013 - 3.70%).

D. SECURED VENDOR TAKE BACK DEBT ON LAND INVENTORY

	2014	2013
Agreements payable with interest at the following contractual rates:		
Fixed rates of 3.13% - 6.16%	78,444	68,144
Variable rates of prime plus 0.75% to prime plus 1.50% (3.75% - 4.50% at Dec. 31/14 and Dec. 31/13)	1,891	9,050
	80,335	77,194

As at December 31, 2014 \$13,457 (2013 - \$9,653) of debt was payable in US dollars (US\$11,600) (2013 - US\$9,076). The debts mature from 2016 to 2019.

Land inventory with a December 31, 2014 carrying value of \$181,130 (2013 - \$210,344), 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 5.15% (2013 - 4.69%).

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

2015	26,718
2016	14,565
2017	9,363
2018	11,058
2019	12,166
Thereafter	6,465
	80,335

E. DEBT ON INVESTMENT PROPERTIES AND GOLF COURSE ASSETS

	2014	2013
Variable rate mortgages amortized over 10 to 30 years at variable rates ranging from 3.02% to 4.60% (2013: 3.02% to 4.60%)	43,011	71,934
Mortgages amortized over 15 to 30 years at fixed rates varying from 3.01% to 6.16% (2013: 3.01% to 6.16%)	346,369	217,068
	389,380	289,002
Unamortized fair value adjustment	432	—
Unamortized deferred financing fees	(1,486)	(201)
	388,326	288,801

As at December 31, 2014 \$61,300 (2013 - \$50,435) of debt was payable in US dollars (US\$52,840) (2013 - US\$47,420). The debts mature from 2017 to 2022.

Specific investment properties and golf courses with a carrying value of \$696,651 (2013 - \$548,223) 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 4.12% (2013 - 4.32%).

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

2015	66,464
2016	61,688
2017	18,267
2018	51,765
2019	85,441
Thereafter	105,755
	389,380

F. MELCOR - CONVERTIBLE DEBENTURE

On June 25, 2014 Melcor issued a Notice of Redemption to holders of the \$40,000 convertible debenture ("debentures") due February 8, 2017. The debentures were redeemable for an amount equal to the principal amount of the debentures plus accrued unpaid interest up to, but excluding, the redemption date. On August 6, 2014 we received Notices of Conversion from all holders and the debentures have been converted to 2,160,993 common shares at a conversion price of \$18.51.

G. REIT - CONVERTIBLE DEBENTURE

On December 3, 2014, the REIT issued a 5.50% extendible convertible unsecured subordinated debenture ("REIT debenture") to the public for gross proceeds of \$34,500, including \$4,500 issued pursuant to the exercise of an over-allotment option. The REIT debenture bears interest at an annual rate of 5.50% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2015. The maturity date of the REIT debenture is December 31, 2019. The REIT debenture can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion price of \$12.65 per unit (the "Conversion Price"). On and from December 31, 2017, and prior to December 31, 2018, the REIT debentures may be redeemed by the REIT, in whole at any time, or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted-average trading price of the trust units for a specified period (the "Current Market Price") preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from December 31, 2018, and prior to the maturity date, the REIT - convertible debentures may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest. Subject to regulatory approval and other conditions, the REIT may, at its option, elect to satisfy its obligation to pay the principal amount of the REIT debentures on redemption or at maturity, in whole or in part, by delivering that number of freely tradeable trust units obtained by dividing the principal amount of the REIT debentures being repaid by 95% of the Current Market Price on the date of redemption or maturity. The issuance was qualified under a short form prospectus dated November 25, 2014.

As a compound financial instrument, the fair value of the host instrument component was calculated using a market interest rate for an equivalent non-convertible, non-extendible bond. The conversion feature component is recognized at its fair value and presented as a liability.

