Management's Discussion & Analysis

May 12, 2015

The following discussion of Melcor Developments Ltd.'s (Melcor) financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the quarter ended March 31, 2015 and the management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2014.

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.

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on May 12, 2015.

All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Other Information

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

Non-standard Measures

We refer to terms that are not specifically defined in the CPA 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, refer to the section "Non-standard Measures" at the end of the MD&A.

Forward-looking Statements

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

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

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2015 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risks, pages 35-36 of our annual MD&A.

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 Melcor or on its behalf.

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Our Business

Melcor is a diversified real estate development and asset management company. We transform real estate from raw land to high-quality finished product in both residential and commercial built form. We develop and manage mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses.

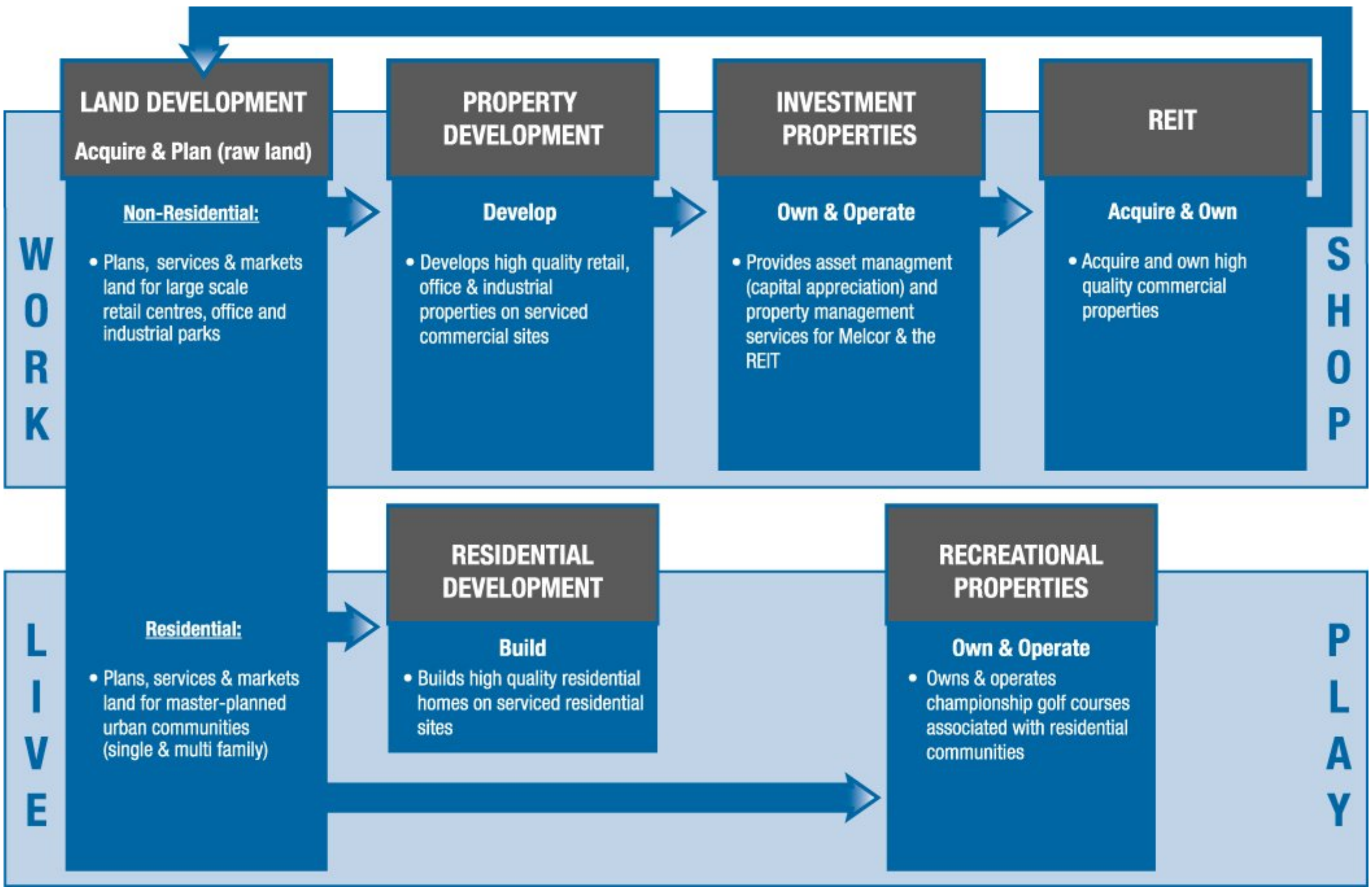
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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 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 Melcor REIT ("REIT") owned properties (Investment Properties)
- acquiring and owning high quality leasable office, retail and residential sites (REIT)

In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreational Properties.

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



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.

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

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

First Quarter Highlights

Three months ended ($000s except as noted)	**31-Mar-15**	31-Mar-14	Change
Revenue	**37,554**	32,011	17.3 %
Gross margin (%) *	**47.3%**	51.5%	(4.2)%
Net income	**14,560**	6,864	112.1 %
Net Margin (%) *	**38.8%**	21.4%	17.4 %
Funds from operations *	**6,213**	6,196	0.3 %
Per Share Data			
Basic earnings	**0.44**	0.22	100.0 %
Diluted earnings	**0.44**	0.22	100.0 %
Funds from operations *	**0.19**	0.20	(5.0)%

As at ($000s except as noted)	**31-Mar-15**	31-Dec-14	Change
Shareholders' equity	**920,161**	901,335	2.1 %
Total assets	**1,889,723**	1,863,296	1.4 %
Per Share Data			
Book value *	**27.76**	27.22	2.0 %

**See non-standard measures for calculation.*

Growth achieved in the first quarter of 2015 is a result of our long-term strategy of creating a pipeline of stable, income-producing assets to reduce volatility in our operating results. We continue to conservatively manage our assets and liabilities and focus on increasing the value of our real estate assets through development activity.

