

MELCOR

2015 ANNUAL REPORT



BUILT
to LAST



MELCOR

LIVE. WORK. SHOP. PLAY.

BUILT TO LAST

Since 1923, our focus has been the business of real estate. While the specifics of our business have changed over the years to reflect the times, real estate – and helping people realize the dream of home ownership – is fundamental to who we are.

Today, we are a diversified real estate development and asset management company. We transform raw land into high-quality finished product in both residential and commercial built form.

We develop and manage master-planned, mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. Melcor owns a well-diversified portfolio of assets in Alberta, Saskatchewan, British Columbia, Arizona, Colorado and Texas.

With over 100 communities developed across western Canada since the 1950s and over 2.3 million square feet in commercial projects built, we have helped to shape much of Alberta's landscape. We manage 3.5 million square feet in commercial real estate assets and 781 residential rental units in the United States and Canada.

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

We have been publicly traded since 1968 (TSX:MRD).

2015 Financial Highlights

(\$000s except as noted)	2015	2014	Change
Revenue	263,309	313,009	(15.9)%
Fair value adjustment on investment properties	9,574	12,828	(25.4)%
Net income	75,958	100,719	(24.6)%
Funds from operations *	54,271	85,477	(36.5)%
Shareholders' equity	977,970	901,335	8.5%
Total assets	1,891,969	1,863,296	1.5%

\$ per share except as noted	2015	2014	Change
Basic earnings	2.29	3.18	(28.0)%
Funds from operations *	1.64	2.70	(39.3)%
Book value	29.43	27.22	8.1%
Average share price	16.71	22.98	(27.3)%
Dividends paid	0.60	0.58	3%
Shares outstanding (December 31)	33,233,712	33,115,691	

* refer to non-standard measures for definitions and calculations



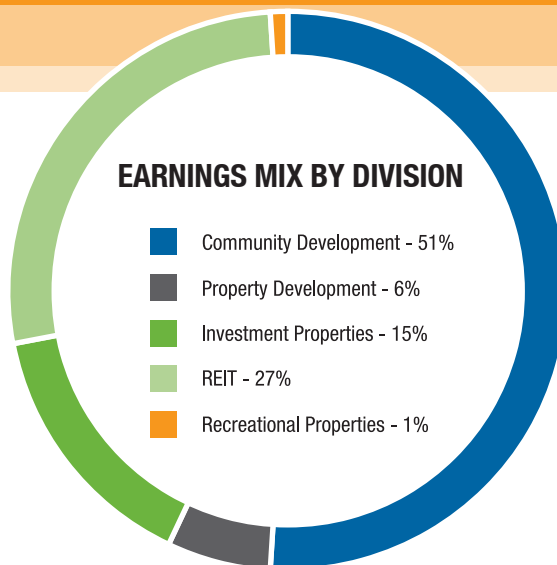
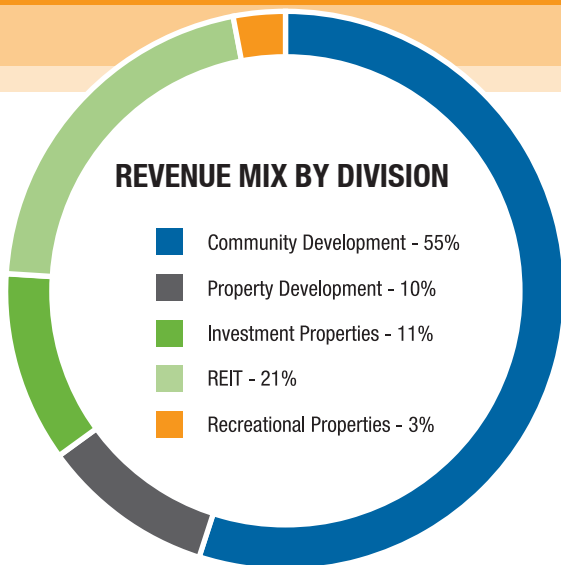
About the cover

The main cover image is of BlueSky at Black Mountain – our mountaintop community in Kelowna, BC. The inset is a 1960s photo of the Melton Building where our corporate headquarters are located. In the early 70s, Melcor added 7 stories to the Melton building and today occupies the top two floors. The 1960s signage shows predecessor company Melton Real Estate.

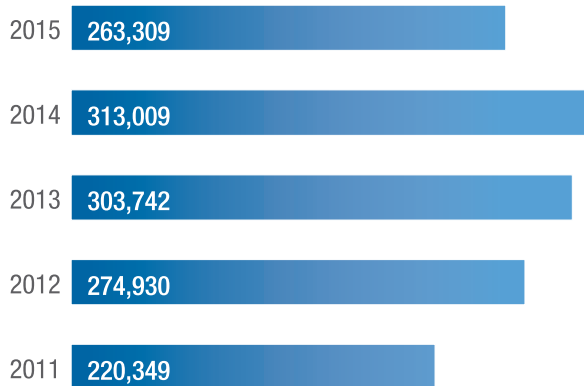
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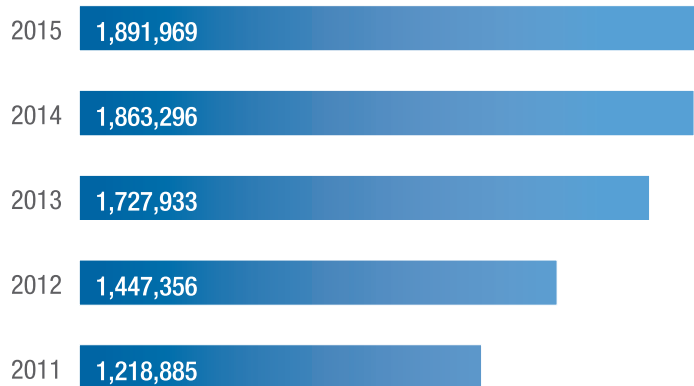




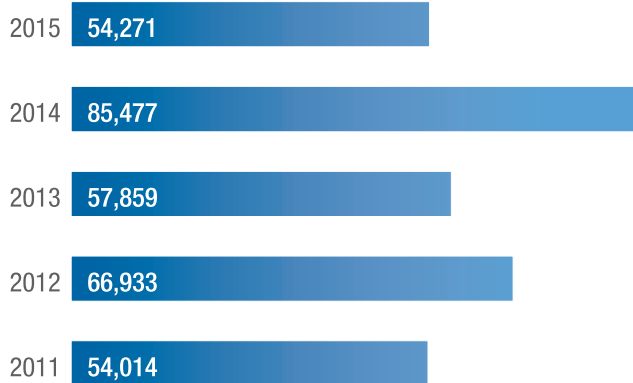
REVENUE



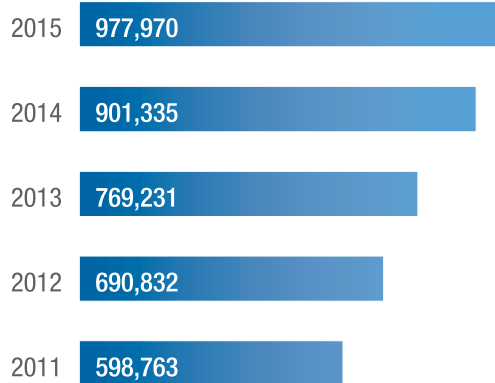
ASSETS



FUNDS FROM OPERATIONS



SHAREHOLDERS' EQUITY



LIVE.

Living Melcor means living well. Whether you live in a home in one of our communities or rent a unit in our rental properties, the same planning goes into everything we do. We create integrated communities by identifying amenities that fit today's lifestyle, things like: community gardens, playgrounds, trails and recreational options like golf courses.

- **Over 100 communities developed**
- **40,000 lots sold**
- **781 residential rental units**



WORK.

With a focus on lifestyle and employee retention, the same things that make our communities great places to live also make our properties great places to work, amenities like: outdoor work stations, walking paths and ponds, onsite daycare and courtyards and shared boardrooms. We continue to work to ensure our portfolio of retail, office, industrial and mixed-use business parks meet today's standards in terms of environmental practices, lifestyle and customer service excellence.

Melcor is a great place to work. In 2015 Melcor was named Alberta's Best Employer for companies with 100-750 employers by Venture magazine.

- **3.4 million sf owned (including properties owned by Melcor REIT)**
- **98% on-time response to service requests**
- **4 BOMA BEST certified buildings**
- **Over 7 million sf in approved commercial developments spanning the next 10-15 years**



SHOP.

A select mix of local, regional and national retail tenants make everyday shopping accessible to those in our communities and commercial properties. We develop and manage regional power centres and neighbourhood shopping destinations.

- **42% of our tenants are national brands, with 22% regional and 36% local counterparts**
- **1.4 million sf retail GLA under management (including properties owned by Melcor REIT)**



PLAY.

Play time is an important component of overall well-being, so developing communities with playgrounds, walking trails, man-made lakes or surrounding one of our 4 championship golf courses is not by accident.

Our residents enjoy premier amenities in and around their community where they can live, work, shop and play within minutes from their doorstep.

- **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.

After recording six consecutive years of revenue growth, our results moderated in 2015.

Revenues declined 16% to \$263 million compared with \$313 million in 2014. Net income declined 25% to \$76 million compared with \$101 million in the previous year.

Shareholders' equity increased by 9% to \$978 million.

Our level of business activity was adversely affected by the downturn in the Alberta economy. The plummeting drop in oil prices resulted in declining investment and a significant number of layoffs, primarily in the energy sector. As a consequence, net migration decreased by 48% over 2014 and demand for housing and serviced residential lots also decreased.

Melcor's geographic expansion initiatives to the United States helped offset the slowdown in Alberta. Also our focus on shifting our asset mix to more income-producing real estate, including the Melcor REIT, is providing stability of cash flow and earnings.

Our short-term outlook, given that our major asset base is in Alberta, is challenging. In the first quarter of 2016, oil and gas prices are near record lows and the energy sector continues to announce layoffs and reduced investment. Special interest groups are impeding resource development and preventing access to world markets. As Canadians, we have benefited tremendously from the energy sector. Our federal government and provincial governments must work for us in a productive way, removing barriers and thus, allowing industry to continue to grow and create jobs.

Notwithstanding short-term economic issues, we remain well-positioned for longer-term growth and success. We feel that the theme of this year's annual report - built to last - is an appropriate focus and reminder of how Melcor strives to operate, namely:

We achieve results through dedicated people and an experienced management team who practice sound governance and take a conservative approach to growth. Our fiscal prudence and strategy over the long-term have led to a proven record of success. Above all, we strive to practice the Golden Rule.

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 2015, we continued to give to many worthwhile initiatives in support of organizations focused on family and children, healthcare and wellness, science and arts and culture. We also continue to support post-secondary education through bursaries, scholarships and chair endowments.

Rewarding Shareholder Commitment

We remain committed to protecting our shareholders' investment and were pleased to introduce a quarterly dividend to reward our shareholders for their support. We paid \$0.15 per share per quarter for a total dividend of \$0.60 in 2015. 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.

Appreciation for our Team

On behalf of the board and all shareholders, I would like to thank Melcor's staff and leadership team for continuing to deliver results in a challenging year. Their ongoing commitment and tenacity are paramount to our resiliency. 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

Despite the headwinds of an oil and gas economy in recession, our company performed well in 2015. We sold 1,376 single family lots, 180 acres of serviced multi-family, commercial and raw land and completed the construction of 51,300 sf of retail and industrial development. We now manage 3.5 million sf of income property through our Investment Property division and Melcor REIT and our overall occupancy in these assets currently stands at 93%.

People are still buying houses and companies are still leasing space.

Financial Strength

By nature, our company has a healthy suspicion of the economies within which we operate. We set strategy and manage for the long-term and are always prepared for the toughest of times.

Over our 94 year history we have seen numerous economic cycles; 7 since 1986 alone. They are a reality of our business. Accepting that these down cycles occur is not meant to minimize their potential impact on our business, but to ensure that we are constantly prepared for them. Alberta still accounts for the majority of our business and the most recent provincial economic recession has impacted us. We are, however, very prepared.

We prepare for these cycles in a number of different ways. As a tenet of our company culture, we establish and adhere to specific financial targets and ratios including:

- Line of Credit Availability
- Debt – Equity Ratio
- Interest Coverage Ratio
- Loan – Value Ratio
- General Expenses as ratio to Revenue

All of these ratios and objectives are well within target.

We are careful stewards of our company assets and your investment capital. As such, we are well prepared for downturns when they occur. We never try to time the economy, we assume that it will cycle up and it will cycle down.

Operational Preparedness – Diversification

In addition to ensuring our financial preparedness via capital availability and a conservative balance sheet, we have been successful in diversifying our operational composition over the past 15 years. 42% of our reported revenue is now derived from commercial development and income properties. This is up from approximately 16% a decade ago. This alternative revenue, while not immune to economic recession, is far less sensitive to it than the pure entrepreneurial nature of Alberta land sales.

The geographic makeup of our assets has also been diversified over the past decade. At present, 10% of our balance sheet now resides in the United States in an economy that continues to strengthen. Our US investment – predominantly in Arizona and Colorado – is counter cyclical to Alberta's oil-and-gas reliant economy and is helping to level out the lows the company experiences when recession hits.



Chief Executive Officer Letter

Thriving through the Cycles

For Melcor – given our financial strength – there are advantages to an economy in recession. Raw land prices, which had inflated to unsupportable levels, will level off and decline, making investment in Alberta raw land once again attractive.

Unrelenting inflation in the cost of commercial construction and land servicing has levelled and is beginning to fall. The continued cost decline will make the construction of buildings and the servicing of land far more affordable.

These resets, in the context of historically low interest rates, are a silver lining on a recessionary cloud.

We also use a reset in the economy as an opportunity to streamline our processes, reduce risk even further and eliminate any inefficiency we see in our business. To that end, in 2016, we are monitoring and managing spending, cost of sale and have reduced our general and administrative expenses. We have also deferred several capital intensive projects until market conditions improve.

These initiatives were undertaken in deliberate and thoughtful ways in order to achieve maximum results while minimizing risk and eliminating



Outlook

Lower oil prices have led the Alberta real estate market into decline. Our home builders – who buy directly from us in most markets – are still carrying prior year inventory of homes and serviced lots in some communities. Until these builders sell off this inventory, they are hesitant to purchase additional lots.

One of our long-standing strategies for disciplined growth is to carry no more than one year of serviced lot inventory, thus we are not oversupplied going into 2016. We also limit new development to select communities where demand exists and community amenities and housing types remain underserved in the market. In the meantime, we focus on securing municipal approvals so that as demand improves we are well-positioned to service and supply new lots to market. The market for commercial real estate – particularly retail – remains steady and we expect results similar or better than 2015 in these divisions.

The record economic growth over the past several years was unsustainable and a correction is clearly underway. As with prior corrections we believe that the market forces of supply and demand will find a balance and the economy will begin to recover once that occurs. Our company has an excellent record of adapting to changing market conditions and we remain confident in our ability to adjust to changing markets and to produce satisfactory results for our shareholders over the long-term.