A reconciliation of the convertible debenture is as follows:

	Host Instrument	Conversion Feature	Total
Convertible debenture issued	34,315	185	34,500
Transaction costs	(2,573)	—	(2,573)
	31,742	185	31,927
Amortization of discount and transaction costs	38	—	38
Balance, end of year	31,780	185	31,965

During the year ended December 31, 2014, we recognized \$151 of interest expense which is included in interest expense and other finance costs.

At December 31, 2014 we remeasured the conversion feature to fair value resulting in a fair value adjustment of \$nil for the year. Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 29.

16. SHARE CAPITAL

A. COMMON SHARES

2014		
(# of shares)	Number of shares issued	Amount (\$000s)
Common shares, beginning of the year	30,729,074	23,405
Share options exercised	225,624	3,723
Conversion of debenture	2,160,993	40,639
Common shares, end of the year	33,115,691	67,767
2013		
(# of shares)	Number of shares issued	Amount (\$000s)
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

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, Melcor's Board of Directors approved a stock-based compensation plan (the "2000 Plan"). Under the 2000 Plan, Melcor 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 Melcor's shareholders at the Shareholders Annual Meeting in May 2001. The Company has 90,400 shares reserved for issuance under the 2000 Plan (2013 – 90,400).

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(\$000s except unit and per unit amounts)

On February 23, 2007 Melcor's Board of Directors approved a stock-based compensation plan (the "2007 Plan"). Under the 2007 Plan, Melcor 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 Melcor's shareholders at the Shareholders Annual Meeting in April 2007. Melcor has 1,918,432 shares reserved for issuance under the 2007 Plan (2013 – 2,144,056).

C. STOCK OPTIONS AVAILABLE FOR GRANTING

2000 Plan	2014	2013
Stock options available, beginning of the year	90,400	83,400
Stock options expired	—	7,000
Stock options available, end of the year	90,400	90,400

2007 Plan	2014	2013
Stock options available, beginning of the year	1,199,466	1,264,066
Stock options granted	(237,300)	(209,100)
Stock options expired	7,300	144,500
Stock options available, end of the year	969,466	1,199,466

D. STOCK OPTIONS OUTSTANDING UNDER THE 2000 & 2007 PLANS

2014		
	Number of options	Weighted average exercise price
Stock options outstanding, beginning of the year	944,590	14.59
Stock options granted	237,300	21.35
Stock options exercised	(225,624)	12.58
Stock options expired	(7,300)	15.70
Stock options outstanding, end of the year	948,966	16.75
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

The weighted average share price at the date of exercise was \$22.63 (2013 - \$19.12). During the year, 237,300 stock options (2013 - 209,100) were issued to employees of Melcor.

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-14
November 4, 2015	33,333	13.10	33,333
December 13, 2015	152,483	13.74	152,483
February 2, 2016	1,000	14.38	1,000
June 3, 2016	75,000	16.05	75,000
December 20, 2016	244,050	12.76	244,050
December 12, 2018	205,800	19.26	68,600
December 19, 2019	237,300	21.35	—
	948,966		573,768

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.

	2014	2013
Expected volatility	23%	22%
Risk-free interest rate	1.18%	1.40%
Annual dividend rate	3.00%	3.00%
Expected life of options in years	3.74	3.72

The weighted average grant date fair value of stock options granted during the year was \$2.70 (2013 - \$2.54) per stock option. Current year vesting of options resulted in a \$475 (2013 - \$643) charge to stock-based compensation expense and corresponding credit to contributed surplus.

17. PER SHARE AMOUNTS

(# of shares)	2014	2013
Basic weighted average common shares outstanding during the year	31,712,663	30,464,771
Dilutive effect of options	294,127	334,085
Dilutive effect of convertible debenture	1,290,956	2,160,994
Diluted weighted average common shares	33,297,746	32,959,850

There were no stock options excluded from the calculation of the 2014 diluted earnings per share. Stock options expiring on December 12, 2018, totaling 209,100 options were excluded from the 2013 calculation of diluted earnings per share due to their anti-dilutive effect.