Highlights of the first quarter include:

- Overall revenue growth of 17% to $37.55 million compared to Q1-2014 as a result of growth in our portfolio of managed assets. Single-family lot sales were on-budget in the quarter, contributing to a 10% increase in Community Development revenue.
- Net income growth of 112% to $14.56 million over Q1-2014 as a result of fair value adjustments on REIT units.
- Generated stable funds from operations of $6.21 million.
- We continued to invest in land inventory and purchased 147 acres in Red Deer for future residential development.
- On May 12, 2015 we declared a quarterly dividend of $0.15 per share, payable on June 30, 2015 to shareholders of record on June 15, 2015. The dividend is an eligible dividend for Canadian tax purposes.

Revenue & Margins:

Revenue grew by 17% to $37.55 million compared to $32.01 million in Q1-2014. This increase is a result of growth in our portfolio of managed assets (Investment Properties and the REIT) and on-budget sales in our Community Development division.

Gross margin decreased to 47% due to the regional mix of single-family lot sales.

Net fair value gains on investment properties of $0.64 million were realized in Q1-2015. Property Development contributed $2.19 million of these gains, as we continue to develop commercial property. These gains were offset by losses in the Investment Properties and REIT divisions of $1.98 million as a result of decreases in capitalization rates.

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. FFO per share was $0.19 in Q1-2015, a decrease of $0.01 compared to the same quarter last year.

Our quarterly results are impacted by the cyclical nature of our business. Revenue and income can fluctuate significantly from period to period due to the timing of plan registrations, the cyclical nature of real estate and construction markets, the mix of lot sales and product types, and the mix of joint operation sales activity.

Funds From Operations (FFO)

Funds From Operations (FFO) is a non-standard measures used in the real estate industry to measure the operating performance of investment properties. We believe that FFO is an important measure of operating performance and the performance of real estate properties.

Below is a reconciliation of net income for the period to FFO:

($000s)	Three months ended	
	March 31, 2015	March 31, 2014
Net income for the period	**14,560**	6,864
Amortization of operating lease incentives	**1,260**	860
Fair value adjustment on investment properties	**(643)**	(3,798)
Depreciation on property and equipment	**258**	211
Stock based compensation expense	**96**	137
Non-cash interest	**239**	213
Deferred income taxes	**(311)**	339
Fair value adjustment on REIT units	**(9,246)**	1,370
FFO	**6,213**	6,196
FFO per share	**0.19**	0.20

FFO during the quarter remained stable $6.21 million, compared to $6.20 million in Q1-2014. An increase in overall gross profit, 8% quarter over quarter, was offset by increased general and administrative expenses and increased interest expense in the quarter.

FFO per share was $0.19 in Q1-2015, a decrease of $0.01 per share, or 5.0% from the same quarter last year. This decrease is the result of a higher number of shares outstanding in 2015 as a result of the conversion of the Melcor debenture.

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 the results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three months ended March 31		Three months ended March 31		Three months ended March 31		Three months ended March 31		Three months ended March 31	
($000s except as noted)	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Revenue	**15,221**	13,847	**52**	171	**7,744**	8,348	**16,258**	10,647	**189**	92
Portion of total revenue	**41%**	43%	**—%**	1%	**21%**	26%	**43%**	33%	**1 %**	— %
Cost of sales	**(10,478)**	(7,690)	**—**	—	**(2,796)**	(3,277)	**(6,383)**	(4,345)	**(499)**	(450)
Gross margin	**4,743**	6,157	**52**	171	**4,948**	5,071	**9,875**	6,302	**(310)**	(358)
Gross margin %	**31%**	44%	**100%**	100%	**64%**	61%	**61%**	59%	**(164)%**	(389)%
Portion of total margin	**27%**	37%	**—%**	1%	**28%**	31%	**56%**	38%	**(2)%**	(2)%
General and administrative expense	**(1,970)**	(1,690)	**(444)**	(620)	**(1,131)**	(562)	**(777)**	(363)	**(329)**	(317)
Fair value adjustment on investment properties	**—**	—	**2,194**	1,947	**(173)**	1,429	**(1,809)**	169	**—**	—
Gain (loss) on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Interest income	**701**	573	**—**	—	**3**	8	**18**	18	**—**	—
Divisional income before tax	**3,474**	5,040	**1,802**	1,498	**3,647**	5,946	**7,307**	6,126	**(639)**	(675)

Divisional results are shown before inter-segment eliminations and exclude corporate division

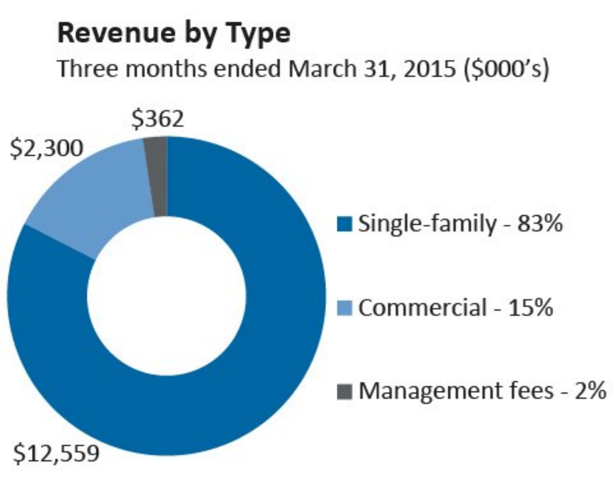
Community Development

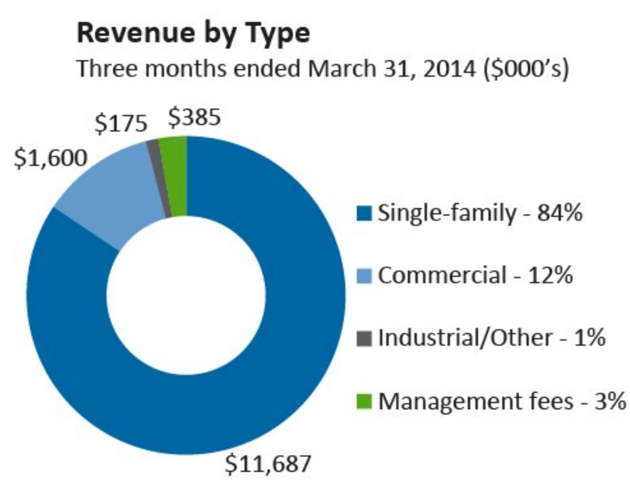
Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning, 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 multi-family parcels are sold to home builders who share our passion for quality and with whom we have long-standing relationships.