Built to Last

We are extraordinarily privileged to work for this great company with such talented and dedicated people. Our management and staff do outstanding work every day. We continue to have a fully-engaged board, an exceptional team and strong corporate culture.

Economic cycles are inevitable. Our long term strategic planning, conservative capital management and the ongoing strength of our balance sheet ensure we are in a position to not only endure this most recent test, but emerge from it stronger and prepared to lead the industry out of it.

On behalf of Melcor I thank you for your support and your trust.



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 and our committees are comprised of a majority of independent directors. The independent directors meet in camera (without management and related directors) for a portion of each meeting held. 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 2015 Information Circular.

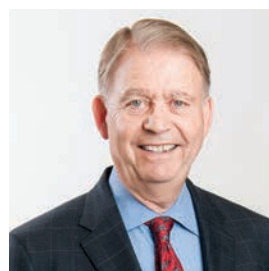
Melcor employees do not receive additional director compensation



Gordon J. Clanachan
FCA, ICD.D
Edmonton, Alberta, Canada

Independent
Corporate Director & Consultant

Director Since	2009
2015 Attendance	100%
2015 Director Compensation	\$49,500
Common Shareholdings	8,000
Committees	Audit (Chair)



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

Director Since	1976
2015 Attendance	100%
2015 Director Compensation	\$33,000
2015 REIT Trustee Compensation ¹	\$26,200
Common Shareholdings	1,427,633
Committees	Compensation & Governance

¹ As the Melcor nominee to the Melcor REIT Board of Trustees, Melcor pays Mr. Young's Trustee fees.



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

Director Since	2003
2015 Attendance	100%
2015 Director Compensation	\$33,000
Common Shareholdings	78,000
Committees	Compensation & Governance

Corporate Governance



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

Director Since	1985
2015 Attendance	100%
2015 Director Compensation	\$nil
Common Shareholdings	148,600
Committees	none



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

Director Since	2014
2015 Attendance	100%
2015 Director Compensation	\$37,500
Common Shareholdings	10,000
Committees	Audit



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

Director Since	1973
2015 Attendance	80%
2015 Director Compensation	\$nil
Common Shareholdings	1,899,042
Committees	none



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

Director Since	2007
2015 Attendance	78%
2015 Director Compensation	\$34,500
Common Shareholdings	125,600
Committees	Audit



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

Director Since	2007
2015 Attendance	100%
2015 Director Compensation	\$42,000
Common Shareholdings	3,000
Committees	Compensation & Governance (Chair)



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March 16, 2016

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, 2015.

The financial statements underlying this MD&A, including 2014 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 16, 2016.

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".

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 2016 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 the Business Environment & Risks section.

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.

Other Information

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

For 93 years, our focus has been the business of real estate. We've built over 100 communities across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage over 3.47 million square feet (sf) in commercial real estate assets and 781 residential rental units.

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 56.7% 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 communities and commercial developments (Community Development)
- project managing development, leasing 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, industrial 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 \$1.89 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.

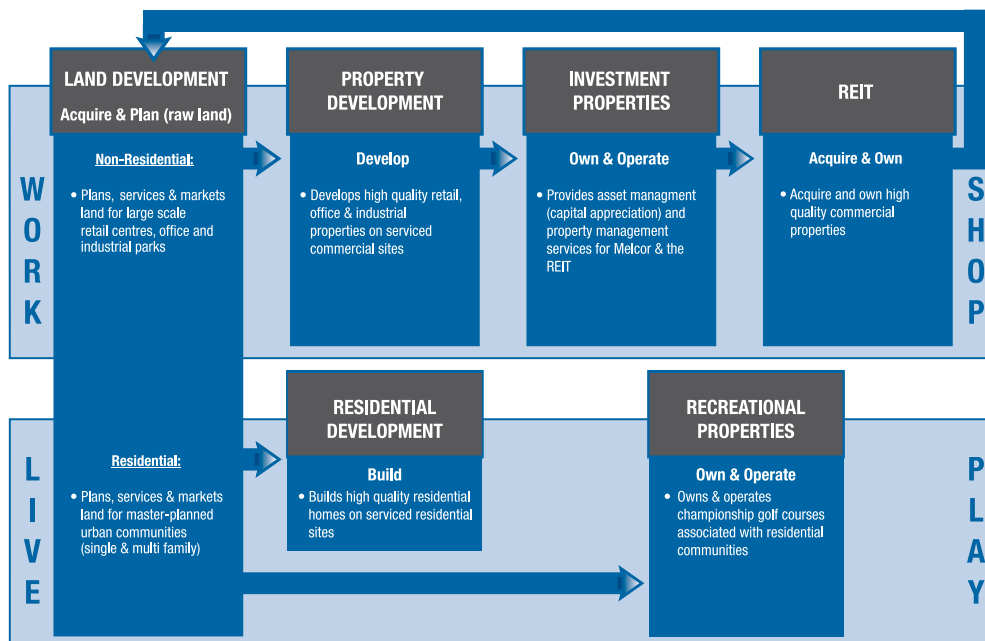
In addition to extending the value of our asset base, these diversified operating divisions enable us to manage our business through real estate cycles (both general market conditions and the seasonality associated with construction and development) and diversify our revenue base.

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, and in Phoenix, Arizona. Our developments span western Canada and the southwestern 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.

The section titled Our Business 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 9.



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
- distribute profit to shareholders through a reliable 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.

Throughout 2015, the economic environment in Alberta was challenged by a dramatic decline in the price of oil. As a result, we have taken a cautious approach to development. In our residential developments, we focused on selling lots early in the year and reducing overall inventory and delaying commercial development until pre-leasing thresholds were met.

We have 90+ years of experience in Alberta's cyclical economy. Through this time, we have managed through many downturns and have learned to not only weather the cycle, but to make our business stronger by recognizing and taking advantage of opportunities while balancing our risk and exposure.

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 current and future revenue, earnings and cash flow growth.

Property Development completed and transferred 5 buildings (51,298 sf) to Investment Properties during 2015. A further 123,090 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 2016.

Division	Assets	Strategy
Community Development	10,015 acres of raw land inventory in strategic growth corridors	Maintain right mix of inventory, available at the right time Increase market share
Property Development	Prospects for over 7 million sf of new development over 5-10 years based on existing plans Completed and transferred 51,298 sf in 2015	Develop strong relationships with regional/national/ multinational tenants Ongoing development of high quality retail, business and industrial centres
Investment Properties & REIT	Over 3.47 million sf of commercial property and 781 residential units under management, diversified across 4 asset classes in 3 provinces and 2 states New buildings coming online as Property Development completes projects	Improve existing assets with value-added investments and enhanced quality to achieve higher occupancy rates and increase rent / square foot Be the landlord of choice by providing consistent, high-quality service
Recreational Properties	4 championship golf courses	Maintain strong reputation through consistent course quality and player experience Grow total revenue from food and beverage operations

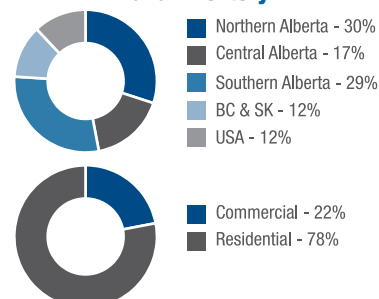
Diversification

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 & southwestern 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 one of our most geographically diversified divisions and invests 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.

Land Inventory



Melcor has been planning and developing innovative communities since the 1950s. We have developed over 40,000 lots in over 100 communities across Alberta, BC and the Southwest United States.

Property Development adds value to raw land by developing retail, office and industrial properties 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 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 a long-term controlling interest in the asset.

Melcor has been developing commercial properties since the 1970s and has built over 2.25 million sf. Our future development pipeline is over 7 million sf over the next 5 to 10 years based on current plans.

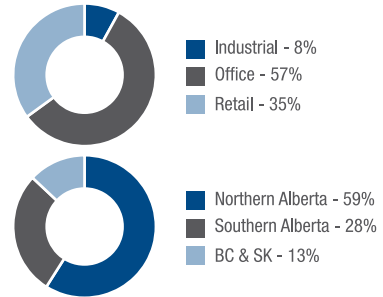
The REIT owns 2.77 million sf of income-producing assets that are managed by Investment Properties (2.74 million sf at December 31, 2014). The REIT is a vehicle for realizing the value created throughout the Melcor value chain as raw land is developed for commercial use (Community Development) and commercial properties are built (Property Development) 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.

GLA Under Development by Property Type

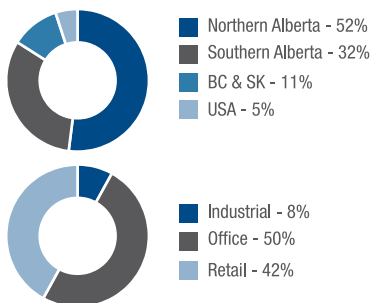


Investment Properties manages our geographically diversified income-producing properties - including those owned by the REIT - to provide consistent annuity income and cash flow. Our total portfolio under management is well diversified across asset class, property mix and region. The regional asset mix is primarily commercial in western Canada, with the majority of these assets owned by the REIT. With a number of commercial acquisitions and residential dispositions completed in 2014 and 2015, our US portfolio is a blend of residential and commercial properties. 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 GLA Owned by the REIT



Total Gross Leasable Area Managed



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. In 2015, we added 7 new positions for overall headcount growth of 5%. The majority of staff additions were made in the investment properties division as we have increased the GLA under management by 40% over the past two years. Over the past three years, we added 36 positions for employee growth of 35%.

On the other end of the spectrum, we have 21 team members (13 active) on 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 7.28 years and over 16 years for members of the executive team. We believe this level of commitment and dedication to Melcor is a reflection of finding employees whose personal values mirror our corporate values, and thus contribute to our enduring success.

This team, with its complementary combination of seasoned experience and new talent, contributed to 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 (ESPP) programs.

We were proud to be named Alberta's Best Workplace for companies with 100-750 employees in 2015.

Real Estate Inventory

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

- 10,015 acres of developable land
- 3,471,878 sf of leasable commercial property and 781 residential units under management in 3 provinces and 3 states
- Potential to develop over 7 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.

Inventory management is a critical component of our 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:

	December 31, 2015		
<i>(including joint arrangements at 100%)</i>	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)
Open	1,144	67.6	139.6
New developments	1,665	29.7	28.0
Internal sales	—	—	(3.8)
Sales	(1,376)	(34.2)	(19.4)
	1,433	63.1	144.4

	December 31, 2014		
<i>(including joint arrangements at 100%)</i>	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

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):

<i>Land purchases (in acres, net of joint arrangement interests)</i>	2015	2014	Total Land Holdings
Edmonton & Region	—	300.94	2,962
Central Alberta	146.97	310.86	1,747
Calgary & Region	—	73.86	2,383
Lethbridge	—	36.91	523
British Columbia	—	—	541
Saskatchewan	—	—	616
United States	—	122.85	1,243
	146.97	845.42	10,015

We acquired 147 acres in Red Deer in 2015. We continue to look for investment opportunities in strategic growth corridors.

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 2015, Melcor had project specific financings on two residential community projects and two commercial development projects totaling \$25.28 million.

The REIT continues to be a vehicle to realize the value of our Investment Property assets. The REIT is expected to be an important financial resource going forward as it exercises its option to purchase assets developed by our Property Development division.

In 2015, the REIT acquired two assets from Melcor for total consideration of \$15.25 million. As at December 31, 2015 we retained an effective 56.7% ownership of the REIT.

Our operations are supported by a syndicated operating line of credit with total availability of \$213.95 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.

2015 Highlights

(\$000s except as noted)	2015	2014	Change
Revenue	263,309	313,009	(15.9)%
Gross margin (%) *	45.8%	48.0%	(4.6)%
Fair value adjustment on investment properties	9,574	12,828	(25.4)%
Net income	75,958	100,719	(24.6)%
Net margin (%) *	28.8%	32.2%	(10.6)%
Funds from operations *	54,271	85,477	(36.5)%
Shareholders' equity	977,970	901,335	8.5%
Total assets	1,891,969	1,863,296	1.5%
Per Share Data			
Basic earnings	2.29	3.18	(28.0)%
Diluted earnings	2.29	3.06	(25.2)%
Funds from operations *	1.64	2.70	(39.3)%
Book value *	29.43	27.22	8.1%

* See non-standard measures for definitions and calculations.

2015 was characterized by a challenging economic environment in many of our markets as the price of oil slid to levels last seen in 2003. Activity levels throughout the year were mixed, with continued interest and steady activity in select regions and asset classes.

Our long-term strategy of creating a pipeline of stable, income-producing assets to reduce volatility in our operating results continues to generate results and helped to offset the revenue contraction seen in our Community Development division. Revenue from our income-producing portfolio (including REIT properties) grew by 18% to partially offset the 28% decline in revenue from Community Development due to regional softness in residential real estate. Diversity in the Community Development division's product types (from multi-family to estate) contributed to steady activity in under-served asset classes.

Throughout the year, we remained cautious in our investment and development activities and conservatively managed our assets and liabilities.

Our strategies of conservative growth to maintain a strong and stable balance sheet and increasing recurring income by growing and diversifying our investment property portfolio have contributed to a more stable and diverse revenue profile.

Building strategically

We continued to invest in income-producing commercial properties and grew our portfolio of managed properties by 5%:

We acquired 3 income-producing properties, including:

- a 63,112 sf office building in Denver, Colorado for \$6.15 million (US\$4.88 million). The building has a good tenant mix in a high profile commercial location near the Denver airport.
- a 47,385 sf office building in the Greater Phoenix Area, Arizona for \$8.47 million (US \$6.43 million).

These US acquisitions were funded by the sale of three US

residential rental properties, which were sold for gross proceeds of \$81.15 million (US \$59.94 million). These properties were purchased in 2010 and 2011 for \$44.56 million (US \$44.55 million) and held in the Investment Property division. Our US strategy is to take advantage of economies that are counter to Alberta's economic reliance on the resource sector by buying at market lows and earning income off the assets until the market improves. The dispositions and acquisitions completed in 2015 demonstrate our belief that the residential market has substantially recovered, and that the commercial market is now stable with upside potential.

- We added density to an existing retail power centre by constructing an additional CRU, increasing GLA by 7,534 sf.
- Our property development division completed and transferred 5 buildings (51,298 sf valued at \$26.55 million) in 2015 compared to 22 buildings (555,010 sf valued at \$161.05 million) in 2014.

We continued to invest in land inventory and increased our Canadian land holdings by 146.97 acres. The acquired land is primarily allocated to residential development. We continue to move land use designations through the municipal approval process to increase our supply of shovel ready assets so that we are ready to capitalize when market demand improves.

We also continued to invest in improvements to existing properties in 2015. Melcor and the REIT invested \$5.02 million in capital enhancement projects.

We set an objective of increasing occupancy in our income-producing properties in 2015, and through strategic leasing programs, we achieved occupancy of 93%.

Return to Shareholders

We continue our tradition of distributing profit to our investors. During 2015, we paid annual dividends of \$0.60 per share, representing 3% growth over 2014 regular dividends. The dividend is an eligible dividend for Canadian tax purposes.