Diluted earnings per share was calculated based on the following:

	2014	2013
Profit attributable to shareholders	100,719	98,623
Interest expense on convertible debenture, net of tax	1,312	2,024
Profit for computation of diluted earnings per share	102,031	100,647

Notes to the Consolidated Financial Statements

(\$000s except unit and per unit amounts)

18. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2014	2013
Balance, beginning of the year	3,380	(2,130)
Other comprehensive gain	6,643	5,510
Balance, end of the year	10,023	3,380

This adjustment represents the net unrealized foreign currency translation gain 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, 2014 we had \$55,863 (December 31, 2013 - \$51,774) in letters of credit outstanding and recorded a net liability of \$108,268 (December 31, 2013 - \$154,909) 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, 2014 we had guaranteed \$20,875 (December 31, 2013 - \$20,678) in loans and \$7,129 (December 31, 2013 - \$6,096) 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 AND OTHER FINANCE COSTS

	2014	2013
Interest on Melcor - revolving credit facility	4,464	3,228
Interest on REIT - revolving credit facility	564	182
Interest on convertible debenture	2,311	2,698
Interest on general debt	17,211	15,596
Financing costs and bank charges	1,309	1,256
	25,859	22,960
Less: capitalized interest	(5,700)	(5,285)
	20,159	17,675

Cumulative interest capitalized on land inventory at the end of the year is \$27,911 (2013 - \$23,120). Interest paid during the year was \$24,490 (2013 - \$19,927).

21. REVENUE AND EXPENSE BY NATURE

A. REVENUE:

The components of revenue are as follows:

	2014	2013
Sale of land	221,556	227,862
Rental income	77,745	59,829
Management fees	5,203	7,764
Golf course revenue	8,505	8,287
Total revenue	313,009	303,742

B. COST OF SALES:

The components of cost of sales are as follows:

	2014	2013
Cost of land sold	125,512	136,825
Investment property direct operating expenses	30,843	26,074
Direct golf course expenses	4,903	4,568
Depreciation expense	1,598	1,447
Total cost of sales	162,856	168,914

C. GENERAL AND ADMINISTRATIVE EXPENSES:

The components of general and administrative expenses are as follows:

	2014	2013
Employee salary and benefits		
Salaries and wages	11,767	17,320
Employee benefits	853	741
Stock based compensation	475	643
Management Fees	960	903
Other	10,714	9,441
Total	24,769	29,048

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:

	2014	2013
Salaries and wages	4,283	7,389
Employee benefits	85	72
Stock based compensation	162	359
Total	4,530	7,820

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(\$000s except unit and per unit amounts)

D. FAIR VALUE ADJUSTMENT ON INVESTMENT PROPERTIES

The components of the fair value adjustment are as follows:

	2014	2013
Land transferred to investment properties	2,898	4,302
Property under development	13,651	26,159
Commercial and residential properties	(3,721)	17,110
Total	12,828	47,571

22. INCOME TAX

Components of tax expense:

	2014	2013
Current tax expense		
Current year	22,161	24,610
Adjustment to prior years	210	(88)
	22,371	24,522
Deferred tax expense		
Origination and reversal of temporary differences	58	(3,301)
	58	(3,301)
Total tax expense	22,429	21,221

Reconciliation of effective tax rate:

	2014	2013
Income before taxes	123,148	119,844
Statutory rate	25%	25%
	30,787	29,961
Non-taxable portion of capital gains, fair value adjustment, and recovery on REIT transfer	(3,857)	(11,766)
Non-taxable portion of REIT income	(3,198)	(2,190)
Impact of higher tax rates in subsidiary	(194)	204
Gain on disposal of REIT units	—	1,097
Non-deductible expenses	1,675	3,002
Non-deductible fair value losses (non-taxable fair value gains) on REIT units	(2,784)	913
Total tax expense	22,429	21,221

Movement in deferred tax balances during the year:

	December 31, 2014				
	Opening	Recognized in profit or loss	Recognized in OCI	Foreign currency translation	Closing
Investment property and capital assets	52,161	1,068	1,429	620	55,278
Reserves for tax purposes	15,871	662	—	—	16,533
Interest deducted for tax purposes	(1,389)	(409)	—	—	(1,798)
Provision for decommissioning obligation	(206)	7	—	—	(199)
Convertible debenture	130	31	—	—	161
Tax loss carry-forwards	(3,926)	(1,301)	—	(391)	(5,618)
Deferred tax liability	62,641	58	1,429	229	64,357

	December 31, 2013				
	Opening	Recognized in profit or loss	Recognized in OCI	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

The above table includes a net deferred income tax liability of \$2,412 (2013 – deferred income tax liability of \$2,752) recorded by a wholly owned US subsidiary. Income tax paid during the year was \$23,728 (2013 - \$16,840).

23. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2014, there were debenture coupon payments of \$821 (2013 - \$1,375) paid and 1,188,546 common shares issued to companies controlled by two members of our executive management team who are also directors of Melcor. The common shares issued were a result of the redemption of the debentures.

These transactions were measured at their exchange amount, which approximates carrying value.

Notes to the Consolidated Financial Statements

(\$000s except unit and per unit amounts)

24. JOINT ARRANGEMENTS

The table below discloses our proportionate share of the assets, liabilities, revenue, and earnings of 29 arrangements (2013 – 28) 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	39%	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
South Shepard Communities	50%	Non-active land development
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%	Active land development
Windermere	50%	Active land development activities
Windermere at Glenriding	35%	Active land development
Winterburn Developments	50%	Active land development activities
Villeneuve Communities	60%	Non-active land development

*During 2013 Melcor, 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, 2014.

	2014	2013
Assets	456,130	453,444
Liabilities	169,014	172,793
Revenue	112,658	115,716
Net earnings	43,204	40,970

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 Properties division at fair value (refer to note 10).

INVESTMENT PROPERTIES

This division owns 7 leasable commercial and retail properties (2013 – 8 properties) and other rental income producing assets such as parking lots and land leases.

REIT

This division owns 38 leasable commercial and retail properties (2013 – 29 properties) and other rental income producing assets such as residential property, parking lots and land leases.

RECREATION PROPERTY

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

Melcor has a wholly owned subsidiary with operations in the US, which includes a Community Development division and an Investment Properties 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)	
	2014	2013	2014	2013
United States	14,253	15,010	181,349	132,219
Canada	298,756	288,732	1,681,947	1,595,714
Total	313,009	303,742	1,863,296	1,727,933

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(\$000s except unit and per unit amounts)

Our divisions reported the following results:

2014	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 21)	232,897	161,966	37,986	44,509	9,029	—	486,387	(173,378)	313,009
Cost of sales (note 21)	(129,073)	(123,629)	(15,317)	(17,860)	(5,966)	(536)	(292,381)	129,525	(162,856)
Gross profit	103,824	38,337	22,669	26,649	3,063	(536)	194,006	(43,853)	150,153
General and administrative expense (note 21)	(9,403)	(2,261)	(3,272)	(2,134)	(2,184)	(8,288)	(27,542)	2,773	(24,769)
Fair value adjustment on investment properties (note 10, 21 and 29)	—	13,651	(5,305)	93	—	—	8,439	4,389	12,828
Gain on sale of assets	—	—	—	—	173	—	173	—	173
Interest income	2,709	—	28	72	—	3	2,812	—	2,812
	97,130	49,727	14,120	24,680	1,052	(8,821)	177,888	(36,691)	141,197
Foreign exchange gains									494
Interest expense and other finance charges (note 20 and 23)									(20,159)
Adjustments related to REIT units (note 26)									1,616
Income before income taxes									123,148
Income tax expense (note 22)									(22,429)
Net income for the year									100,719