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

Sales Activity





Revenue and income can fluctuate significantly from period to period due to the timing of plan registrations, the cyclical nature of real estate markets and the mix of land sold.

Consolidated	Three months ended	
	31-Mar-15	31-Mar-14
Sales data: (including joint ventures at 100%)		
Single family sales (number of lots)	**83**	125
Gross average revenue per single-family lot ($)	**176,700**	154,100
Commercial sales (acres)	**2.90**	1.23
Gross average revenue per commercial land acre ($)	**793,100**	1,300,800
Industrial sales (acres)	**—**	2.67
Gross average revenue per industrial land acre ($)	**—**	131,100
Financial results: (including joint ventures at Melcor's interest)		
Revenue ($000s)	**15,221**	13,847
Earnings ($000s)	**3,474**	5,040

The Community Development division achieved on budget results for Q1-2015 with revenue growth of 10% compared to Q1-2014. The Edmonton region was the main contributor to the division's revenue and earnings with strong sales activity. Our primary market is Alberta. Throughout the first quarter, market conditions remained stable in Northern Alberta, while Southern Alberta became more restrained.

Regional Sales Analysis

A summary of our lot and acre sales by region is as follows:

Regional Sales Analysis	Three months ended 31-Mar-15			Three months ended 31-Mar-14		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	**70**	—	—	74	—	—
Red Deer Region	**4**	—	—	43	—	2.67
Calgary Region	**4**	—	**2.90**	6	—	1.23
Lethbridge	**4**	—	—	2	—	—
Kelowna	**1**	—	—	—	—	—
United States	—	—	—	—	—	—
	83	—	**2.90**	125	—	3.90

The Edmonton region had strong sales activity in Q1-2015, with 70 lots sold. Lot sales in the Edmonton region were driven by sales in the Rosenthal community where we continue to see strong sales activity. The Calgary region sold 2.90 acres of commercial land in Kingsview Market for $2.30 million.

Inventory

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

Developed Inventory	**Three months ended 31-Mar-15**			Three months ended 31-Mar-14		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	**1,144**	**67.60**	**139.60**	1,498	70.93	181.15
Purchases	**—**	**—**	**—**	—	—	—
New developments	**225**	**3.63**	**—**	25	—	—
Internal sales	**—**	**—**	**—**	—	—	—
Sales	**(83)**	**—**	**(2.90)**	(125)	—	(3.90)
	1,286	**71.23**	**136.70**	1,398	70.93	177.25

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. During the quarter, we purchased 147 acres in the Red Deer region that will be used for future residential development. We continue to monitor our land holdings to secure our position in our target markets.

Property Development

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

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

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

Completed buildings are transferred from Property Development to Investment Properties at fair market value (based on third party appraisals) once construction and leasing activities near completion. The transfer revenue and related costs are eliminated on consolidation and do not impact overall earnings. There were no new properties transferred during Q1-2015 (no transfers in Q1-2014).

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

	31-Mar-15	31-Mar-14
Management fees	**52**	171
Fair value gains on investment properties	**2,194**	1,947

	31-Mar-15	31-Mar-14
Northern Alberta	**—**	1,705
Central Alberta	**—**	242
Southern Alberta	**2,194**	—
	2,194	1,947

The Property Development division is focused on the planning and design of future projects, including new product types following the completion of several major projects in 2014. New projects for the 2015 construction season are proceeding cautiously once conservative pre-lease thresholds have been met.

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.

Current Projects

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

Expected Future Projects

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

** Size represents the estimated total square footage projected for full buildout. 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 manages 3.29 million sf of income-producing commercial GLA and 1,286 residential units.

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

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

Operating results

The following table summarizes the division’s key performance measures:

($000s except as noted)	Three months ended	
	31-Mar-15	31-Mar-14
Commercial properties GLA under management (sf, total)	**3,291,326**	2,547,938
Properties owned and managed (sf)	**287,722**	631,489
Properties managed (sf)	**3,003,604**	1,916,449
Revenue (total)	**7,744**	8,348
Commercial properties	**2,174**	3,944
US properties	**4,093**	3,111
Management fees	**1,117**	913
Parking lots and other assets	**360**	380
Net operating income (NOI) *	**4,838**	5,018
Funds from operations *	**3,889**	4,836
Funds from operations per share *	**0.12**	0.16

** See non-standard measures for definition and calculation.*

Commercial properties

Same asset revenues and NOI represent 5% of commercial properties activity, underscoring the division's role as asset manager. Revenues generated on assets acquired from Property Development and held through the quarter were $1.57 million (2014 - $0.29 million).

Occupancy on properties owned by Investment Properties was 77% at March 31, 2015 compared to 85% at year end. The decrease reflects the high churn in the portfolio as newer assets are brought in and are in the process of being leased up, while fully leased up assets are sold to the REIT.

During Q1-2015 we recognized a loss of $0.12 million related to accrual adjustments on assets sold to the REIT (2014 - revenue of $2.93 million). These assets contributed to the growth in division revenues under our management fee structure with the REIT.