We declared a \$0.12 per share dividend on March 16, 2016 payable on April 5, 2016 to shareholders of record on March 29, 2016. We reduced the dividend to ensure the appropriate balance between returning profit to shareholders and conserving cash for investment opportunities and our capital allocation strategy.

We have been paying dividends since 1969.

Revenue & Margins

We earned revenue of \$263.31 million in 2015 compared to \$313.01 million in 2014 for a decrease of 16%. Our long-term strategy of creating a pipeline of stable, income-producing assets to reduce volatility in our operating results continues to generate results and helped to partially offset the revenue contraction seen in our Community Development division. Revenue from our income-producing portfolio (including REIT properties) grew by 18% to partially offset the 28% decline in revenue from Community Development due to regional softness in residential real estate. Transfers from Property Development to Investment Properties, in conjunction with third party acquisitions,

contributed to 5% growth in GLA under management. Property Development revenue (down 81%) is eliminated on consolidation.

Gross margin decreased 2% to 46% in 2015. Community Development gross margin was 40% in 2015 compared to 45% in 2014. This decrease was driven by sales promotions designed to proactively drive sales activity and gain market share, primarily in the Edmonton region. 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. The overall growth in revenue from income properties, with 61% gross margin (Income Properties and REIT combined), serves to neutralize drag on Community Development margin.

Net margin remained steady over 2014 at 29%. Net income was \$75.96 million.

Fair value gains of \$9.57 million were recorded in 2015 (2014: \$12.83 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 \$1.82 million (2014: \$2.90 million);
- leasing activity and completion of construction on Property Development projects resulting in fair value gains of \$7.72 million (2014: \$13.65 million); and
- decreased fair value adjustments in our Investment Properties and REIT divisions, compared to 2014, reflects increased stability in the portfolio.

Funds From Operations (FFO)

Funds From Operations (FFO) is a non-standard measure used in the real estate industry to measure operating performance. We believe that FFO is an important measure of the performance of our real estate assets. FFO per share adjusts for certain non-cash earnings items included in income such as fair value adjustments on investment properties and stock based compensation expense.

Below is a reconciliation of net income to FFO:

(\$000s)	2015	2014
Net income for the year	75,958	100,719
Amortization of operating lease incentives	6,045	5,394
Fair value adjustment on investment properties	(9,574)	(12,828)
Depreciation on property and equipment	1,705	1,598
Stock based compensation expense	339	475
Non-cash financing costs	1,627	1,369
Gain on sale of asset	(58)	(173)
Deferred income taxes	3,490	58
Fair value adjustment on REIT units	(25,261)	(11,135)
FFO *	54,271	85,477
Per Share Data		
FFO per share *	1.64	2.70

* See non-standard measures for definitions and calculations.

FFO during the year declined to \$54.27 million compared to \$85.48 million in 2014. FFO was impacted by lower sales in certain regions. Income from income-producing assets (Investment Properties and REIT divisions) grew by 29% compared to 2014 which has helped stabilize overall income. FFO per share was impacted by an increase in shares outstanding following the conversion of the convertible debentures in 2014.

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, legal 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)	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Revenue	167,281	232,897	30,068	161,966	32,103	37,986	65,482	44,509	9,665	9,029
Portion of total revenue	55%	48%	10%	33%	11%	8%	21%	9%	3%	2%
Cost of sales	(100,193)	(129,073)	(29,743)	(161,053)	(12,678)	(15,317)	(25,613)	(17,860)	(6,400)	(5,966)
Gross profit	67,088	103,824	325	913	19,425	22,669	39,869	26,649	3,265	3,063
Gross margin (%)	40%	45%	1%	1%	61%	60%	61%	60%	34%	34%
Portion of total gross profit	52%	66%	—%	1%	15%	14%	31%	17%	3%	2%
General and administrative expense	(9,649)	(9,403)	(1,621)	(2,261)	(3,636)	(3,272)	(2,529)	(2,134)	(2,294)	(2,184)
Fair value adjustment on investment properties	—	—	7,717	13,651	2,122	(5,305)	(5,418)	93	—	—
Gain on sale of assets	—	—	—	—	—	—	—	—	58	173
Interest income	2,356	2,709	—	—	14	28	56	72	—	—
Segment Earnings	59,795	97,130	6,421	12,303	17,925	14,120	31,978	24,680	1,029	1,052

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 homebuilders who share our passion for quality and with whom we have long-standing relationships.

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

As at December 31, 2015 we held 10,015 acres of raw land for future development which positions the division well for future growth. Our developed land inventory at December 31, 2015 includes 1,433 single-family lots, 63 acres for multi-family unit development, and 144 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.

The majority of our operations are in Alberta where overall market conditions softened during 2015 following exceptionally strong activity in 2014.

The following table summarizes our activity in 2015 and 2014:

Consolidated	2015	2014
Sales data:		
Single-family sales (number of lots)	1,376	1,616
Gross average revenue per single family lot (\$)	139,000	166,400
Multi-family sales (acres)	34.21	17.60
Gross average revenue per multi-family acre (\$)	1,019,400	1,073,000
Commercial sales (acres)	2.90	8.35
Gross average revenue per commercial land acre (\$)	793,100	820,300
Other land sales - Industrial, Other (acres)	142.71	50.40
Gross average revenue per other land acre (\$)	109,145	402,600
Financial results:		
Revenue (\$000s)	167,281	232,897
Earnings (\$000s)	59,795	97,130

Regional Highlights

Edmonton & Region	2015	2014
Sales data:		
Single-family sales (number of lots)	867	828
Multi-family sales (acres)	16.81	9.78
Commercial sales (acres)	—	5.02
Other land sales - Industrial & Other (acres)	141.24	30.67
Financial results:		
Revenue (\$000s)	100,732	120,440
Earnings (\$000s)	34,612	47,083

The residential market in the Edmonton region was somewhat isolated from the general softness in Alberta due to strong construction activity and greater economic diversity in the region. Single-family lot sales remained strong as we offered promotions early in the year to gain market share. Sales activity was strong throughout the year in our west Edmonton community of Rosenthal. In the latter half of the year, we had strong pre-sales on the first phase in Jensen Lakes, our new lake community in St. Albert, and the first phase in Cavanagh sold 111 single-family lots.

We also sold 132 acres of raw industrial land in Spruce Grove, including 15 acres to the Property Development division for construction of a post secondary institution crane and hoisting campus.

We will continue to develop at a slower pace in 2016 with a focus on certain segments that remain under supplied in the region.

Red Deer & Region	2015	2014
Sales data:		
Single-family sales (number of lots)	113	280
Multi-family sales (acres)	3.20	—
Other land sales - Industrial & Other (acres)	—	4.42
Financial results:		
Revenue (\$000s)	15,550	41,334
Earnings (\$000s)	8,110	22,190

The Red Deer market softened significantly, with a 40% reduction in building permits issued for single-family and semi-detached homes over 2014. We maintained our strong position with a market share of over 50% of permits issued in 2015. Our communities in southwest Red Deer are nearing completion following 25 years of successful development.

In 2015 we introduced the first phase in Oxford Landing in the town of Penhold, which will be a mixture of single-family residential and land lease lots.

We also commenced installation of underground utilities in the new community of Evergreen in northwest Red Deer. This new community opens up a new development quadrant for the city.

We also invested in future residential development in the region with the purchase of 147 acres of raw land in 2015.

Calgary & Region	2015	2014
Sales data:		
Single-family sales (number of lots)	280	408
Multi-family sales (acres)	8.53	7.82
Commercial sales (acres)	2.90	3.33
Other land sales - Industrial & Other (acres)	1.47	7.83
Financial results:		
Revenue (\$000s)	34,786	59,257
Earnings (\$000s)	13,681	24,966

The impact of lower oil prices on the Calgary housing market resulted in a 31% decline in single-family lots being sold. Our market share in the Cochrane and Airdrie markets remained strong with both communities having the ability to sell in all housing segments. We finished off our Sherwood/Kincora community with the final multi-family sales (\$6.09 million at Melcor %) occurring in 2016. We will proceed with anticipated approvals on our Calgary West lands and look forward to breaking ground and commencing sales in our Greenwich community.

We also sold a 1.47 acre industrial lot and 2.90 acres of commercial land.

We received approval on a new Airdrie community called Lanark (164 acres). This new neighbourhood will be home to approximately 3,288 residents who will have the opportunity to buy a variety of built forms: single-family, semi-detached, townhomes and innovative new housing forms. Initial grading of this community is anticipated to start in the spring of 2017.

The absorption rate on new home sales will continue to be slow throughout the Calgary region in 2016 with our efforts being concentrated on housing segments that continue to sell in this market.

Lethbridge	2015	2014
Sales data:		
Single-family sales (number of lots)	81	88
Other land sales - Industrial & Other (acres)	—	7.48
Financial results:		
Revenue (\$000s)	8,146	8,440
Earnings (\$000s)	1,935	2,266

The Lethbridge market is insulated from the impact that the price of oil had on some of our Alberta regions and revenue remained fairly steady at \$8.15 million compared to \$8.44 million in 2014. We registered new phases in Garry Station and Legacy Ridge during the year.

Kelowna	2015	2014
Sales data:		
Single-family sales (number of lots)	10	12
Multi-family sales (acres)	5.67	—
Financial results:		
Revenue (\$000s)	4,570	2,916
Earnings/(loss) (\$000s)	(614)	335

The Kelowna market continues to gain momentum. Revenue in Kelowna grew by 57% over 2014 as the BlueSky subdivision continues to build momentum. We commenced construction on a new project, Dunbar Villas, which will diversify our offering in the region and introduces a new product type to the Kelowna market. We also continue to advance the new developments of North Clifton Estates and Thomson Flats. The region is well-positioned to take advantage of improving market conditions.

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 commercial 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, Loblaws, McDonald's, Rexall Drugs, 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)	2015	2014
Total revenue	30,068	161,966
Revenue from property transfers	26,550	161,053
3rd Party property sales	3,311	—
Management fees	207	913
Margin (%) on property transfers	25%	23%
Square footage transferred (sf, at 100%)	51,298	555,010
Number of buildings transferred	5	22
Fair value gains on investment properties	7,717	13,651

Property Development completed and transferred 5 buildings (51,298 sf) to Investment Properties during 2015. A further 123,090 sf remain under development.

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:

(\$000s)	2015	2014
Northern Alberta	2,561	10,420
Central Alberta	370	1,125
Southern Alberta	4,786	2,106
	7,717	13,651

Northern Alberta transferred 10,091 sf (1 building) to Investment Properties. Notable activity during 2015 includes:

- Telford Industrial: We completed and transferred a single tenant building to Investment Properties for transfer revenue \$5.10 million and a margin on transfer of \$1.41 million (28%). Construction was substantially complete on another single tenant industrial building which is expected to transfer to Investment Properties in 2016. Total fair value gains of \$6.16 million were recorded on this project during 2015.

- Campsite Business park: We commenced construction on a 15-acre site for the Northern Alberta Institute of Technology (NAIT) in Spruce Grove, Alberta. Construction is expected to be completed in 2016.
- Stoneycreek Village: We recorded fair value losses of \$5.16 million (at joint arrangement interest) on Stoneycreek Village in Fort McMurray due to changes in projected cash flows and overall market conditions. This property transferred in 2014 to Investment Properties.
- The District at North Deerfoot: We completed and transferred 21,519 sf in 2 buildings (a free standing restaurant and a CRU) at The District at North Deerfoot. This development is expected to yield 2,250,000 sf on completion.
- Chestermere Station: We completed and transferred a 10,102 sf CRU. Property Development also constructed a CRU for Melcor REIT, which added 7,151 sf to the development.

Central Alberta: Development at Clearview Market is near completion with 141,120 sf developed to date and approximately 10,000 sf under development. The project is expected to be completed in 2016.

Southern Alberta: This region transferred 41,207 sf to Investment Properties (4 buildings in 3 developments) in 2015, including:

- Kingsview Market: We completed and transferred a 9,586 sf CRU at Kingsview Market Square, bringing the total sf developed to date on the property to 126,851 sf.

Transfers occur upon completion of the buildings, while 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	607,000	57,364	—
Telford Industrial	Leduc	Industrial Park	385,000	98,790	44,000
West Henday Promenade	West Edmonton	Regional mixed use centre	726,000	96,627	14,000
Kingsview Market	Airdrie	Regional shopping centre	331,000	126,851	18,300
Chestermere Station	Chestermere	Neighbourhood shopping centre	308,000	236,219	21,500
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	21,519	1,636
Campsite Business park	Spruce Grove	Industrial Park	170,000	—	13,654

Expected Future Projects					
Project	Location	Type	Total SF *	Ownership Interest	Expected Start (year)
The Shoppes 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
Jensen Crossing	St. Albert	Regional mixed use centre	148,000	100%	2017
Rollyview	Leduc	Neighbourhood shopping centre	150,000	100%	2017
Keystone Common	North Calgary	Regional power centre	775,000	100%	2020
West Pointe Marketplace	Lethbridge	Regional power centre	750,000	100%	2018
West Calgary Marketplace	West Calgary	Regional power centre	800,000	100%	2020

* 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 3.47 million sf of income-producing commercial GLA and 781 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)	2015	2014
Commercial properties GLA under management (sf, total)	3,471,878	3,291,326
Properties owned and managed (sf)	418,279	287,722
Properties managed (sf)	3,053,599	3,003,604
Revenue (total)	32,103	37,986
Commercial properties	9,514	18,387
US properties	16,649	13,737
Management fees	4,515	4,316
Parking lots and other assets	1,425	1,546
Net operating income (NOI) *	19,232	23,588
Funds from operations *	16,247	22,138
Funds from operations per share *	0.49	0.70

* See non-standard measures for calculation.

Since the formation of the REIT in 2013, the Investment Properties division's primary function is asset management and hands on property management.

Canadian commercial properties

We continued to grow via property development and third-party acquisition in 2015, albeit at a more prudent pace in light of softened economic conditions in most of our operating regions. Property Development transferred 5 buildings (51,298 sf, at 100%), including four commercial retail units in three of our Southern Alberta retail power centres as well as a single-tenant industrial building in the Edmonton area. In June 2015, we acquired an interest in a mixed use retail/office property in downtown Edmonton (4,000 sf at JV %) for a purchase price of \$1.00 million. We have undertaken re-development of the building with tenancy commencing in March 2016. In November 2015 we sold additional phases of two properties (53,103 sf, at 100%) to the REIT.

During the comparative period 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 2014. In total, Investment Properties sold 8 properties (793,941 sf) to the REIT in 2014.

The high churn of assets underscores the division's role as asset manager with same asset revenue and NOI representing a small proportion of Investment Properties activity.

Assets transferred from Property Development during 2014 and 2015 (and held at December 31, 2015) contributed revenues of \$5.04 million and \$2.20 million respectively. During 2015 we recognized revenue of \$0.59 million related to assets sold to the REIT (2014 - revenue of \$12.67 million). These assets contributed to the growth in revenues under our management fee structure with the REIT.