2013	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 21)	251,323	29,880	23,878	39,325	8,410	—	352,816	(49,074)	303,742
Cost of sales (note 21)	(151,281)	(17,963)	(11,076)	(15,930)	(5,564)	(451)	(202,265)	33,351	(168,914)
Gross profit	100,042	11,917	12,802	23,395	2,846	(451)	150,551	(15,723)	134,828
General and administrative expense (note 21)	(10,102)	(1,924)	(3,608)	(1,722)	(1,999)	(13,369)	(32,724)	3,676	(29,048)
Fair value adjustment on investment properties (note 10, 21 and 29)	—	26,159	(351)	16,953	—	—	42,761	4,810	47,571
Gain on sale of assets	—	—	—	—	35	3,157	3,192	(3,157)	35
Interest income	2,114	7	45	61	—	82	2,309	—	2,309
	92,054	36,159	8,888	38,687	882	(10,581)	166,089	(10,394)	155,695
Interest expense and other finance charges (note 20 and 23)									(17,675)
Adjustments related to REIT units (note 26)									(18,176)
Income before income taxes									119,844
Income tax expense (note 22)									(21,221)
Net income for the year									98,623

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(\$000s except unit and per unit amounts)

26. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, as detailed in notes 3r and 29, we account for the 43.5% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at December 31, 2014 the REIT units had a fair value of \$106,662 (2013 - \$94,952). We recorded adjustments related to REIT units for the year of \$1,616 (2013 - \$18,176). As illustrated in the table below, the adjustment is comprised of:

	2014	2013
Fair value adjustment on REIT units	(11,135)	3,652
Distributions to REIT unitholders	7,128	4,109
Transaction costs on REIT unit issuance (note 7)		
Capitalized against REIT trust units	1,594	8,591
Expensed in Melcor	797	1,824
Adjustments related to REIT units	(1,616)	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%).

	2014	2013
Assets	657,765	454,743
Liabilities	353,038	225,005
Net assets	304,727	229,738
Cost of NCI	103,959	82,709
Fair value of NCI	106,662	94,952

	2014	2013
Revenue	44,509	39,325
Net income and comprehensive income	18,348	62,719
Cash flows from operating activities	9,252	10,502
Cash flows used in investing activities	(56,995)	(34,867)
Cash flows from financing activities, before distributions to REIT unitholders	55,245	33,717
Cash flows used in financing activities - cash distributions to REIT unitholders	(6,722)	(4,109)
Net increase in cash and cash equivalents	780	5,243

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 (2013 - \$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 shareholders' equity of \$300,000. As at December 31, 2014, we were in compliance with our financial covenants with a debt to total capital ratio of 0.79, an interest coverage ratio of 7.19 and net book value of shareholders' equity of \$901,335. In addition, we are subject to financial covenants on our \$25,000 REIT revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (65% including convertible debentures), a minimum interest coverage ratio of 1.50, and a minimum net book value of unitholders' equity of \$140,000. As at December 31, 2014, the REIT was in compliance with its financial covenants with a debt to total capital ratio of 56% (50% excluding REIT debenture), interest coverage ratio of 1.67, and a net book value of unitholders' equity, based on the definition of unitholders' equity in its revolving credit facility agreement, of \$288,270. We also have financial covenants on certain mortgages for investment properties. At December 31, 2014, 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 Properties 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 Properties 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.

Management has reviewed all agreements receivable balances as at December 31, 2014 and considered the following in assessing credit risk:

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(\$000s except unit and per unit amounts)

- 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, 2014, 99% of agreements receivable are due from approved builders (2013 – 94%).
- ii. At December 31, 2014, we have identified \$3,372 (2013 - \$7,176) in agreements receivable which have indications of possible impairment. The factors that we considered in determining that these assets may be impaired were 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 (2013 - \$nil).

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

	2014	2013
0 - 6 months past due	3,030	6,595
Greater than 6 months past due	342	581

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, 2014, but whose terms have been renegotiated is \$2,170 (2013 - \$10,543).

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 \$1,314 (2013 - \$1,856) 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 value of general debt is estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).
- fair value of derivative financial liability, the conversion feature on our convertible debenture, is estimated based upon unobservable inputs, including volatility and credit spread (Level 3).
- 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 Melcor's assets and liabilities carried at fair value and its financial assets and liabilities where carrying value does not approximate fair value.