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

($000s except as noted)	**Three months ended**	
	31-Mar-15	31-Mar-14
Same asset NOI *	**418**	441
Properties transferred from PD	**1,206**	221
Properties transferred to REIT	**(133)**	1,695
NOI before adjustments	**1,491**	2,357
Amortization of operating lease incentives	**69**	319
Straight-line rent adjustment	**(179)**	(372)
NOI *	**1,381**	2,304

** 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 was steady over Q1-2014.

US properties

During 2014, we increased our US portfolio through the acquisition of two commercial properties (59,220 sf on 3.05 acres) and the purchase of six residential units in the Greater Phoenix area. Revenues from newly acquired commercial assets were $0.31 million (2014 - $nil). Growth in our same asset 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 Q1-2015 were the result of the improved economic environment in our US markets. Occupancy on our residential assets was steady over year end at 96% and increased by 1% over Q1-2014. Portfolio growth and foreign currency gains led to revenue and NOI growth of 35% over Q1-2014.

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

($000s except as noted)		
	31-Mar-15	31-Mar-14
Same asset NOI	**1,616**	1,494
Third party acquisitions	**174**	—
NOI before adjustments	**1,790**	1,494
Foreign current translation	**431**	155
Straight-line rent adjustment	**(3)**	—
NOI *	**2,218**	1,649

** 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 $0.12 million or 8% over Q1-2014 from higher occupancy and growth in average rental rates, while maintaining costs.

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 manager. Management fees increased by $0.20 million or 22% compared to Q1-2014 reflecting the growth in the REIT's portfolio over Q1-2014.

During Q1-2015 we recognized $0.36 million in revenues on our 516 parking stalls and other assets (Q1-2014 - $0.38 million). These revenues can fluctuate from period to period.

Funds from operations (FFO) decreased by $0.95 million or 20% over Q1-2014 as a result of lower NOI in conjunction with higher general and administrative expense. The increase in general & administrative expense relates to payments made to the REIT under Head and Bridge Lease Agreements entered into upon closing of property acquisitions from Investment Properties during 2014. These amounts are eliminated on consolidation.

Subsequent to the quarter, we acquired a commercial property (63,112 sf on 4.59 acres) in Denver, Colorado for a purchase price of $6.14 million (US$4.88 million).

REIT

The REIT owns 38 income-producing office, retail and industrial properties, comprising 2,735,467 square feet of GLA and a land lease community at March 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 have a controlling 56.5% effective interest in the REIT through ownership of all Class B LP Units (December 31, 2014 - 56.5%). As Melcor controls 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)	Three months ended	
	31-Mar-15	31-Mar-14
Rental revenue	**16,258**	10,647
Net operating income (NOI) *	**10,205**	6,734
Same asset NOI * *(see calculation following)*	**6,229**	6,165
Fair value adjustments	**(1,809)**	169
Gross leasable area	**2,735,467**	1,759,761
Occupancy	**93.4%**	90.1%
Fair value of portfolio	**643,897**	447,815
Funds from operations *	**9,838**	6,498
Funds from operations per share *	**0.30**	0.21

** See non-standard measures for definition and calculation.*

Rental revenue for the period increased by $5.61 million or 53% over Q1-2014 as a result of GLA growth of 55% over Q1-2014. Q1-2015 rental revenue includes $5.65 million related to the 11 newly acquired properties (Q1-2014 - $0.14 million related to one property acquired). On a same-asset basis, rental revenue grew by $0.11 million or 1% over Q1-2014 as a result of higher occupancy which contributed to improved expense recovery ratio.

Weighted average base rent decreased modestly compared to year end as we leased challenging, historically vacant office space at lower than average base rents. Lease-up of certain suburban office properties and renewals on expiring GLA in Q1-2015 led to improved occupancy with a quarter end rate of 93.4%.

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. Q1-2015 recoveries increased by $2.21 million or 56% and direct operating expenses increased by 47% or $2.04 million compared to Q1-2014. Recoveries on newly acquired properties were $1.89 million in Q1-2015 (Q1-2014 - $0.01 million).

Direct operating expenses increased by $2.04 million or 47% over Q1-2014. Excluding the impact of the newly acquired properties, direct operating expenses increased by $0.42 million. On a same-asset basis, property taxes and utilities increased by $0.15 million over Q1-2014. These increases were partially offset by lower utility costs as a result of warmer winter temperatures throughout our operating regions compared to Q1-2014. Same-asset operating expenses decreased by $0.11 million as a result of the timing of expenditures incurred and reclassification of costs related to tenant recoveries from operating expenses to general & administrative expense commencing in Q2-2014.

Property acquisitions completed in the past twelve months lead to a 52% increase in NOI over Q1-2014. On a same-asset basis, NOI was steady over Q1-2014.

The calculation of same-asset NOI is as follows:

($000s except as noted)	Three months ended	
	31-Mar-15	31-Mar-14
Same asset NOI *	**6,229**	6,165
Acquisitions	**3,646**	137
NOI before adjustments	**9,875**	6,302
Amortization of operating lease incentives	**722**	541
Straight-line rent adjustment	**(392)**	(109)
Divisional NOI	**10,205**	6,734

** See non-standard measures for definition and calculation.*

Funds from operations

Funds from operations (FFO) increased by $3.34 million or 51% over Q1-2014. The increase reflects higher NOI, which was partially offset by higher general and administrative expenses and finance costs during the period.

The REIT recognized fair value losses of $1.81 million in the three months ended March 31, 2015 (2014 - fair value gain of $0.17 million). Fair value losses were primarily driven by a 25 basis point decrease in terminal capitalization rate and decreased stabilized NOI on one of our downtown Edmonton office properties. The remainder of fair value losses were due to capital and tenant incentive spending across the portfolio that did not result in a significant change in the fair value of the related property. Fair value adjustments represent a change of less than 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.

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

The golf courses were closed for most of the first quarter.