Canadian commercial property occupancy was 90% at year end compared to 85% at December 31, 2014. This increase reflects newer assets brought online from Property Development and in the process of being leased up, partially offset by fully leased up assets being sold to the REIT.

The following is a reconciliation of same asset net operating income (NOI) to NOI:

(\$000s except as noted)	2015	2014
Same asset NOI *	2,836	2,587
Properties transferred from PD	3,677	1,778
Properties transferred to REIT	393	7,554
NOI before adjustments	6,906	11,919
Amortization of operating lease incentives	419	2,713
Straight-line rent adjustment	(596)	(1,769)
NOI	6,729	12,863

* See non-standard measures for definition.

Divisional NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustment. Same asset NOI grew by \$0.25 million or 10% over 2014 as assets transferred from Property Development were leased up.

US properties

Through 2015 we continued to execute our strategy of increasing our US commercial portfolio in regions which hedge our exposure to resource economies. We accomplished this through two commercial property acquisitions and three residential property disposals completed through 2015 and two commercial property acquisitions completed in 2014. Details of acquisitions and disposals completed through 2015 and 2014 are as follows:

	Date	Type	Area	Price (millions \$)
Acquisitions				
Evans Business Center, Greater Phoenix Area, Arizona	Sept 2015	multi-commercial	47,385 sf / 4.55 ac	\$8.47 (US\$6.43)
Centennial Airport Plaza, Denver, Colorado	Apr 2015	multi-commercial	63,112 sf / 4.59 ac	\$6.14 (US\$4.88)
Chauncey Professional Center, Greater Phoenix Area, Arizona	Apr 2014	multi-commercial	35,066 sf / 1.95 ac	\$7.78 (US\$7.05)
Perimeter Parkway, Greater Phoenix Area, Arizona	Apr 2014	multi-commercial	24,154 sf / 1.10 ac	\$4.50 (US\$4.08)
Dispositions				
Augusta Meadows, Greater Houston Area, Texas	Dec 2015	multi-residential	264 units / 13.19 ac	\$37.52 (US\$26.86)
Artesia, Greater Phoenix Area, Arizona	Oct 2015	single residential	1 unit	\$0.90 (US\$0.70)
Pebble Creek, Greater Houston Area, Texas	July 2015	multi-residential	240 units / 11.47 ac	\$42.73 (US\$32.38)

Revenues from residential assets sold during 2015 were \$6.82 million (US\$5.30 million) (2014 - \$7.13 million (US\$6.47 million)). Cash proceeds on sale of these assets was partially deployed in 2015 with two commercial property acquisitions. Subsequent to year-end we completed two commercial property acquisitions in Denver, Colorado with a total of 221,697 sf office building on 15.59 acres for total purchase price of \$26.80 million (US\$36.13 million). We continue to actively seek out investment opportunities that fit our growth strategy. Revenues from newly acquired commercial assets in 2015 were \$2.70 million (US\$2.10 million) (2014 - \$0.92 million (US\$0.83 million)).

Growth in our same asset revenue and NOI was due to improved occupancy on residential assets, higher rental rates and foreign currency gains. Higher occupancy and modest increases in average rental rates in 2015 were the result of the improved economic environment in our US markets. Portfolio growth and foreign currency gains led to revenue and NOI growth of 21% and 22% over 2014.

A reconciliation of same asset NOI is as follows:

(\$000s except as noted)	2015	2014
Same asset NOI *	2,583	1,940
Third party acquisitions	1,068	415
Third party disposals	2,527	3,453
NOI before adjustments	6,178	5,808
Foreign currency translation	1,655	600
Amortization of operating lease incentives	24	—
Straight-line rent adjustment	(40)	(24)
NOI	7,817	6,384

* See non-standard measures for definition.

Divisional NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustment. Same asset NOI grew by \$0.64 million or 33% over 2014 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 \$0.20 million or 5% compared to 2014 reflecting the 5% growth in our portfolio under management over the current and comparative period. Growth in property management and asset management fees was offset by a decrease in leasing and acquisition fees which fluctuate based on the timing of leasing activity and acquisitions by the REIT. In 2015 we collected \$0.69 million in leasing fees (2014 - \$1.06 million). In 2014 we also earned \$0.43 million in acquisition fees on third party acquisitions completed by the REIT.

During 2015 we recognized \$1.43 million in revenues on our 516 parking stalls and other assets, a decrease of 8% over 2014. These revenues fluctuate from period to period.

Funds from Operations

Funds from operations (FFO) decreased by \$5.89 million or 27% over 2014 as a result of lower NOI. FFO was also negatively impacted by higher general & administrative expense related to payments made to the REIT under Head and Bridge Lease Agreements entered into for property acquisitions from Investment Properties completed during December 2014. These amounts are eliminated on consolidation.

Fair Value of Investment Portfolio

	2015	2014
Fair value of portfolio (\$000s)	233,844	265,204
Weighted average capitalization rate	6.38%	6.18%
Weighted average terminal cap rate	6.72%	6.43%
Weighted average discount rate	7.25%	7.40%

The fair value of our portfolio decreased by \$31.36 million over 2014 as a result of US residential asset disposals valued at \$81.15 million and \$15.25 million in commercial property assets sold to the REIT during 2015. This was partially offset buildings transferred from Property Development valued at \$20.07 million and foreign current translation gains of \$22.82 million.

Investment properties were valued by Melcor's internal valuation team and by qualified independent external valuation professionals during the year which resulted in fair value gains of \$2.12 million recorded as a fair value adjustment on investment properties in the statements of income and comprehensive income. Fair value gains in 2015 were driven from asset dispositions completed during the year where the sale price exceeded carrying value. In 2014, investment properties were valued by qualified independent external valuation professionals which resulted in fair value losses of \$5.31 million. Fair value losses during 2014 were driven by assets sold to the REIT where the carrying value exceeded the sale price. Refer to note 29 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

REIT

The REIT owned 38 income-producing office, retail and industrial properties, comprising 2,768,750 sf of gross leasable area (GLA) and a land lease community at December 31, 2015. 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 56.7% effective interest in the REIT through ownership of all Class B LP Units (December 31, 2014 - 56.5%). As we have concluded that Melcor retains control of the REIT we consolidate 100% of the REIT's revenues, expenses, assets and liabilities.

Operating results

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

(\$000s except as noted)	2015	2014
Rental revenue	65,482	44,509
Net operating income (NOI) *	41,313	28,581
Same asset NOI (see calculation following)	24,558	24,823
Fair value adjustments	(5,418)	93
Occupancy	94%	92%
Funds from operations *	26,345	17,907
Funds from operations per share *	0.79	0.54

* See non-standard measures for definition and calculation.

Rental revenue for the year ended December 31, 2015 increased \$20.97 million or 47% over 2014 as a result of portfolio growth. We acquired nine properties and additional phases at four existing properties in 2014 and 2015, increasing our GLA by 64% or 1,076,830 sf compared to December 31, 2013. Of these acquisitions, 898,119 sf was acquired in December 2014 and thus had minimal impact on 2014 results. Rental revenue generated by newly acquired properties was \$23.49 million in 2015 (2014 - \$2.54 million). Same-asset rental revenue was steady over 2014, with increases in recoveries and other revenue offsetting amortization of tenant incentives and lower net effective rent on new and renewed deals entered in 2014 and 2015.

Throughout 2015, we have been focused on increasing occupancy. We achieved occupancy of 93.6% as a result of strategic leasing programs that resulted in the lease up of some chronically vacant space in our suburban office and retail properties.

Direct operating expenses increased by \$7.75 million or 43% over 2014. Excluding the impact of newly acquired properties, direct operating expenses increased by \$0.29 million over 2014. On a same-asset basis operating expenses were \$0.37 million or 4% higher than 2014 and reflect inflationary growth in the cost of goods and services. Higher non-recoverable costs include cosmetic site improvements and a \$0.22 million provision for bad debts expense in 2015 (2014 - \$0.06 million). Property taxes and utilities on a same-asset basis were steady over 2014. Increases in appraised values on specific assets led to higher property taxes, which were offset by lower utility costs as a result of mild weather across much of our operating regions and several 'green' initiatives.

(\$000s except as noted)	2015	2014
Same asset NOI *	24,558	24,823
Acquisitions	15,311	1,826
NOI before adjustments	39,869	26,649
Amortization of operating lease incentives	3,057	2,539
Straight-line rent adjustment	(1,613)	(607)
Divisional NOI	41,313	28,581

* 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 2015 and late 2014 led to a 45% increase in NOI over 2014. On a same-asset basis, NOI declined modestly over 2014 as a result of increased amortization of tenant incentives and higher provision for bad debts.

Funds from Operations

FFO increased by \$8.44 million or 47% over 2014. The increase reflects higher NOI, which was partially offset by higher general and administrative expenses during the period.

Fair Value of REIT Portfolio

	2015	2014
Number of properties	38	38
Total GLA (sf)	2,888,246	2,829,885
GLA (REIT owned %) (sf)	2,768,750	2,735,467
Fair value of portfolio (\$000s)	660,935	644,288
Weighted average capitalization rate	6.57%	6.49%
Weighted average terminal cap rate	6.81%	6.77%
Weighted average discount rate	7.71%	7.69%

Our investment properties were valued by Melcor Development Ltd.'s internal valuation team and by qualified independent external valuation professionals during the year which resulted in fair value losses of \$5.42 million recorded as a fair value adjustment on investment properties in the statements of income and comprehensive income. In 2014, the investment properties were valued by qualified independent external valuation professionals which resulted in fair value gains of \$0.09 million.

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:

(\$000s)	2015	2014
Northern Alberta	(8,253)	(3,787)
Southern Alberta	1,833	2,955
Saskatchewan & British Columbia	1,002	925
	(5,418)	93

Fair value losses in Northern Alberta were primarily driven by an increase in terminal capitalization rate of between 25 to 75 basis points and decreased stabilized NOI on certain Edmonton area properties. The remainder of fair value losses across the portfolio were due to capital and tenant incentive spending that did not result in a significant change in the fair value of the related property. Fair value adjustments represent a change of approximately 1% in the fair value of our 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 course fees, number of rounds played and customer satisfaction and enjoyment.

Operating Results

(\$000s except as noted)	2015	2014
Revenue	9,665	9,029
Gross profit	3,265	3,063
Gross margin (%)	33.8%	33.9%
Earnings	1,029	1,052

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 2% increase in earnings in the 2015 season. The number of rounds played at Melcor managed courses increased by 4% over 2014, and total rounds at all four courses increased 5% to 119,920 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 \$2.98 million, an increase of 8% over 2014.

	2015			
	Ownership interest	Season opened	Season closed	Rounds of golf *
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 20	October 31	35,131
The Links (Spruce Grove)	100%	April 19	October 31	29,032
Black Mountain (Kelowna)	100%	March 28	November 8	30,042
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	April 30	October 18	25,715
	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

* Rounds of golf indicated at 100%.

General and Administrative Expense

Cost management strategies implemented across Melcor contributed to a \$1.08 million decrease in general and administrative expenses over 2014. G&A expense reductions in the Corporate and Property Development divisions were partially offset by G&A expense growth in the REIT and Investment Properties divisions, where expenses have increased to support the significant growth in GLA under management in the past two years.

Financing

As at December 31, 2015, our total general debt outstanding was \$631.01 million compared to \$621.34 million in 2014. The financing function is managed by our corporate division and decisions on how to deploy operating and acquisitions funds is a centrally managed corporate decision. We use various forms of financing to fund our development and acquisition activities. We are often able to leverage the assets in one division to fund development opportunities in others.

A summary of our debt is as follows:

As at (\$000s)		2015	2014
Melcor - revolving credit facilities	a	84,813	81,549
REIT - revolving credit facility	b	19,258	4,961
Project specific financing	c	25,280	34,205
Secured vendor take back debt on land inventory	d	76,092	80,335
Debt on investment properties and golf course assets	e	393,314	388,326
REIT - convertible debenture	f	32,251	31,965
		631,008	621,341

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, 2016, is renewable one year in advance of expiry and may be modified.

A summary of the credit facility is as follows:

As at (\$000s)		2015	2014
Credit limit approved	i)	213,949	195,370
Supportable credit limit	ii)	188,825	190,119
Credit used		(84,813)	(81,549)
Credit available		104,012	108,570

i) The portion of these loan limits that relate solely to Melcor Developments Ltd. is \$120.00 million (2014 - \$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 (\$000s)	2015	2014
Total letter of credit facility	75,185	74,495
Letters of credit issued	(47,347)	(55,863)
Available for issue	27,838	18,632

b) REIT - revolving credit facility

On May 1, 2015 the REIT entered into a revolving term facility credit agreement with two western Canadian financial institutions (the "new facility"). Under the terms of the agreement the REIT has an available credit limit based upon the carrying values of specific investment properties up to a maximum of \$35,000 for general purposes, including a \$5,000 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, 2018, with an extension option of up to three years at the discretion of the lenders. All comparative information reflects the balances outstanding under our previous credit facility.

As at December 31, 2015 we had \$19.30 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 (\$000s)	2015	2014
Project specific debt on investment properties under development, with interest rates at 3.20% (2014 - 3.37% to 5.00%)	11,850	18,852
Project specific debt on land, with interest rates between 3.20% and 4.20% (2014 - 3.53% to 3.75%)	13,430	15,353
	25,280	34,205
Weighted average effective interest rate	3.24%	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 and variable rate financing with repayments over 3 to 5 years) or from financial institutions (variable rate financing with repayments over 3 to 5 years). Current debts mature from 2016 to 2020.

As at (\$000s)	2015	2014
Agreements payable with interest at the following contractual rates:		
Fixed rates of 3.85% - 6.00% (2014 - 3.13% to 6.16%)	76,092	78,444
Variable rates (2014 - 3.75% to 4.50%)	—	1,891
	76,092	80,335
Weighted average effective interest rate	4.68%	5.15%

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 \$393.31 million reflects financing placed on investment properties that have a carrying value of \$719.06 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 2.48% to 3.60% in 2015.

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

<i>As at (\$000s)</i>	2015	2014
Canadian mortgages at fixed rates (2015: 2.48% to 6.16%, 2014: 3.01% to 6.16%)	305,831	304,371
Canadian mortgages at variable rates (2014: 3.11% to 4.60%, 2014: 3.50% to 4.60%)	41,964	23,709
US mortgages at fixed rates (2015: 4.10% to 4.68%, 2014: 5.21% to 6.06%)	17,552	41,998
US mortgages at variable rates (2014: 3.11% to 5.38%, 2014: 3.02% to 3.74%)	29,550	19,302
	394,897	389,380
Weighted average effective interest rate	3.76%	4.12%

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
2016	44,447	4.56%	9
2017	12,296	3.35%	5
2018	46,095	3.96%	9
2019	80,215	3.72%	10
2020	47,861	4.34%	7
2021	17,300	6.25%	1
2022	—	—%	—
2023	15,461	5.43%	2
2024	44,562	3.78%	5
2025	23,974	4.14%	5
2026	—	—%	—

As at December 31, 2015, \$15.64 million of debt was payable in US dollars (2014: \$13.46 million).

f) 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, 2015, compared to December 31, 2014.