	December 31, 2014			
	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value
Non-financial assets				
Investment properties	901,104	—	901,104	901,104
Financial liabilities				
General debt, excluding derivative financial liability	—	621,156	621,156	633,119
Derivative financial liability	185	—	185	185
REIT units	106,662	—	106,662	106,662
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

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:

Notes to the Consolidated Financial Statements

(\$000s except unit and per unit amounts)

- 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.

	Level 1	Level 2	Level 3	Total
Non-financial assets				
Investment properties	—	—	901,104	901,104
Financial liabilities				
REIT units	106,662	—	—	106,662
Derivative financial liability	—	—	185	185

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, 2014 and December 31, 2013. Fair values of investment properties were revised based on the updated data and model variables with fair value gains of \$12,828 (2013 - \$47,571) 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 \$1,478 (2013 - \$1,364). 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, 2014 (%)	Investment Properties			Properties Under Development		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50	9.00	6.44	6.00	6.50	6.32
Terminal capitalization rate	5.75	9.25	6.71	6.25	7.00	6.74
Discount rate	6.50	10.00	7.64	7.00	7.75	7.59

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

A change in capitalization rates by a 50 basis point increase or decrease would change the carrying amount of investment properties by \$54,626 or \$63,827 (2013 - \$38,437 or \$44,883) 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, 2014 the fair value of the REIT units was \$106,662 (2013 - \$94,952), resulting in a fair value loss of \$11,135 (2013 - gain of \$3,652) in the statement of income and comprehensive income.

Notes to the Consolidated Financial Statements

(\$000s except unit and per unit amounts)

Derivative financial liability

Our financial derivative liability is comprised of the conversion feature on our convertible debenture.

The significant unobservable inputs used in the fair value measurement of the conversion feature on the convertible debenture as at December 31, 2014 are as follows:

- Volatility - expected volatility as at December 31, 2014 was derived from the historical prices of the REIT's trust units. As the REIT was formed on May 1, 2013, price history is limited and we have used the entire historical data up until December 31, 2014. Volatility was 15.17%.
- Credit spread - the credit spread of the convertible debenture was imputed from the traded price of the convertible debenture as at December 31, 2014. The credit spread used was 3.76%.

30. SUBSEQUENT EVENTS

Distributions on REIT trust units:

On January 15, 2015 the REIT declared a distribution of \$0.05625 per unit for the months of January, February and March 2015. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
January 2015	January 30, 2015	February 16, 2015	\$0.05625 per unit
February 2015	February 27, 2015	March 16, 2015	\$0.05625 per unit
March 2015	March 31, 2015	April 15, 2015	\$0.05625 per unit

Dividend declared:

On March 11, 2015, our board of directors declared a dividend of \$0.15 per share payable on March 31, 2015 to shareholders of record on March 17, 2015.

31. COMPARATIVE FIGURES

We have reclassified \$1,256 in finance fees to interest expense and other finance charges in the 2013 comparative figures in the statement of income and comprehensive income to conform with current year presentation. Certain 2013 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)