	Ownership interest	Season opened 2015	Season opened 2014
Managed by Melcor:			
Lewis Estates (Edmonton)	60%	**April 9**	April 20
The Links (Spruce Grove)	100%	**April 10**	April 19
Black Mountain (Kelowna)	100%	**March 13**	March 28
Managed by a Third Party:			
Jagare Ridge (Edmonton)	50%	**April 17**	April 30

General and Administrative Expense

General and administrative expense (G&A) increased by 11% compared to Q1-2014. This increase is a result of growth in the REIT and Investment Properties divisions, which have grown by 29% in GLA since Q1-2014. Our Corporate division continues to focus on cost containment efforts, and saw a decrease of 10% over Q1-2014.

Liquidity & Capital Resources

The following table represents selected information as at March 31, 2015, compared to December 31, 2014.

As at ($000s except as noted)	**31-Mar-15**	31-Dec-14
Cash & cash equivalents	**14,111**	19,011
Restricted cash	**2,689**	2,945
Accounts receivable	**17,985**	21,407
Agreements receivable	**153,004**	167,773
Revolving credit facilities	**109,059**	86,510
Accounts payable and accrued liabilities	**37,478**	56,077
Total assets	**1,889,723**	1,863,296
Total liabilities	**969,562**	961,961
Debt to equity ratio*	**1.19**	1.07

**See non-standard measures for definition and calculation.*

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.

We do not currently have 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.

Financing

As at March 31, 2015, our total general debt outstanding was $658.87 million. This compares to $621.34 million at December 31, 2014. A summary of our debt is as follows:

As at ($000s)	**31-Mar-15**	31-Dec-14
Melcor - revolving credit facility	**109,059**	81,549
REIT - revolving credit facility	**—**	4,961
Project specific financing	**36,492**	34,205
Secured vendor take back debt on land inventory	**90,215**	80,335
Debt on investment properties and golf course assets	**391,026**	388,326
REIT - convertible debenture	**32,079**	31,965
	658,871	621,341

We are subject to financial covenants on our revolving credit facility. We were in compliance with these covenants at March 31, 2015.

	Covenant	31-Mar-15
Maximum debt to total capital	1.25	0.81
Minimum interest coverage ratio	3.00	7.16
Minimum net book value of shareholders' equity	$ 300,000,000	$ 920,160,000

We are also subject to financial covenants on our REIT $25.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60%, a minimum interest coverage ratio of 1.50, and a minimum net book value of unitholders' equity of $140.00 million. As at March 31, 2015, and throughout the period, we were in compliance with our financial covenants.

These metrics are non-standard measures used to assess compliance with our lending agreements and are not specifically defined in the CPA Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies.

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:

Three months ended ($000s)	**31-Mar-15**	31-Mar-14
Cash flows from (used in) operating activities	**(5,653)**	11,846
Cash flows used in investing activities	**(14,065)**	(14,926)
Cash flows from (used in) financing activities	**14,605**	(6,007)

Cash flows used in operations were $5.65 million in the current quarter, a decrease of $17.50 million over Q1-2014. Although Q1-2015 saw an increase in net income of $7.70 million over Q1-2014, FFO remained steady at $6.21 million (0% increase over Q1-2014) as the increase in net income was largely driven by non-cash items. There was an increase in net working capital used in the quarter (compared to year end) primarily to lower accounts payable and accrued liabilities, which reflects the cyclical nature of the land development business and is consistent with Q1-2014. Collection on agreements receivable partially offset the cash used in operations, contributing $14.77 million to cash from operations in the quarter.

Cash flows used in investing activities decreased by $0.86 million during the quarter. Our Community Development division purchased 146.97 acres in the Red Deer region at a net cash cost of $2.50 million. Our Property Development division purchased a site in our Kingsview Market commercial site for $3.02 million. Additions to investment properties remained steady over Q1-2014, and includes both development activities on new commercial sites being developed by our Property Development division, as well as improvements made to existing investment properties held in our Investment Properties and REIT operating divisions. Leasing on investment properties remained strong in Q1-2015 with the payment of $1.59 million during the quarter, a decrease of $0.60 million over the same period last year.

Cash flows from financing activities were $14.61 million an increase of $20.61 million over Q1-2014. This increase was primarily the result of increased draws on our revolving credit facilities used to fund development costs and finance our year end tax installment.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at March 31, 2015 there were 33,147,791 common shares issued and outstanding and 914,766 options, each convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Critical Accounting Estimates, Changes in Accounting Policies

There are no material changes to the above titled sections at March 31, 2015 in comparison to the December 31, 2014 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

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 the three months ended March 31, 2015, we did not repurchase any common shares.

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 related financial statements, notes to the financial statements and management's discussion and analysis.

	Three Months Ended							
($000s)	**31-Mar-15**	31-Dec-14	30-Sep-14	30-Jun-14	31-Mar-14	31-Dec-13	30-Sep-13	30-Jun-13
Revenue	**37,554**	121,452	93,484	66,062	32,011	152,193	59,195	50,737
Net income	**14,560**	50,077	26,193	17,585	6,864	53,909	21,882	10,209
Per Share								
Basic earnings	**0.44**	1.56	0.83	0.57	0.22	1.76	0.72	0.35
Diluted earnings	**0.44**	1.46	0.83	0.55	0.22	1.64	0.68	0.33
Book value	**27.76**	27.22	25.96	25.49	25.35	25.03	23.52	22.87

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.

Related Party Transactions

Please refer to note 8 to the condensed interim consolidated financial statements for information pertaining to transactions with related parties.

Subsequent Events

Refer to note 12 of the interim consolidated financial statements for information pertaining to subsequent events.

Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

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 period.