<i>As at (\$000s except as noted)</i>	2015	2014
Cash & cash equivalents	48,674	19,011
Restricted cash	2,288	2,945
Accounts receivable	18,744	21,407
Agreements receivable	152,183	167,773
Revolving credit facilities	104,071	86,510
Accounts payable and accrued liabilities	40,534	56,077
Total assets	1,891,969	1,863,296
Total liabilities	913,999	961,961
Debt to equity ratio *	0.93	1.07

*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 November 12, 2015, we sold the REIT a multi-tenant CRU (held within a 50% joint venture) and a single-tenant industrial property for a purchase price of \$15.25 million. The purchase price was satisfied through the REIT's line of credit and available cash.

During 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. We also issued 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.

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	394,897	90,084	76,929	108,242	119,642
Revolving credit facilities	104,071	104,071	—	—	—
Secured vendor take back debt on land inventory	76,092	26,610	25,876	23,606	—
Project specific financing	25,280	25,280	—	—	—
REIT debenture	32,251	—	—	32,251	—
Operating leases	271	271	—	—	—
Total contractual obligations	632,862	246,316	102,805	164,099	119,642

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:

	2015	2014
Cash flows from operating activities	33,036	55,025
Cash flows used in investing activities	30,799	(125,338)
Cash flows from financing activities	(34,619)	60,246

Cash from operations was \$21.99 million lower in 2015 as a result of lower sales revenue in the Community Development division. We invested \$4.79 million in land development activities and \$6.80 million in tenant incentives to support increased occupancy during the year. Cash used in operating assets and liabilities increased to \$23.35 million due to the decrease in our accounts payable balance from \$56.08 million to \$40.53 million. Accounts payables vary period to period based on the timing of development activities, which are weather dependent.

In 2015 we sold three residential rental properties in the US for \$81.15 million. The proceeds will be reinvested in the US. In 2015, we acquired two US commercial assets - Evans Business Center in the Greater Phoenix Area for \$8.47 million (US \$6.43 million) and Centennial Airport Plaza in Denver, Colorado for \$6.15 million (US \$4.88 million).

We continue to invest in improving our asset base through value enhancing projects. Additions to investment properties include development activities by Property Development and enhancements to properties held in the Investment Properties and REIT operating divisions. In 2015 we invested \$31.25 million in properties under development, property improvements and capitalized borrowing costs, compared with \$31.85 million in 2014.

Cash from financing activities decreased by \$94.87 million over 2014. Cash from public offerings in 2014 generated \$31.93 million and \$22.84 million on proceeds from issuing the REIT convertible debenture and the issuance of REIT trust units, respectively. During 2015 the REIT did not go to market for similar offerings. In 2015, Melcor Developments purchased shares and Melcor REIT acquired trust units under their respective normal course issuer bids for a combined \$1.22 million (none in the comparative period). During the year REIT drew an additional \$14.30 million on their credit facility, and Melcor an additional \$3.26 million - both contributing positively to cash from operations. The increase in the repayment of general debt from \$110.98 million to \$124.80 million was due to the repayment of debt on the two residential rental properties sold during the year, which totaled \$33.77 million (US \$24.64 million).

In 2015, we paid dividends of \$0.60 per share, for a total cash outflow of \$19.91 million. This compares to dividends of \$0.58 per share in 2014, for a cash outflow of \$18.57 million.

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, 2015 there were 33,233,712 common shares issued and outstanding and 906,784 options, each convertible to one common share upon exercise or exchange. There is only one class of 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 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 in the Financing section. 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.

(\$000s)	2015			
	Q4	Q3	Q2	Q1
Revenue	91,721	87,921	46,113	37,554
Net income	32,658	24,823	3,917	14,560
Per Share				
Basic earnings	0.98	0.75	0.12	0.44
Diluted earnings	0.99	0.74	0.12	0.44
Book value *	29.43	28.47	27.67	27.76

(\$000s)	2014			
	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

*See non-standard measures for definition

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

Fourth Quarter

Three months ended December 31 (\$000s)	2015	2014
Revenue	91,721	121,452
Cost of sales	(45,936)	(63,985)
Gross profit	45,785	57,467
General and administrative expense	(7,136)	(6,596)
Fair value adjustment on investment properties	2,767	10,712
Adjustments related to REIT units	6,369	2,296
Gain on sale of assets	—	6
Operating earnings	47,785	63,885
Interest income	344	729
Foreign exchange gains	1,008	494
Finance costs	(9,084)	(6,545)
Net finance costs	(7,732)	(5,322)
Income before income taxes	40,053	58,563
Income tax expense	(7,395)	(8,486)
Net income for the period	32,658	50,077
Earnings per share attributable to Melcor's shareholders:		
Basic earnings per share	0.98	1.56
Diluted earnings per share	0.99	1.46

Highlights of the fourth quarter include:

- The Property Development division completed and transferred a 7,325 sf standalone restaurant in The District. The division also received a development fee for building a 7,151 sf CRU for Melcor REIT as they added density at Chestermere Station.
- The Community Development division registered 18 plans in 10 communities, which added 582 lots to inventory with 517 lots sold in Q4-2015. This compares to 12 plan registrations in 9 communities adding 687 lots to inventory with 714 lots sold in Q4-2014.
- The Investment Properties division sold Augusta Meadows, a 264 unit residential rental property in the Greater Houston area (Texas) for \$37.52 million (US \$26.86 million).

Segmented information for the fourth quarter is as follows:

<i>Three months ended December 31, 2015</i>	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	72,887	5,367	7,869	16,963	835	—	103,921	(12,200)	91,721
Cost of sales	(37,794)	(10,992)	(3,879)	(6,824)	(1,168)	(148)	(60,805)	14,869	(45,936)
Gross profit	35,093	(5,625)	3,990	10,139	(333)	(148)	43,116	2,669	45,785
General and administrative expense	(2,750)	(518)	(971)	(697)	(429)	(2,488)	(7,853)	717	(7,136)
Fair value adjustment on investment properties	—	(1,485)	127	1,904	—	—	546	2,221	2,767
Gain on sale of assets	—	—	—	—	—	—	—	—	—
Interest income	331	—	3	10	—	—	344	—	344
Segment Earnings	32,674	(7,628)	3,149	11,356	(762)	(2,636)	36,153	5,607	41,760
Foreign exchange gains									1,008
Finance costs									(9,084)
Adjustments related to REIT units									6,369
Income before income taxes									40,053
Income tax expense									(7,395)
Net income for the period									32,658

Three months ended December 31, 2014	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	104,922	75,640	10,268	11,669	805	—	203,304	(81,852)	121,452
Cost of sales	(56,604)	(54,716)	(4,630)	(4,828)	(1,144)	(151)	(122,073)	58,088	(63,985)
Gross profit	48,318	20,924	5,638	6,841	(339)	(151)	81,231	(23,764)	57,467
General and administrative expense	(2,367)	(749)	(1,204)	(643)	(402)	(2,262)	(7,627)	1,031	(6,596)
Fair value adjustment on investment properties	—	10,518	(7,514)	3,196	—	—	6,200	4,512	10,712
Gain on sale of assets	—	—	—	—	6	—	6	—	6
Interest income	705	—	6	18	—	—	729	—	729
Segment Earnings	46,656	30,693	(3,074)	9,412	(735)	(2,413)	80,539	(18,221)	62,318
Foreign exchange gains									494
Finance costs									(6,545)
Adjustments related to REIT units									2,296
Income before income taxes									58,563
Income tax expense									(8,486)
Net income for the period									50,077

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 year as a result of lower oil prices. Despite these clear economic headwinds, we continue to see interest in our residential communities as well as leasing activity for our income-producing and under-development commercial properties.

We expect variations in market demand based on region and asset class to continue in 2016, with relatively steady performance in Edmonton, Lethbridge and Kelowna. On the residential side, we expect starter homes and communities to lead the market. On the commercial side, retail has been steady throughout 2015 and we expect that trend to continue. Our US assets will continue to deliver positive returns, especially as we expanded our commercial asset base via opportunistic buys in economies that are growing and that are counter cyclical to our resource dependence in Alberta.

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.

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 16, 2016, Melcor holds an approximate 56.7% (December 31, 2014 - 56.5%) 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 43.3% (December 31, 2014 - 43.5%) interest in the REIT as a financial liability.

Arrangements between Melcor and the REIT

Melcor continues to manage, administer and operate the REIT and its 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 5.0% of all hard construction costs incurred on capital projects in excess of \$0.10 million;
- c. an acquisition fee equal to 0.5% - 1.0% 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 3.00% of gross property revenue;
- b. a leasing fee equal to 5.0% 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.

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 9.

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 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, general economic conditions, 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 Property 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 section 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

Normal Course Issuer Bid

We announced a Normal Course Issuer bid on March 27, 2015. Under the bid, we may acquire up to 1,653,451 common shares (5% of issued and outstanding) with a daily repurchase restriction of 3,057 common shares. During 2015, we repurchased 16,428 shares which were canceled and returned to treasury on January 8, 2016.

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.

Joint arrangement activity at 100% (\$000s)	2015	2014
Revenue	219,057	219,057
Earnings	95,763	95,763
Assets	1,050,532	1,050,532
Liabilities	400,304	400,304

Joint arrangement activity at Melcor's ownership % (\$000s) *	2015	2014
Revenue	103,466	112,658
Earnings	17,478	43,204
Assets	437,059	456,130
Liabilities	169,731	169,014

* 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, 2015. 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, 2015.

There has been no change to Melcor's disclosure controls and procedures or internal control over financial reporting during the year ended December 31, 2015, 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 (%) = (gross profit) / (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:

(\$000s)	Investment Properties		REIT	
	2015	2014	2015	2014
Segment earnings	17,925	14,120	31,978	24,680
Fair value adjustment on investment properties	(2,122)	5,305	5,418	(93)
General and administrative expenses	3,636	3,272	2,529	2,134
Interest income	(14)	(28)	(56)	(72)
Amortization of operating lease incentives	444	2,713	3,057	2,539
Straight-line rent adjustments	(637)	(1,794)	(1,613)	(607)
Divisional NOI	19,232	23,588	41,313	28,581

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:

(\$000s)	Consolidated	
	2015	2014
Net income for the year	75,958	100,719
Amortization of operating lease incentives	6,045	5,394
Fair value adjustment on investment properties	(9,574)	(12,828)
Depreciation on property and equipment	1,705	1,598
Stock based compensation expense	339	475
Non-cash financing costs	1,627	1,369
Gain on sale of asset	(58)	(173)
Deferred income taxes	3,490	58
Fair value adjustment on REIT units	(25,261)	(11,135)
FFO *	54,271	85,477

(\$000s)	Investment Properties		REIT	
	2015	2014	2015	2014
Divisional income for the year	17,925	14,120	31,978	24,680
Fair value adjustment on investment properties	(2,122)	5,305	5,418	(93)
Amortization of operating lease incentives	444	2,713	3,057	2,539
Divisional FFO	16,247	22,138	40,273	27,126

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 auditor's report outlines the scope of their audit examination and states their opinion.

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



Brian Baker
President & Chief Executive Officer

Edmonton, Alberta
March 16, 2016



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, 2015 and December 31, 2014 and the consolidated statements of income, comprehensive income, changes in 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.

Auditor's 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, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants

Edmonton, Alberta
March 16, 2016

Consolidated Statement of Income

For the years ended December 31 (\$000s)	2015	2014
Revenue (note 21)	263,309	313,009
Cost of sales (note 21)	(142,662)	(162,856)
Gross profit	120,647	150,153
General and administrative expense (note 21)	(23,691)	(24,769)
Fair value adjustment on investment properties (note 10, 21 and 29)	9,574	12,828
Adjustments related to REIT units (note 26)	17,679	1,616
Gain on sale of assets	58	173
Operating earnings	124,267	140,001
Interest income	2,427	2,812
Foreign exchange gains	1,008	494
Finance costs (note 20 and 23)	(27,178)	(20,159)
Net finance costs	(23,743)	(16,853)
Income before income taxes	100,524	123,148
Income tax expense (note 22)	(24,566)	(22,429)
Net income for the year	75,958	100,719
Earnings per share attributable to Melcor's shareholders (note 17):		
Basic earnings per share	2.29	3.18
Diluted earnings per share	2.29	3.06

See accompanying notes to the consolidated financial statements.

On behalf of Melcor's Board of Directors:



Gordon J. Clanachan, FCA
Audit Committee Chair



Timothy C. Melton
Executive Chairman

Consolidated Statement of Comprehensive Income

For the years ended December 31 (\$000s)	2015	2014
Net income for the year	75,958	100,719
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences (note 18)	18,682	6,643
Comprehensive income	94,640	107,362

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Financial Position

(\$000s)	2015	2014
ASSETS		
Cash and cash equivalents	48,674	19,011
Restricted cash	2,288	2,945
Accounts receivable	18,744	21,407
Income taxes recoverable	2,455	—
Agreements receivable (note 8)	152,183	167,773
Land inventory (note 9)	696,802	688,453
Investment properties (note 10 and 29)	904,348	901,104
Property and equipment (note 11)	16,269	16,848
Other assets (note 12)	50,206	45,755
	1,891,969	1,863,296
LIABILITIES		
Accounts payable and accrued liabilities (note 13)	40,534	56,077
Income taxes payable	1,342	5,256
Provision for land development costs (note 14)	93,839	108,268
General debt (note 15)	631,008	621,341
Deferred income tax liabilities (note 22)	66,875	64,357
REIT units (note 26 and 29)	80,401	106,662
	913,999	961,961
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 16a)	70,061	67,767
Contributed surplus	2,743	2,947
Accumulated other comprehensive income (AOCI) (note 18)	28,705	10,023
Retained earnings	876,461	820,598
	977,970	901,335
	1,891,969	1,863,296

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Equity

Equity attributable to Melcor's shareholders						
(\$000s)	Share capital	Contributed surplus	Convertible debenture	AOCI	Retained earnings	Total equity
Balance at January 1, 2015	67,767	2,947	—	10,023	820,598	901,335
Net income for the year	—	—	—	—	75,958	75,958
Cumulative translation adjustment (note 18)	—	—	—	18,682	—	18,682
Transactions with equity holders						
Dividends	—	—	—	—	(19,914)	(19,914)
Share repurchase (note 16a)	(34)	—	—	—	(181)	(215)
Employee share options						
Value of services recognized	—	339	—	—	—	339
Share issuance	2,328	(543)	—	—	—	1,785
Balance at December 31, 2015	70,061	2,743	—	28,705	876,461	977,970

Equity attributable to Melcor's shareholders						
(\$000s)	Share capital	Contributed surplus	Convertible debenture	AOCI	Retained earnings	Total equity
Balance at January 1, 2014	23,405	3,357	639	3,380	738,450	769,231
Net income (loss) 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

See accompanying notes to the consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the years ended December 31 (\$000s)	2015	2014
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	75,958	100,719
Non cash items:		
Amortization of tenant incentives (note 12)	6,045	5,394
Depreciation of property and equipment (note 11)	1,705	1,598
Stock based compensation expense	339	475
Non cash financing costs	1,627	1,369
Straight-line rent adjustment	(1,949)	(2,430)
Fair value adjustment on investment properties (note 10, 21 and 29)	(9,574)	(12,828)
Fair value adjustment on REIT units (note 26 and 29)	(25,261)	(11,135)
Gain on sale of assets	(58)	(173)
Deferred income taxes (note 22)	3,490	58
	52,322	83,047
Agreements receivable	15,590	10,188
Development activities (note 3u)	(4,794)	(14,581)
Payment of tenant incentives and direct leasing costs (note 31)	(6,797)	(16,675)
Change in restricted cash (note 31)	64	2,037
Operating assets and liabilities (note 3u)	(23,349)	(8,991)
	33,036	55,025
INVESTING ACTIVITIES		
Purchase of raw land (note 9)	(2,500)	(34,611)
Purchase of investment properties	(18,620)	(56,498)
Additions to investment properties (note 10)	(31,254)	(31,848)
Net proceeds from disposal of investment properties (note 10)	84,241	—
Purchase of property and equipment (note 11)	(1,139)	(2,673)
Proceeds from disposal of asset	71	292
	30,799	(125,338)
FINANCING ACTIVITIES		
Proceeds from issuance of trust units (note 7)	—	22,844
Proceeds from issuing convertible debenture, net of costs (note 15f)	—	31,927
Revolving credit facilities	17,561	(18,099)
Proceeds from general debt	91,371	149,302
Repayment of general debt	(124,800)	(110,982)
Change in restricted cash	593	987
Repurchase of REIT units	(1,000)	—
Dividends paid	(19,914)	(18,571)
Common shares repurchased (note 16a)	(215)	—
Share capital issued	1,785	2,838
	(34,619)	60,246
FOREIGN EXCHANGE GAIN ON CASH HELD IN A FOREIGN CURRENCY	447	105
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	29,663	(9,962)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	19,011	28,973
CASH AND CASH EQUIVALENTS, END OF THE YEAR	48,674	19,011

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 property, 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.