	2014	% change	2013	% change	2012	% change	2011	% change	2010
Assets (\$000s)	1,863,296	7.8%	1,727,933	19.4%	1,447,356	18.7%	1,218,885	18.6%	1,027,754
Shareholders' Equity (\$000s)	901,335	17.2%	769,231	11.3%	690,832	15.4%	598,763	13.3%	528,693
Revenue (\$000s)	313,009	3.1%	303,742	10.5%	274,930	24.8%	220,349	16.0%	189,911
Gross Margin	48.0%		44.4%		41.0%		42.9%		47.9%
Administrative Expenses/Revenue	7.9%		9.6%		8.3%		8.4%		7.9%
Adjusted Earnings Before Tax (\$000s)	114,218	(13.3)%	131,660	(2.0)%	134,390	30.7%	102,855	38.8%	74,080
Adjusted Basic Earnings Per Share (\$)	2.89	(20.4)%	3.63	4.0%	3.49	29.3%	2.70	43.6%	1.88
Average Share Price (\$)	22.98	20.7%	19.04	28.6%	14.81	6.5%	13.91	15.1%	12.09
Dividend Per Share (\$)	0.58	16.0%	0.50*	11.1%	0.45	12.5%	.040	14.3%	.035
Dividend Yield	2.5%		2.6%		3.0%		2.9%		2.9%
Book Value Per Share (\$)	27.22	8.7%	25.03	9.3%	22.89	14.8%	19.94	13.6%	17.56
Average Book Value Per Share (\$)	17.45	(27.2)%	23.96	11.9%	21.42	14.2%	18.75	11.7%	16.79
Average Market/Average Book	1.32		0.79		0.67		0.74		.072
Price/Adjusted Earnings Ratio	8.0		5.2		4.2		5.1		6.4
Adjusted Return on Equity (before tax)	13.7%		18.0%		19.5%		18.2%		14.6%
Adjusted Return on Assets (before tax)	6.4%		8.3%		9.3%		9.2%		7.6%
Debt/Equity Ratio	0.95		1.12		1.10		1.03		0.94
Asset Turnover	16.8%		17.6%		19.0%		18.1%		18.5

*regular dividend only. In 2013, a \$0.50 special dividend was also paid following the REIT IPO.

Adjusted earnings before tax is before tax earnings adjusted for: adjustments related to REIT units; management fees earned from the REIT; and unitholders' portion of earnings of the REIT.

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 taxes for the year divided by the average equity during the year.

Adjusted return on assets (before tax) is adjusted earnings before taxes for the year divided by the average assets during the year.

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

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 23, 2015

11:00 am MDT

Fairmont Hotel Macdonald, Empire Ballroom

Executive Officers

Timothy C. Melton, Executive Chairman
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

For Shareholder Services

For shareholder services including dividend information, account status for registered shareholders, change of address service and lost share certificates, contact:

Valiant Trust Company

Shareholder Services
Suite 3000, 10303 Jasper Avenue
Edmonton, AB T5J 3X6
P| 1-780-441-2267 F| 1-780-441-2247
inquiries@valianttrust.com

For Investor Relations

For all other shareholder inquiries and requests, including institutional investors and research analysts, contact:

Jonathan Chia, CFO

P| 1-855-673-6931

ir@melcor.ca

For Customer Service

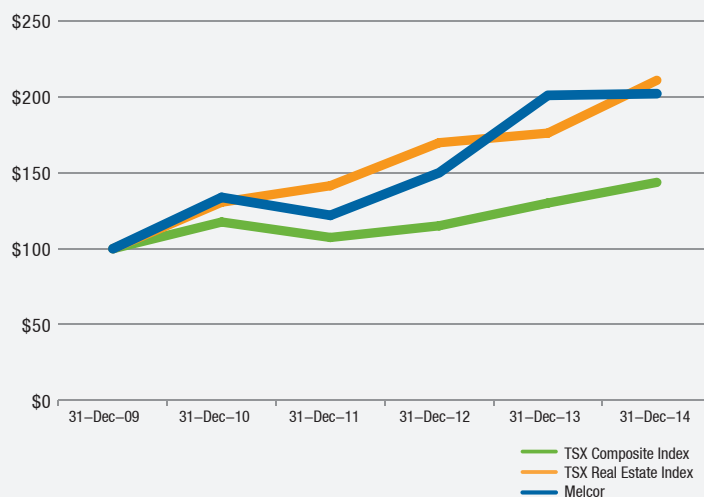
For all other inquiries, including tenant service, contact:

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care.melcor.ca

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PERFORMANCE GRAPH 5-Year Return



Legal Counsel

Bryan & Company LLP

Auditors

PricewaterhouseCoopers LLP

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Key Dates

Annual General Meeting:

April 23, 2015

Earning Dates:

Q1 - May 12, 2015

Q2 - August 11, 2015

Q3 - November 10, 2015

Q4 - March 16, 2016

Exchange Listing

Toronto Stock Exchange: MRD

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