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

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

Investment Properties

($000s)	Three months ended	
	March 31, 2015	March 31, 2014
Divisional income for the period	**3,647**	**5,946**
Fair value adjustment on investment properties	**173**	(1,429)
General and administrative expenses	**1,131**	562
Interest income	**(3)**	(8)
Amortization of operating lease incentives	**69**	319
Straight-line rent adjustment	**(179)**	(372)
Divisional NOI	**4,838**	**5,018**

REIT

($000s)	Three months ended	
	March 31, 2015	March 31, 2014
Divisional income for the period	**7,307**	**6,126**
Fair value adjustment on investment properties	**1,809**	(169)
General and administrative expenses	**777**	363
Interest income	**(18)**	(18)
Amortization of operating lease incentives	**722**	541
Straight-line rent adjustment	**(392)**	(109)
Divisional NOI	**10,205**	**6,734**

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 NOI to the most comparable IFRS measure, net income, is as follows:

Consolidated

($000s)	Three months ended	
	March 31, 2015	March 31, 2014
Net income for the period	**14,560**	6,864
Amortization of operating lease incentives	**1,260**	860
Fair value adjustment on investment properties	**(643)**	(3,798)
Depreciation on property and equipment	**258**	211
Stock based compensation expense	**96**	137
Non-cash interest	**239**	213
Deferred income taxes	**(311)**	339
Fair value adjustment on REIT units	**(9,246)**	1,370
FFO	**6,213**	6,196

Investment Properties

($000s)	Three months ended	
	March 31, 2015	March 31, 2014
Divisional income for the period	**3,647**	5,946
Fair value adjustment on investment properties	**173**	(1,429)
Amortization of operating lease incentives	**69**	319
Divisional FFO	**3,889**	4,836

REIT

($000s)	Three months ended	
	March 31, 2015	March 31, 2014
Divisional income for the period	**7,307**	6,126
Fair value adjustment on investment properties	**1,809**	(169)
Amortization of operating lease incentives	**722**	541
Divisional FFO	**9,838**	6,498

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

MELCOR

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

For the three months ended (Unaudited)	**March 31, 2015**	March 31, 2014
Revenue	**37,554**	32,011
Cost of sales	**(19,775)**	(15,530)
Gross profit	**17,779**	16,481
General and administrative expense	**(5,009)**	(4,510)
Fair value adjustment on investment properties (note 5 and 11)	**643**	3,798
Adjustments related to REIT units (note 10)	**7,343**	(2,911)
Operating earnings	**20,756**	12,858
Interest income	**722**	599
Finance costs	**(5,196)**	(4,183)
Net finance costs	**(4,474)**	(3,584)
Income before income taxes	**16,282**	9,274
Income tax expense	**(1,722)**	(2,410)
Net income for the period	**14,560**	6,864
Earnings per share:		
Basic earnings per share	**0.44**	0.22
Diluted earnings per share	**0.44**	0.22

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income

For the three months ended (Unaudited)	**March 31, 2015**	March 31, 2014
Net income for the period	**14,560**	6,864
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences	**8,725**	3,529
Comprehensive income	**23,285**	10,393

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

(Unaudited)	March 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	**14,111**	19,011
Restricted cash	**2,689**	2,945
Accounts receivable	**17,985**	21,407
Income taxes recoverable	**5,477**	—
Agreements receivable	**153,004**	167,773
Land inventory (note 4)	**709,247**	688,453
Investment properties (note 5 and 11)	**922,649**	901,104
Property and equipment	**16,847**	16,848
Other assets	**47,714**	45,755
	1,889,723	1,863,296
LIABILITIES		
Accounts payable and accrued liabilities	**37,478**	56,077
Income taxes payable	**—**	5,256
Provision for land development costs	**110,280**	108,268
General debt (note 6)	**658,871**	621,341
Deferred income tax liabilities	**65,517**	64,357
REIT units (note 10 and 11)	**97,416**	106,662
	969,562	961,961
SHAREHOLDERS' EQUITY		
Share capital (note 7)	**68,301**	67,767
Contributed surplus	**2,925**	2,947
Accumulated other comprehensive income (AOCI)	**18,748**	10,023
Retained earnings	**830,187**	820,598
	920,161	901,335
	1,889,723	1,863,296

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

(Unaudited)	Equity attributable to Melcor's shareholders 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 period	—	—	—	—	14,560	14,560
Cumulative translation adjustment	—	—	—	8,725	—	8,725
Transactions with equity holders						
Dividends	—	—	—	—	(4,971)	(4,971)
Employee share options						
Value of services recognized	—	96	—	—	—	96
Share issuance	534	(118)	—	—	—	416
Balance at March 31, 2015	**68,301**	**2,925**	**—**	**18,748**	**830,187**	**920,161**

(Unaudited)	Equity attributable to Melcor's shareholders 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 for the period	—	—	—	—	6,864	6,864
Cumulative translation adjustment	—	—	—	3,529	—	3,529
Transactions with equity holders						
Employee share options						
Value of services recognized	—	137	—	—	—	137
Share issuance	827	(196)	—	—	—	631
Balance at March 31, 2014	24,232	3,298	639	6,909	745,314	780,392

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

For the three months ended (Unaudited)	March 31, 2015	March 31, 2014
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the period	**14,560**	6,864
Non cash items:		
Amortization of tenant incentives	**1,260**	860
Depreciation of property and equipment	**258**	211
Stock based compensation expense	**96**	137
Non cash interest	**239**	213
Straight-line rent adjustment	**(766)**	(481)
Fair value adjustment on investment properties (note 5 and 11)	**(643)**	(3,798)
Fair value adjustment on REIT Units (note 10)	**(9,246)**	1,370
Deferred income taxes	**(311)**	339
	5,447	5,715
Agreements receivable	**14,769**	33,170
Development activities	**(933)**	1,751
Operating assets and liabilities	**(24,936)**	(28,790)
	(5,653)	11,846
INVESTING ACTIVITIES		
Purchase of land inventory (note 4)	**(2,500)**	—
Payment of tenant incentives	**(1,589)**	(2,186)
Purchase of investment properties	**(3,018)**	(6,062)
Additions to investment properties	**(6,764)**	(6,900)
Purchase of property and equipment	**(257)**	(246)
Change in restricted cash	**63**	468
	(14,065)	(14,926)
FINANCING ACTIVITIES		
Revolving credit facilities	**22,549**	(11,802)
Proceeds from general debt	**2,931**	25,435
Repayment of general debt	**(6,513)**	(20,525)
Change in restricted cash	**193**	254
Dividends paid	**(4,971)**	—
Share capital issued	**416**	631
	14,605	(6,007)
FOREIGN EXCHANGE GAIN ON CASH HELD IN A FOREIGN CURRENCY	**213**	46
DECREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**(4,900)**	(9,041)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**19,011**	28,973
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**14,111**	19,932
Total income taxes paid	**12,770**	12,067
Total interest paid	**9,207**	5,856

See accompanying notes to these condensed interim consolidated financial statements.