Melcor Developments Ltd. ("Melcor" or "we") 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, 2015 Melton Holdings Ltd. holds approximately 47.2% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at March 16, 2016, Melcor, through an affiliate, holds an approximate 56.7% 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. These consolidated financial statements were authorized for issue by the Board of Directors on March 16, 2016.

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, derivatives 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 subsidiaries:
 - Melcor Developments Arizona, Inc.
 - Melcor Lakeside Inc.
 - Stanley Investments Inc.
 - Melcor REIT Holdings GP Inc.
 - Melcor REIT Holdings Limited Partnership
 - Melcor Homes Ltd.
 - Lethcentre Inc.

- ii. The accounts of Melcor REIT Limited Partnership (the Partnership) (56.7% owned by Melcor Developments Ltd). The remaining 43.3% 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 (2014 – 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.

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 fair value, determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows.

Melcor Developments Ltd. has an internal valuation team consisting of individuals who are knowledgeable and have experience in the fair value techniques applied in valuing investment property. At least once every three years, the valuations are performed by qualified external valuers

Notes to the Consolidated Financial Statements

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

who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. Changes in fair value are recognized in the consolidated statements of income and comprehensive income in the period in which they arise.

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	20-50%

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 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.

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.

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

M. INCOME TAXES

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

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

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

The REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) ("Tax Act") and as a real estate investment trust eligible for the 'REIT Exception', as defined in the rules applicable to Specified Investment Flow-Through ("SIFT") trusts and partnerships in the Tax Act. We expect to allocate all of the REIT's taxable income and to continue to qualify for the REIT Exception. As the REIT is a flow-through entity, we record current and deferred taxes on our 56.7% 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.

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 56.7% 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 43.3% 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. FINANCIAL DERIVATIVES

Our only financial derivative is the conversion feature on the REIT 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 host instrument financial liability is recognized

Notes to the Consolidated Financial Statements

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

initially at the fair value of a similar liability that does not have conversion feature. The conversion feature is separated from the host instrument and recognized at fair value. The fair value of the host instrument is recorded net of any related transaction costs. 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 raw land. Purchase of raw land 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

A. NEW AND AMENDED STANDARDS ADOPTED

We have adopted the following new standard interpretation effective January 1, 2015.

- i. **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.

Adoption of this amended standard did not require any adjustment in our determination of operating segments.

- ii. **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').

Adoption of this amended standard did not require any adjustment to the method of accounting for related party transactions nor to the disclosure of related party transactions in note 23.

Other standards, amendments and interpretations that were effective for the year beginning January 1, 2015 are not material to Melcor.

B. NEW STANDARDS NOT YET ADOPTED

- i. **IAS 1, Presentation of financial statements** was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

This amendment is effective for years beginning on or after January 1, 2016.

- ii. **IAS 34, Interim financial reporting** was amended to (i) clarify what is meant by "information disclosed elsewhere in the interim financial report" and (ii) require a cross reference to the location of that information.

This amendment is effective for years beginning on or after January 1, 2016.

- iii. **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 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 to each prior reporting period presented retrospectively or through the recognition of the cumulative effect to opening retained earnings.

An amendment was issued in September 2015 to defer the effective date of IFRS 15 to the first interim period within years beginning on or after January 1, 2018.

- iv. **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.

- v. **IFRS 16, Leases** was issued in January 2016 by the IASB to replace IAS 17. IFRS 16 includes several changes in the method of accounting for operating leases, including:
 - a. All leases will be on the balance sheet of lessees, except those that meet the limited exception criteria;
 - b. Rent expense for leases on the balance sheet will be recorded as depreciation and finance expenses;
 - c. Timing of expenses will change as the finance lease model results in an accelerated recognition of expenses compared to a straight-line operating lease model.

IFRS 16 is required to be applied for annual periods beginning on or after January 1, 2019.

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

Notes to the Consolidated Financial Statements

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

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 28(a) for further information related to credit risk associated with agreements receivable.

B. VALUATION OF INVESTMENT PROPERTIES

The fair value of investment property is dependent on stabilized net operating income or forecasted future cash flows and property specific capitalization or discount rates. The stabilized net operating income or forecasted future cash flows involve assumptions of future rental income, including estimated market rental rates and vacancy rates, estimated direct operating costs and estimated capital expenditures. Capitalization and discount rates take into account the location, size and quality of the property, as well as market data at the valuation date.

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. 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, 2015 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.

6. SIGNIFICANT JUDGMENTS

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

A. CAPITALIZATION OF BORROWING COSTS

IAS 23, Borrowing Costs, requires the capitalization of borrowing costs to qualifying assets. IAS 23 also requires the determination of whether the borrowings are specific to a project or general in calculating the capitalized borrowing costs. Judgment is involved in identifying directly attributable

borrowing costs to be included in the carrying value of qualifying assets and in determining if funds borrowed are for general purposes or specifically for the construction of qualifying assets. We consider our centrally managed treasury function with assessment of the circumstances surrounding individual borrowings in making this judgment. Capitalization to land inventory occurs when the land is classified to land under development and ceases when the land is considered developed and ready for sale. Borrowing costs are capitalized to investment properties when under active development. We have determined that all of our borrowings are general, except project specific financing (note 15c), as the decision on how to deploy operating and acquisition funds is a centrally managed corporate decision.

B. TRANSFER OF LAND TO INVESTMENT PROPERTY

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

C. CLASSIFICATION OF TENANT 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. 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 November 12, 2015, we sold to the Partnership a multi-tenant retail property (held within a 50% joint venture) and a single-tenant industrial property for a purchase price of \$15,250. The purchase price was paid with the REIT's line of credit and available cash.

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During 2014, the REIT issued 1,900,000 trust units at \$10.65 per unit for gross proceeds of \$20,235 and 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. 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).

During 2014 we also 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 15f).

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, 2015.

As at December 31, 2015 we hold a 56.7% (2014 - 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 in 2016, except for \$25,295 due in 2017 and \$1,472 due in 2018 (2014 - balance due 2015, except \$36,452 due in 2016). 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 (4.70% at December 31, 2015) and are collateralized by the specific real estate sold.

Management monitors agreements receivables for indications of impairment on an ongoing basis. Balances are reduced to their estimated net realizable values when there is doubt regarding collection of the full amount of principle and interest. During the year, a provision for impairment of \$1,500 was recorded (2014 - \$nil). This provision reflects managements best estimate and is subject to measurement uncertainty introduced by the impact of the uncertain economic environment. As a result, material revisions to this estimate may be required in future periods. Refer to note 28 for further discussion surrounding credit risk.

9. LAND INVENTORY

As at December 31	2015	2014
Raw land held	353,809	337,292
Land under development	134,200	156,480
Developed land	208,793	194,681
	696,802	688,453

A breakdown of our land purchases are as follows:

	2015	2014
Land purchases	147 acres	772 acres
Land cost	14,000	62,265
Vendor financing	11,500	27,654
Net cash to close	2,500	34,611

During the year, certain land inventories were reclassified to investment properties, and fair value gains of \$1,817 (2014 - \$2,898) were recognized in the consolidated financial statements. For the purposes of segment reporting, this is disclosed as revenue of \$5,680 (2014 - \$6,459) and cost of sales of \$3,863 (2014 - \$3,561) for the Community Development division.

The weighted average interest rate used for capitalization of borrowing costs to land under development is 4.09% for the year ended December 31, 2015 (2014 - 4.31%). Borrowing costs capitalized to land inventory during the year were \$4,503 (2014 - \$4,791).

Land inventory expensed to cost of sales during the year was \$99,523 (2014 - \$125,512).

The net realizable value exceeds the carrying cost of all land inventories at December 31, 2015 and 2014, such that no provision for impairment is required.

10. INVESTMENT PROPERTIES

Investment properties consists of the following:

As at December 31	2015	2014
Investment properties	847,387	863,966
Properties under development	56,961	37,138
Total	904,348	901,104

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

	2015		
	Investment properties	Properties under development	Total
Balance - beginning of year	863,966	37,138	901,104
Additions			
Direct acquisition	983	3,018	4,001
Acquisition through business combination	14,619	—	14,619
Transfer from land inventory	—	4,211	4,211
Direct leasing costs	587	424	1,011
Property improvements	5,024	—	5,024
Property development	439	25,533	25,972
Capitalized borrowing costs	—	258	258
Disposals	(81,153)	(3,088)	(84,241)
Transfers	20,067	(20,067)	—
Net fair value adjustment on investment properties	40	9,534	9,574
Foreign currency translation (included in OCI)	22,815	—	22,815
Balance - end of year	847,387	56,961	904,348

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	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

BUSINESS COMBINATIONS:

On April 13, 2015 we acquired Centennial Airport Plaza for cash consideration of \$6,145 (US \$4,880) adding 63,112 square feet (sf) in Denver, Colorado.

On September 1, 2015 we acquired Evans Business Center (47,358 sf), located in the Greater Phoenix area for cash consideration of \$8,474 (US \$6,430).

These acquisitions were accounted for as business combinations with all the consideration allocated to Investment Properties.

Judgment is required in determining if an acquisition is an asset purchase or a business combination. 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 and fair value adjustment related to these properties since the acquisition date and included in income for the year are \$1,097 and \$130 respectively (US\$850 and US\$101 respectively).

We are unable to present pro forma revenue and earnings as though the acquisition dates had been January 1, 2015 as the information necessary to determine these amounts is not available.

DISPOSALS:

On August 27, 2015, we disposed of a US residential rental property in the Greater Houston Area, resulting in proceeds (net of transaction costs) of \$42,729 (US \$32,378).

On September 3, 2015, we disposed of a commercial development site in Alberta, resulting in proceeds of \$3,088 (net of transaction costs).

On October 14, 2015, we disposed of a US single tenant residential rental property in the Greater Phoenix Area, resulting in proceeds (net of transaction costs) of \$899 (US \$697).

On December 17, 2015 we disposed of a US residential rental property in

the Greater Houston Area, resulting in proceeds (net of transaction costs) of \$37,525 (US \$26,861).

The amount of revenue and net income before tax and fair value adjustments related to these properties since the acquisition date and included in income for the year are \$6,843 and \$658 respectively (US\$5,304 and US\$510 respectively).

Direct acquisitions and business combinations in the comparative year:

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 2014, 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.

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.

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 \$20,067 (2014 - \$152,915).

Presented separately from investment properties is \$37,823 (2014 - \$37,323) in tenant incentives and \$5,924 (2014 -\$3,975) 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 4.27% for the year ended December 31, 2015 (2014 - 4.63%).

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:

	2015	2014
Within one year	49,641	42,983
Later than one year but not later than 5 years	153,060	139,105
Later than 5 years	128,839	125,035
Total	331,540	307,123

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11. PROPERTY AND EQUIPMENT

	Golf course assets					Total
	Land	Buildings	Equipment	Greens and tees	Corporate	
January 1, 2015						
Cost	1,293	7,968	7,835	6,444	5,855	29,395
Accumulated depreciation	—	(2,186)	(5,173)	(2,468)	(2,720)	(12,547)
Opening net book value	1,293	5,782	2,662	3,976	3,135	16,848
Additions	—	62	434	31	612	1,139
Disposals	—	—	(13)	—	—	(13)
Depreciation	—	(228)	(626)	(246)	(605)	(1,705)
Net Book Value - December 31, 2015	1,293	5,616	2,457	3,761	3,142	16,269

	Golf course assets					Total
	Land	Buildings	Equipment	Greens and tees	Corporate	
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

12. OTHER ASSETS

	2015	2014
Tenant incentives	37,823	37,323
Deposits and prepaids	5,899	4,005
Straight-line rent adjustments	5,924	3,975
Inventory	560	452
	50,206	45,755

During the year we provided tenant incentives of \$5,786 (2014 - \$14,744) and recorded \$6,045 (2014 - \$5,394) 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.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2015	2014
Trade accounts payable	20,151	30,134
Distribution payable	627	634
Other payables	18,348	23,899
Provision for decommissioning obligation	1,408	1,410
	40,534	56,077

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, 2015, distribution payable pertains to the December 2015 monthly distribution which was subsequently paid on January 15, 2016 (2014 - December 2014 monthly distribution paid on January 15, 2015).

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 \$2,014 (December 31, 2014 - \$2,064). At December 31, 2015, a discount rate of 4.00% (December 31, 2014 - 4.00%) and an inflation rate of 2.00% (December 31, 2014 - 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

	2015	2014
Balance - beginning of year	108,268	154,909
New development projects	119,873	93,103
Changes to estimates	(5,556)	(5,650)
Costs incurred	(128,746)	(134,094)
Balance - end of year	93,839	108,268

15. GENERAL DEBT

General debt consists of the following:

	2015	2014	
Melcor - revolving credit facilities	a	84,813	81,549
REIT - revolving credit facility	b	19,258	4,961
Project specific financing	c	25,280	34,205
Secured vendor take back debt on land inventory	d	76,092	80,335
Debt on investment properties and golf course assets	e	393,314	388,326
REIT - convertible debenture	f	32,251	31,965
		631,008	621,341

A. MELCOR - REVOLVING CREDIT FACILITIES

We have available credit facilities with approved loan limits of \$213,949 (2014 - \$195,370) with a syndicate of major chartered banks. The portion of these loan limits that pertain solely to Melcor is \$120,000 (2014 - \$120,000) with the remaining balance pertaining to specific joint arrangements.

The amount of the total credit facilities currently used is \$84,813 (2014 - \$81,549). We have pledged agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral

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for our credit facilities. The carrying value of assets pledged as collateral is \$381,680 (2014 - \$388,364).

The facility pertaining solely to Melcor matures on July 31, 2017, 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 1.15% to prime plus 2.25% or banker's acceptance rate plus a 3.00% stamping fee resulting in interest rates ranging from 3.85% to 4.95% at December 31, 2015 (2014 - 4.15% to 5.25%).

B. REIT - REVOLVING CREDIT FACILITY

On May 1, 2015 the REIT entered into a revolving term facility credit agreement with two Western Canadian financial institutions (the "new facility"). Under the terms of the agreement the REIT has an available credit limit based upon the carrying values of specific investment properties up to a maximum of \$35,000 for general purposes, including a \$5,000 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, 2018, with an extension option of up to three years 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 1.15% 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 0.45% for the unused portion of the revolving facility. The lenders hold a first priority general security and a general assignment of leases and rents over specific investment properties as security for the new facility. Concurrent with commencement of the new facility we canceled our previous credit facility with two major Canadian chartered banks. All comparative information reflects the balances outstanding under our previous credit facility.

As at December 31, 2015, the carrying value of pledged properties was \$56,900 (December 31, 2014 - \$80,500). We initially capitalized \$252 in transaction costs associated with the facility, of which \$232 was unamortized at December 31, 2015 and is presented net of the outstanding balance (December 31, 2014 - \$39). The unamortized discount on bankers acceptance of \$13 (2014 - \$nil) and restricted cash of \$202 (2014 - \$nil) is also included in the December 31, 2015 outstanding balance.

As at December 31, 2015 we had \$19,301 (December 31, 2014 - \$5,000) drawn from the facility; and posted letters of credit of \$nil (December 31, 2014 - \$nil). The weighted average effective interest rate on borrowings, based on period end balances, is 3.24% (December 31, 2014 - 3.52%).

C. PROJECT SPECIFIC FINANCING

	2015	2014
Project specific debt on investment properties under development, with interest rates at 3.20% (2014 - 3.37% to 5.00%)	11,850	18,852
Project specific debt on land, with interest rates between 3.20% and 4.20% (2014 - 3.53% to 3.75%)	13,430	15,353
	25,280	34,205

Specific investment properties under development with a December 31, 2015 carrying value of \$25,205 (2014 - \$54,692), have been pledged as collateral on project specific debt on investment properties under development. Land inventory and agreements receivable with a December 31, 2015 carrying value of \$39,500 (2014 - \$34,268) 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 3.24% (2014 - 3.70%).

D. SECURED VENDOR TAKE BACK DEBT ON LAND INVENTORY

	2015	2014
Agreements payable with interest at the following contractual rates:		
Fixed rates of 3.85% - 6.00% (2014 - 3.13% to 6.16%)	76,092	78,444
Variable rates (2014 - 3.75% to 4.50%)	—	1,891
	76,092	80,335

As at December 31, 2015 \$15,640 (2014 - \$13,457) of debt was payable in US dollars (US\$11,301) (2014 - US\$11,600). The debts mature from 2016 to 2019.

Land inventory with a December 31, 2015 carrying value of \$203,393 (2014 - \$181,130), has been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 4.68% (2014 - 5.15%).

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

2016	26,610
2017	11,130
2018	14,746
2019	16,438
2020	7,168
Thereafter	—
	76,092

E. DEBT ON INVESTMENT PROPERTIES AND GOLF COURSE ASSETS

Debt on investment properties and golf course assets	2015	2014
Variable rate mortgages amortized over 10 to 30 years at variable rates ranging from 3.11% to 5.38% (2014: 3.02% to 4.60%)	71,514	43,011
Mortgages amortized over 15 to 30 years at fixed rates varying from 2.48% to 6.16% (2014: 3.01% to 6.16%)	323,383	346,369
	394,897	389,380
Unamortized fair value adjustment	427	432
Unamortized deferred financing fees	(2,010)	(1,486)
	393,314	388,326

As at December 31, 2015 \$47,102 (2014 - \$61,300) of debt was payable in US dollars (US \$34,033) (2014 - US \$52,840). The debts mature from 2017 to 2025.

Specific investment properties and golf courses with a carrying value of \$615,206 (2014 - \$696,651) 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 3.76% (2014 - 4.12%).

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

2016	90,084
2017	21,162
2018	55,767
2019	88,077
2020	20,165
Thereafter	119,642
	394,897

F. 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 debenture 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 debenture 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 debenture 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 debenture 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.

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 separated and recognized at its fair value and presented as a liability.

A reconciliation of the convertible debenture is as follows:

(\$000s)	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 at December 31, 2014	31,780	185	31,965
Amortization of discount and transaction costs	466	—	466
Fair value adjustment on conversion feature (note 26)	—	(180)	(180)
Balance at December 31, 2015	32,246	5	32,251

During the year ended December 31, 2015, we recognized \$1,898 of interest expense which is included in finance costs (note 20) (2014 - \$151).

At December 31, 2015 we remeasured the conversion feature to fair value resulting in a fair value gain of \$180 for the year (2014 - \$nil). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 29.

16. SHARE CAPITAL

A. COMMON SHARES

	2015	
(# of shares)	Number of Shares Issued	Amount (\$000s)
Common shares, beginning of the year	33,115,691	67,767
Share options exercised	134,449	2,328
Shares purchased for cancellation	(16,428)	(34)
Common shares, end of the year	33,233,712	70,061

	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

Authorized:

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

On March 27, 2015 we commenced a normal course issuer bid ("NCIB") which allows Melcor to purchase up to 1,653,451 common shares (5% of issued and outstanding) with a daily repurchase restriction of 3,057 common shares. The NCIB ends one year from commencement.

During the year, there were 16,428 common shares purchased for cancellation by Melcor pursuant to the NCIB at a cost of \$215. Share capital was reduced by \$34 and retained earnings decreased by \$181. As at December 31, 2015 1,637,023 additional common shares may be repurchased by Melcor under the current NCIB.

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. Melcor has 90,400 shares reserved for issuance under the 2000 Plan (2014 - 90,400).

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

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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 1,783,983 shares reserved for issuance under the 2007 Plan (2014 – 1,918,432).

C. STOCK OPTIONS AVAILABLE FOR GRANTING

2000 Plan	2015	2014
Stock options available, beginning of the year	90,400	90,400
Stock options expired	—	—
Stock options available, end of the year	90,400	90,400

2007 Plan	2015	2014
Stock options available, beginning of the year	969,466	1,199,466
Stock options granted	(235,500)	(237,300)
Stock options expired / canceled	143,233	7,300
Stock options available, end of the year	877,199	969,466

D. STOCK OPTIONS OUTSTANDING UNDER THE 2000 & 2007 PLANS

	2015	
	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of the year	948,966	16.75
Stock options granted	235,500	14.05
Stock options exercised	(134,449)	13.29
Stock options expired / canceled	(143,233)	14.50
Stock options outstanding, end of the year	906,784	16.86

	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 / canceled	(7,300)	15.70
Stock options outstanding, end of the year	948,966	16.75

The weighted average share price at the date of exercise was \$16.47 (2014 - \$22.63). During the year, 235,500 stock options (2014 - 237,300) 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
June 3, 2016	75,000	16.05	75,000
December 20, 2016	181,084	12.76	244,050
December 12, 2018	192,600	19.26	205,800
December 19, 2019	222,600	21.35	237,300
December 21, 2020	235,500	14.05	—
	906,784		762,150

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.

	2015	2014
Expected volatility	24%	23%
Risk-free interest rate	0.59%	1.18%
Annual dividend rate	4.20%	3.00%
Expected life of options in years	3.80	3.74

The weighted average grant date fair value of stock options granted during the year was \$1.61 (2014 - \$2.70) per stock option. Current year vesting of options resulted in a \$339 (2014 - \$475) charge to stock-based compensation expense and corresponding credit to contributed surplus.

17. PER SHARE AMOUNTS

(# of shares)	2015	2014
Basic weighted average common shares outstanding during the year	33,115,691	31,712,663
Dilutive effect of options	54,488	294,127
Dilutive effect of convertible debenture	—	1,290,956
Diluted weighted average common shares	33,170,179	33,297,746

For the year ended December 31, 2015, there were 725,700 stock options excluded from the calculation of diluted earnings per share. There were no stock options excluded from the 2014 calculation.

Diluted earnings per share was calculated based on the following:

	2015	2014
Profit attributable to shareholders	75,958	100,719
Interest expense on convertible debenture, net of tax	—	1,312
Profit for computation of diluted earnings per share	75,958	102,031

18. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2015	2014
Balance, beginning of the year	10,023	3,380
Other comprehensive gain	18,682	6,643
Balance, end of the year	28,705	10,023

The other comprehensive gain represents the net unrealized foreign currency translation gain on our net investment in our foreign operations.

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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, 2015 we had \$47,347 (December 31, 2014 - \$55,863) in letters of credit outstanding and recorded a net liability of \$93,839 (December 31, 2014 - \$108,268) 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, 2015 we had guaranteed \$24,843 (December 31, 2014 - \$20,875) in credit facilities in excess of the amount recognized as a liability. We also guaranteed \$14,052 (December 31, 2014 - \$7,129) in excess of our share of letters of credit posted with the municipalities.

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. FINANCE COSTS

	2015	2014
Interest on Melcor - revolving credit facilities	5,428	4,464
Interest on REIT - revolving credit facility	369	564
Interest on REIT convertible debenture	1,884	2,311
Interest on general debt	19,184	17,211
Financing costs and bank charges	2,269	1,309
Loss on debt settlement	2,805	—
	31,939	25,859
Less: capitalized interest	(4,761)	(5,700)
	27,178	20,159

Cumulative interest capitalized on land inventory at the end of the year is \$37,405 (2014 - \$27,911). Finance costs paid during the year was \$30,312 (2014 - \$24,490).

21. REVENUE AND EXPENSE BY NATURE

A. REVENUE:

The components of revenue are as follows:

	2015	2014
Sale of land	161,059	221,556
Rental income	86,787	77,745
Management fees	6,813	5,203
Golf course revenue	8,650	8,505
Total revenue	263,309	313,009

B. COST OF SALES:

The components of cost of sales are as follows:

	2015	2014
Cost of land sold	99,523	125,512
Investment property direct operating expenses	36,134	30,843
Direct golf course expenses	5,300	4,903
Depreciation expense	1,705	1,598
Total cost of sales	142,662	162,856

C. GENERAL AND ADMINISTRATIVE EXPENSES:

The components of general and administrative expenses are as follows:

	2015	2014
Employee salary and benefits		
Salaries and wages	11,461	11,767
Employee benefits	865	853
Stock based compensation	339	475
Management Fees	1,414	960
Other	9,612	10,714
Total	23,691	24,769

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:

	2015	2014
Salaries and wages	3,268	4,283
Employee benefits	80	85
Stock based compensation	97	162
Total	3,445	4,530

D. FAIR VALUE ADJUSTMENT ON INVESTMENT PROPERTIES

The components of the fair value adjustment are as follows:

	2015	2014
Land transferred to investment properties	1,817	2,898
Property under development	7,717	13,651
Commercial and residential properties	40	(3,721)
Total	9,574	12,828

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22. INCOME TAX

Components of tax expense:

	2015	2014
Current tax expense		
Current year	21,564	22,161
Adjustment to prior years	(488)	210
	21,076	22,371
Deferred tax expense		
Origination and reversal of temporary differences	(1,693)	58
Change in tax rates	5,183	—
	3,490	58
Total tax expense	24,566	22,429

Reconciliation of effective tax rate:

	2015	2014
Income before taxes	100,524	123,148
Statutory rate	26%	25%
	26,136	30,787
Non-taxable portion of capital gains, fair value adjustment, and recovery on REIT transfer	64	(3,857)
Non-taxable portion of REIT income	(2,039)	(3,198)
Impact of higher tax rates in US subsidiary	1,240	(194)
Non-deductible expenses	550	1,675
Non-taxable fair value gains on REIT units	(6,568)	(2,784)
Change in tax rates	5,183	—
Total tax expense	24,566	22,429

Movement in deferred tax balances during the year:

	December 31, 2015			
	Opening	Recognized in profit or loss	Recognized in OCI	Closing
Investment property and capital assets	55,278	(759)	(111)	54,408
Reserves for tax purposes	16,533	(777)	—	15,756
Interest deducted for tax purposes	(1,798)	(1,124)	—	(2,922)
Provision for decommissioning obligation	(199)	(14)	—	(213)
Convertible debenture	161	(44)	—	117
Tax loss carry-forwards	(5,618)	6,208	(861)	(271)
Deferred tax liability	64,357	3,490	(972)	66,875

	December 31, 2014			
	Opening	Recognized in profit or loss	Recognized in OCI	Closing
Investment property and capital assets	52,161	1,068	2,049	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	1,658	64,357

No deferred tax liability has been recognized in respect of the net unrealized foreign currency exchange gain in accumulated other comprehensive income. Income tax paid during the year was \$27,503 (2014 - \$23,728).

23. RELATED PARTY TRANSACTIONS

In 2014, the Melcor debenture was converted into common shares. As a result, during the year, there were no debenture coupon payments paid. During 2014, there was \$139 and \$821 paid to companies controlled by two members of our executive management team who are also directors of Melcor.

24. JOINT ARRANGEMENTS

The table below discloses our proportionate share of the assets, liabilities, revenue, and earnings of 29 arrangements (2014 – 28) that are recorded in these financial statements as follows:

Joint Venture	Interest	Principle activity	Country of incorporation
Anders East Developments	33%	Active land development with investment property	Canada
Anders East Two Communities	50%	Non-active land development	Canada
Blackmud Communities	39%	Non-active land development	Canada
Black Knight Communities	50%	Active land development	Canada
Capilano Investments	50%	Investment property	Canada
Chestermere Communities	50%	Active land development with investment property	Canada
Highview Communities	60%	Active land development activities	Canada
HV Nine	7%	Non-active land development	Canada
Jagare Ridge Communities	50%	Active land development and recreational property	Canada
Jesperdale Communities	50%	Active land development activities	Canada
Kinwood Communities	50%	Active land development activities	Canada
Lakeside Communities	50%	Non-active land development	Canada
Larix Communities	50%	Active land development activities	Canada

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Joint Venture	Interest	Principle activity	Country of incorporation
Lewis Estates Communities	60%	Active land development and recreational property	Canada
MLS Industrial Developments	50%	Active land development activities	Canada
MMY Properties	33%	Investment property	Canada
Rosenthal Communities	50%	Active land development activities	Canada
South Shepard Communities	50%	Non-active land development	Canada
Stonecreek Shopping Centre	30%	Investment property under development	Canada
Sunset Properties	60%	Active land development activities	Canada
Terwillegar Pointe Communities	50%	Non-active land development	Canada
Watergrove Developments	50%	Manufactured home community	Canada
West 33 Developments	50%	Non-active land development	Canada
Westmere Properties	50%	Investment property	Canada
Whitecap Communities	50%	Active land development	Canada
Windermere	50%	Active land development activities	Canada
Windermere at Glenriding	35%	Active land development	Canada
Winterburn Developments	50%	Active land development activities	Canada
Villeneuve Communities	60%	Non-active land development	Canada

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, 2015.