(Unaudited – in $000s except per share, share and acre amounts)

1. CORPORATE INFORMATION

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

The parent company is Melcor Developments Ltd. (“Melcor” or “we”) and is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States (“US”). Our shares are traded on the Toronto Stock Exchange under the symbol “MRD”. As at March 31, 2015 Melton Holdings Ltd. holds approximately 47.4% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling party of Melcor.

As at May 12, 2015, Melcor through an affiliate, holds an approximate 56.5% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

Our quarterly results are impacted by the cyclical nature of our business environment. Income can fluctuate significantly from period to period due to the timing of plan registrations, the cyclical nature of real estate and construction markets, and the mix of lot sales and product types.

2. BASIS OF PRESENTATION

We prepare our condensed interim 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 applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2014, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim financial statements were approved for issue by the Board of Directors on May 12, 2015.

3. ACCOUNTING POLICIES

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those of the previous financial year.

4. LAND INVENTORY

	March 31, 2015	December 31, 2014
Raw land held	**353,143**	337,292
Land under development	**153,181**	156,480
Developed land	**202,923**	194,681
	709,247	688,453

During the three-month period ended March 31, 2015 we purchased 146 acres of land at a cost of $14,000 and received vendor financing of $11,500. During the three-month period ended March 31, 2014 there were no land purchases.

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	March 31, 2015	December 31, 2014
Investment properties	**873,920**	863,966
Properties under development	**48,729**	37,138
Total	**922,649**	901,104

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

			Three months ended March 31, 2015
	Investment Properties	**Property under Development**	**Total**
Balance - beginning of period	863,966	37,138	**901,104**
Additions			
Direct acquisition	—	3,018	**3,018**
Direct leasing costs	53	83	**136**
Property improvements	822	—	**822**
Development costs	80	5,645	**5,725**
Capitalized borrowing costs	—	81	**81**
Transfers	(570)	570	**—**
Net fair value adjustment on investment properties	(1,551)	2,194	**643**
Foreign currency translation (included in OCI)	11,120	—	**11,120**
Balance - end of period	**873,920**	**48,729**	**922,649**

			Year ended December 31, 2014
	Investment Properties	Property 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**
Development costs	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 provision	381	—	**381**
Foreign currency translation (included in OCI)	9,547	—	**9,547**
Balance - end of year	**863,966**	**37,138**	**901,104**

Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 11.

(Unaudited – in $000s except per share, share and acre amounts)

6. GENERAL DEBT

	March 31, 2015	December 31, 2014
Melcor - revolving credit facility	109,059	81,549
REIT - revolving credit facility	—	4,961
Project specific financing	36,492	34,205
Secured vendor take back debt on land inventory	90,215	80,335
Debt on investment properties and golf course assets	391,026	388,326
REIT - convertible debenture	32,079	31,965
	658,871	621,341

7. SHARE CAPITAL

Issued and outstanding common shares at March 31, 2015 are 33,147,791 (December 31, 2014 – 33,115,691). During the three months ended March 31, 2015, there were 32,100 options exercised (Q1-2014 – 49,634).

8. RELATED PARTY TRANSACTIONS

During 2014, the Melcor debenture was converted into common shares. As a result, during the three months ended March 31, 2015, there were no debenture coupon payments paid. During the comparative three months ended March 31, 2014, there was $339 paid to companies controlled by two members of our executive management team who are also directors of Melcor.

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

9. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues

For the three months ended (in Canadian dollars)	March 31, 2015	March 31, 2014
United States	4,092	3,111
Canada	33,462	28,900
	37,554	32,011

Total Assets

As at (in Canadian dollars)	March 31, 2015	December 31, 2014
United States	199,481	181,349
Canada	1,690,242	1,681,947
	1,889,723	1,863,296

(Unaudited – in $000s except per share, share and acre amounts)

9. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

For the three months ended March 31, 2015	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	15,221	52	7,744	16,258	189	—	**39,464**	(1,910)	**37,554**
Cost of sales	(10,478)	—	(2,796)	(6,383)	(499)	(154)	**(20,310)**	535	**(19,775)**
Gross profit	4,743	52	4,948	9,875	(310)	(154)	**19,154**	(1,375)	**17,779**
General and administrative expense	(1,970)	(444)	(1,131)	(777)	(329)	(1,302)	**(5,953)**	944	**(5,009)**
Fair value adjustment on investment properties	—	2,194	(173)	(1,809)	—	—	**212**	431	**643**
Interest income	701	—	3	18	—	—	**722**	—	**722**
	3,474	1,802	3,647	7,307	(639)	(1,456)	**14,135**	—	**14,135**
Finance costs									**(5,196)**
Adjustments related to REIT units									**7,343**
Income before tax									**16,282**
Income tax expense									**(1,722)**
Net income									**14,560**

For the three months ended March 31, 2014	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	13,847	171	8,348	10,647	92	—	**33,105**	(1,094)	**32,011**
Cost of sales	(7,690)	—	(3,277)	(4,345)	(450)	(120)	**(15,882)**	352	**(15,530)**
Gross profit	6,157	171	5,071	6,302	(358)	(120)	**17,223**	(742)	**16,481**
General and administrative expense	(1,690)	(620)	(562)	(363)	(317)	(1,447)	**(4,999)**	489	**(4,510)**
Fair value adjustment on investment properties	—	1,947	1,429	169	—	—	**3,545**	253	**3,798**
Interest income	573	—	8	18	—	—	**599**	—	**599**
	5,040	1,498	5,946	6,126	(675)	(1,567)	**16,368**	—	**16,368**
Finance costs									**(4,183)**
Adjustments related to REIT units									**(2,911)**
Income before tax									**9,274**
Income tax expense									**(2,410)**
Net income									**6,864**

(Unaudited – in $000s except per share, share and acre amounts)

10. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 43.5% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at March 31, 2015 the REIT units had a fair value of $97,416. We recorded adjustments related to REIT units for the three months ended March 31, 2015 of $7,343.