	2015	2014
Assets	437,059	456,130
Liabilities	169,731	169,014
Revenue	103,466	112,658
Net Earnings	17,478	43,204

Contingent liabilities arising for liabilities of other joint arrangement participants are disclosed in note 19.

25.SEGMENTED INFORMATION

In the following schedules, segment earnings 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, include finance costs, foreign exchange gains, adjustments to REIT units and income tax expense.

The allocation of these costs on an arbitrary basis to the segments would not assist in the evaluation of the segments' contributions. Inter-segment transactions are entered into under terms and conditions similar to those with unrelated third parties.

COMMUNITY DEVELOPMENT

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

PROPERTY DEVELOPMENT

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

INVESTMENT PROPERTY

This division owns 12 leasable commercial and retail properties (2014 – 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 (2014 – 38 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 Property division. The subsidiary's related balances are below.

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

External Revenue:

(in Canadian dollars)	2015	2014
United States	20,146	14,253
Canada	243,163	298,756
Total	263,309	313,009

Total Assets:

As at December 31 (in Canadian dollars)	2015	2014
United States	184,908	181,349
Canada	1,707,061	1,681,947
Total	1,891,969	1,863,296

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Our divisions reported the following results:

2015	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 21)	167,281	30,068	32,103	65,482	9,665	—	304,599	(41,290)	263,309
Cost of sales (note 21)	(100,193)	(29,743)	(12,678)	(25,613)	(6,400)	(608)	(175,235)	32,573	(142,662)
Gross profit	67,088	325	19,425	39,869	3,265	(608)	129,364	(8,717)	120,647
General and administrative expense (note 21)	(9,649)	(1,621)	(3,636)	(2,529)	(2,294)	(7,526)	(27,255)	3,564	(23,691)
Fair value adjustment on investment properties (note 10, 21 and 29)	—	7,717	2,122	(5,418)	—	—	4,421	5,153	9,574
Gain on sale of assets	—	—	—	—	58	—	58	—	58
Interest income	2,356	—	14	56	—	1	2,427	—	2,427
Segment Earnings	59,795	6,421	17,925	31,978	1,029	(8,133)	109,015	—	109,015
Foreign exchange gains									1,008
Finance costs (note 20 and 23)									(27,178)
Adjustments related to REIT units (note 26)									17,679
Income before income taxes									100,524
Income tax expense (note 22)									(24,566)
Net income for the year									75,958

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)	(161,053)	(15,317)	(17,860)	(5,966)	(536)	(329,805)	166,949	(162,856)
Gross profit	103,824	913	22,669	26,649	3,063	(536)	156,582	(6,429)	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
Segment Earnings	97,130	12,303	14,120	24,680	1,052	(8,821)	140,464	733	141,197
Foreign exchange gains									494
Finance costs (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

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26. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, as detailed in notes 3(r) and 29, we account for the 43.3% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at December 31, 2015 the REIT units had a fair value of \$80,401 (2014 - \$106,662). We recorded adjustments related to REIT units for the year of \$17,679 (2014 - \$1,616).

On June 30, 2015 the REIT commenced a normal course issuer bid ("NCIB") which allows the REIT to purchase up to 563,750 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,824. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement, on June 29, 2016.

During the year, there were 123,703 trust units purchased for cancellation by the REIT pursuant to the NCIB at a cost of \$1,000, which is recorded as a reduction in the balance of REIT units on the consolidated statement of financial position.

As illustrated in the table below, the adjustment is comprised of:

	2015	2014
Fair value adjustment on REIT units	25,261	11,135
Distributions to REIT unitholders	(7,582)	(7,128)
Transaction costs on REIT unit issuance (note 7)		
Capitalized against REIT trust units	—	(1,594)
Expensed in Melcor	—	(797)
Adjustments related to REIT units	17,679	1,616

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%).

	2015	2014
Assets	666,458	657,765
Liabilities	362,129	353,038
Net assets	304,329	304,727
Cost of NCI	103,959	103,959
Fair value of NCI	80,401	106,662

	2015	2014
Revenue	65,482	44,509
Net income and comprehensive income	41,070	18,348
Cash flows from operating activities	10,563	5,247
Cash flows used in investing activities	(18,113)	(52,990)
Cash flows from financing activities, before distributions to REIT unitholders	8,420	55,245
Cash flows used in financing activities - cash distributions to REIT unitholders	(7,582)	(6,722)
Net increase (decrease) in cash and cash equivalents	(6,712)	780

27. MANAGEMENT OF CAPITAL RESOURCES

We define capital as share capital, contributed surplus, accumulated other comprehensive income, retained earnings and general debt. 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 (2014 - \$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 3.00, and a minimum net book value of shareholders' equity of \$300,000. As at December 31, 2015, and throughout the period, we were in compliance with our financial covenants with a debt to total capital ratio of 0.72, an interest coverage ratio of 4.76 and net book value of shareholders' equity of \$977,970.

In addition, we are subject to financial covenants on our \$35,000 REIT revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debentures), a minimum debt service coverage ratio of 1.50, and a minimum adjusted unitholders' equity of \$140,000. As at December 31, 2015, and throughout the period, the REIT was in compliance with its financial covenants with a debt to total capital ratio of 48%, 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 \$263,461.

We also have financial covenants on certain mortgages for investment properties. At December 31, 2015, and throughout the period, we were in compliance with our financial covenants on our mortgages. We prepare financial forecasts to monitor the changes in our debt and capital levels and our ability to meet our financial covenants.

28. RISK MANAGEMENT

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

A. CREDIT RISK

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

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

We manage our credit risk in the Investment Property and REIT Divisions through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan review for smaller tenants. We manage our concentration risk in the Investment Property Division by

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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, 2015 and considered the following in assessing credit risk:

- i. The credit quality of agreements receivable that are neither past due nor impaired is determined based on whether balances are due from builders on our approved builder list, and based on geographic location. The approved builder list contains those builders which have a long standing track record, good volumes, positive perception in the industry, and a strong history of repayment. At December 31, 2015, 96% of agreements receivable are due from approved builders (2014 – 99%).
- ii. At December 31, 2015, we have identified \$1,942 (2014 - \$3,372) in agreements receivable which are in arrears and have indications of possible impairment. Agreements receivable which were past due are as follows:

	2015	2014
0 - 6 months past due	1,722	3,030
Greater than 6 months past due	220	342

- iii. Total loans included in agreements receivable that would have otherwise been past due or impaired at December 31, 2015, but whose terms have been renegotiated is \$38,046 (2014 - \$2,170).

In light of economic conditions, we have recorded a provision for impairment of \$1,500 (2014 - \$nil) in relation to agreements receivables. The factors considered in determining that these assets were impaired were primarily the geographic location and related product type. Agreements receivable balances were reviewed on a project by project basis and the loans identified as impaired relate to multiple product types in various regions throughout Alberta.

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 \$2,009 (2014 - \$1,314) 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, agreements receivable and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.
- fair values of general debt is estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).
- fair value of derivative financial liability, the conversion feature on the REIT 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 based on the accepted valuation methods of direct income capitalization or discounted future cash flows (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, 2015			
	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value
<i>(\$000s)</i>				
Non-financial assets				
Investment properties	904,348	—	904,348	904,348
Financial liabilities				
General debt, excluding derivative financial liability	—	631,003	631,003	638,297
Derivative financial liability	5	—	5	5
REIT units	80,401	—	80,401	80,401

	December 31, 2014			
	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value
<i>(\$000s)</i>				
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

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

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

Notes to the Consolidated Financial Statements

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

- Level 3: unobservable inputs for the asset or liability.

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

(\$000s)	Level 1	Level 2	Level 3	Total
Non-financial assets				
Investment properties	—	—	904,348	904,348
Financial liabilities				
REIT units	80,401	—	—	80,401
Derivative financial liability	—	—	5	5

INVESTMENT PROPERTIES

Investment properties are remeasured to fair value on a recurring basis, determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows. The application of these valuation methods results in these measurements being classified as Level 3 in the fair value hierarchy.

Under the discounted future cash flows method, fair values are determined by discounting the forecasted future cash flows over ten years plus a terminal value determined by applying a terminal capitalization rate to forecasted year eleven cash flows.

Under the direct income capitalization method, fair values are determined by dividing the stabilized net operating income of the property by a property specific capitalization rate.

The significant unobservable inputs in the Level 3 valuations 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 capitalization 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.

An increase in the cash flows or stabilized net operating income results in an increase in fair value of investment property whereas an increase in the capitalization rate, discount rate or terminal capitalization rate decreases the fair value of the investment property.

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 on a quarterly basis, including verifying all major inputs included in the valuation and reviewing the results. Melcor's management, along with the Audit Committee, discuss the valuation process and key inputs on a quarterly basis. At least once every three years, the valuations are performed by qualified external valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Investment properties were valued by Melcor Development Ltd.'s internal valuation team as at December 31, 2015 of which 37 investment properties (of 76 legal phases valued) with a fair value of \$586,298 were valued by qualified independent external valuation professionals during the year which resulted in fair value gains of \$9,574 recorded as fair value adjustment on investment properties in the statements of income and comprehensive income (2014 - investment properties were valued by qualified independent external valuation professionals which resulted in fair value fair gains of \$12,828).

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	Comparison to market transactions for similar assets	Land value reflects market value.

Weighted average stabilized net operating income for investment properties is \$1,488 (2014 - \$1,478). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties			Properties under Development		
	Min	Max	Weighted Average	Min	Max	Weighted Average
December 31, 2015						
Capitalization rate	5.50%	9.00%	6.54%	5.75%	6.75%	6.58%
Terminal capitalization rate	5.75%	9.25%	6.80%	6.00%	7.25%	7.03%
Discount rate	6.50%	10.00%	7.68%	7.00%	7.75%	7.47%

	Investment Properties			Properties under Development		
	Min	Max	Weighted Average	Min	Max	Weighted Average
December 31, 2014						
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%

Notes to the Consolidated Financial Statements

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

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by \$55,483 (2014 - \$54,626). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by \$64,662 (2014 - \$63,827).

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, 2015 the fair value of the REIT units was \$80,401 (2014 - \$106,662). During the year a fair value gain of \$25,261 (2014 - gain of \$11,135) was recognized in the statement of income and comprehensive income. The fair value of REIT units was also impacted by the \$1,000 (2014 - \$nil) repurchase of trust units during the year (note 26).

DERIVATIVE FINANCIAL LIABILITY

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

The derivative financial liability was valued by qualified independent external valuation professionals at December 31, 2015. This resulted in a fair value gain of \$180 being recognized in income. The significant unobservable inputs used in the fair value measurement of the conversion feature on the REIT convertible debenture as at December 31, 2015 are as follows:

- Volatility - expected volatility as at December 31, 2015 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, 2015. Volatility was 15.86% (2014 - 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, 2015. The credit spread used was 4.60% (2014 - 3.76%)

30. SUBSEQUENT EVENTS

DISTRIBUTIONS ON REIT TRUST UNITS:

On January 15, 2016 the REIT declared a distribution of \$0.05625 per unit for the months of January, February and March 2016. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
January 2016	January 29, 2016	February 16, 2016	\$0.05625 per unit
February 2016	February 29, 2016	March 15, 2016	\$0.05625 per unit
March 2016	March 31, 2016	April 15, 2016	\$0.05625 per unit

DIVIDEND DECLARED:

On March 16, 2016, our board of directors declared a quarterly dividend of \$0.12 per share payable on April 5, 2016 to shareholders of record on March 29, 2016.

31. COMPARATIVE FIGURES

The 2014 comparative balances of payment of tenant incentives and direct leasing costs of \$16,675 and change in restricted cash of \$2,037 have been reclassified from investing activities to operating activities in the consolidated statement of cash flows to reflect better presentation of the underlying nature of the cash flows.

Five Year Performance Measures (unaudited)

	2015	% change	2014	% change	2013	% change	2012	% change	2011
Assets (\$000s)	1,891,969	1.5%	1,863,296	7.8%	1,727,933	19.4%	1,447,356	18.7%	1,218,885
Shareholders' Equity (\$000s)	977,970	8.5%	901,335	17.2%	769,231	11.3%	690,832	15.4%	598,763
Revenue (\$000s)	263,309	(15.9)%	313,009	3.1%	303,742	10.5%	274,930	24.8%	220,349
Gross Margin	45.8%		48.0%		44.4%		41.0%		42.9%
Net Income (\$000s)	75,958	(24.6)%	100,719	2.1%	98,623	(6.1)%	105,019	29.0%	81,394
Administrative Expenses/Revenue	9.0%		7.9%		9.6%		8.3%		8.4%
Basic Earnings per Share (\$)	2.29	(28.0)%	3.18	(1.9)%	3.24	(7.2)%	3.49	29.3%	2.70
Average Share Price (\$)	16.71	(27.3)%	22.98	20.7%	19.04	28.6%	14.81	6.5%	13.91
Dividend Per Share (\$)	0.60	3.4%	0.58	16.0%	0.50*	11.1%	0.45	12.5%	0.40
Dividend Yield	3.6%		2.5%		2.6%		3.0%		2.9%
Book Value Per Share (\$)	29.43	8.1%	27.22	8.7%	25.03	9.3%	22.89	14.8%	19.94
Average Book Value Per Share (\$)	28.33	9.0%	26.01	8.5%	23.96	11.9%	21.42	14.2%	18.75
Average Market/Average Book	0.59		0.88		0.79		0.67		0.74
Price/Earnings Ratio	7.30		7.23		5.88		4.24		5.15
Return on Equity	7.8%		11.2%		12.8%		15.2%		13.6%
Return on Assets	4.0%		5.4%		5.7%		7.3%		6.7%
Debt/Equity Ratio	0.85		0.95		1.12		1.10		1.03
Asset Turnover	13.9%		16.8%		17.6%		19.0%		18.1%

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

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

Return on equity is net income for the year divided by the average equity during the year.

Return on assets is net income 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.

YMCA Welcome Village
YMCA Gymnasium
9538 -103A Avenue
Edmonton, AB T5H 0J3
Wednesday, April 27
10:30 AM MDT

Executive Officers

Timothy Melton, Executive Chairman

Andrew Melton, Executive Vice Chairman

Brian Baker, President & CEO

Jonathan Chia, CFO

Darin Rayburn, EVP Investment Properties

Contact

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Exchange Listing

Toronto Stock Exchange: MRD

Key Dates

Annual General Meeting:
April 27, 2016

Earning Dates:

Q1 – May 11, 2016

Q2 – August 10, 2016

Q3 – November 9, 2016

Q4 – March 15, 2017

Legal Counsel

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Auditors

PricewaterhouseCoopers LLP

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