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

For the three months ended	**March 31, 2015**	March 31, 2014
Fair value adjustment on REIT units (note 11)	**(9,246)**	1,370
Distributions to REIT unitholders	**1,903**	1,541
Adjustments related to REIT units	**(7,343)**	2,911

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.

As at	**March 31, 2015**	December 31, 2014
Assets	**649,664**	657,765
Liabilities	**345,534**	353,038
Net assets	**304,130**	304,727
Cost of NCI	**103,959**	103,959
Fair value of NCI	**97,416**	106,662

For the three months ended	**March 31, 2015**	March 31, 2014
Revenue	**16,258**	10,647
Net income and comprehensive income	**13,291**	878
Cash flows from operating activities	**3,987**	2,296
Cash flows used in investing activities	**(1,685)**	(7,261)
Cash flows from (used in) financing activities, before distributions to REIT unitholders	**(7,095)**	4,149
Cash flows used in financing activities - cash distributions to REIT unitholders	**(1,903)**	(1,541)
Net decrease in cash and cash equivalents	**(6,696)**	(2,357)

11. FAIR VALUE ESTIMATION

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

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

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

(Unaudited – in $000s except per share, share and acre amounts)

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

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

				March 31, 2015		December 31, 2014
	Fair Value	**Amortized Cost**	**Total Carrying Value**	**Total Fair Value**	Total Carrying Value	Total Fair Value
Non-financial assets						
Investment properties	**922,649**	**—**	**922,649**	**922,649**	901,104	901,104
Financial liabilities						
General debt, excluding derivative financial liability	**—**	**658,871**	**658,871**	**586,469**	621,156	633,119
Derivative financial liability	**185**	**—**	**185**	**185**	185	185
REIT units	**97,416**	**—**	**97,416**	**97,416**	106,662	106,662

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

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
Non-financial assets				
Investment properties	—	—	922,649	922,649
Financial liabilities				
REIT units	97,416	—	—	97,416
Derivative financial liability	—	—	185	185

Investment properties

Investment properties are remeasured to fair value on a recurring basis and categorized as Level 3 in the fair value hierarchy. Investment properties were valued by qualified independent external valuation professionals as at December 31, 2014. We obtained updated market data at March 31, 2015 and considered whether changes to any valuation model variables resulted in significant changes to any of the investment property fair values at March 31, 2015. Fair values of investment properties were revised based on the updated data and model variables with fair value gains of $643 (March 31, 2014 - $3,798) recorded as fair value adjustment on investment properties in income.

(Unaudited – in $000s except per share, share and acre amounts)

The following table summarizes the valuation approach, significant unobservable inputs, and the relationship between the key 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	- 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	- 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.

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

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

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

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

Weighted average annual stabilized net operating income for investment properties as at March 31, 2015 is $1,476 (December 31, 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**		
March 31, 2015	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**9.00%**	**6.44%**	**5.75%**	**6.75%**	**6.20%**
Terminal capitalization rate	**5.75%**	**9.25%**	**6.71%**	**6.00%**	**7.25%**	**6.56%**
Discount rate	**6.50%**	**10.00%**	**7.65%**	**7.00%**	**7.75%**	**7.37%**

	Investment Properties			Properties under Development		
December 31, 2014	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	9.00%	6.44%	6.00%	6.50%	6.32%
Terminal capitalization rate	5.75%	9.25%	6.71%	6.25%	7.00%	6.74%
Discount rate	6.50%	10.00%	7.64%	7.00%	7.75%	7.59%

(Unaudited – in $000s except per share, share and acre amounts)

A change in capitalization rates by a 50 basis points increase or decrease would inversely change the carrying amount of investment properties by $54,557 or $63,750 (December 31, 2014 - $54,626 or $63,827) respectively.

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as Level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At March 31, 2015 the fair value of the REIT units was $97,416, resulting in a fair value gain of $9,246 (2014 - loss of $1,370,000) in the statement of income and comprehensive income.

Derivative financial liability

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

The significant unobservable inputs used in the fair value measurement of the conversion feature on the REIT convertible debenture as at March 31, 2015 are as follows:

- Volatility - expected volatility as at March 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 March 31, 2015. Volatility was 15.17%.
- Credit spread - the credit spread of the convertible debenture was imputed from the traded price of the convertible debenture as at March 31, 2015. The credit spread used was 3.76%.

12. EVENTS AFTER THE REPORTING PERIOD

Distributions on REIT trust units

On April 15, 2015 the REIT declared a distribution of $0.05625 per unit for the months of April, May and June 2015. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
April 2015	April 30, 2015	May 15, 2015	$0.05625 per unit
May 2015	May 29, 2015	June 15, 2015	$0.05625 per unit
June 2015	June 30, 2015	July 15, 2015	$0.05625 per unit

Dividends declared

On May 12, 2015 our board of directors declared a dividend of $0.15 per share payable on June 30, 2015 to shareholders of record on June 15, 2015.

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. 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. The facility matures May 1, 2018. Concurrent with commencement of the new facility we canceled our previous credit facility with two major Canadian chartered banks.