PRESS RELEASE
for immediate distribution

Melcor Developments announces first quarter results, declares quarterly dividend of $0.13

Edmonton, Alberta | May 9, 2017

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the quarter ended March 31, 2017. Revenue for the quarter was $38.57 million up 26% over Q1-2016. Revenue growth was driven by a significant increase in sales in the Community Development division which led to an 86% increase in divisional revenue compared to the first quarter of 2016. Revenue from income-producing assets (Investment Properties and the REIT) grew by 5% over Q1-2016 and gross leasable area increased by 3%.

Melcor recorded a net loss of $9.00 million or $0.27 per share loss (basic), compared to net loss of $7.71 million or $0.23 per share loss (basic) in the same period of 2016. The net loss is significantly impacted by the $13.80 million non-cash fair value loss on investment properties recorded in the period due to an increase in capitalization rates (loss of $1.02 million in Q1-2016).

Funds from operations (FFO) was $6.08 million ($0.18 per share) compared to $4.19 million ($0.13 per share) in the same period of 2016. FFO adjusts for all non-cash earnings items and management believes it better reflects the company's true operating performance.

Darin Rayburn, Melcor's President and Chief Executive Officer, commented on the quarter: "I'm pleased to report on a solid first quarter with encouraging results in each of our operating divisions.

With less than one year's worth of inventory in our Community Development division, we are constructing new phases in active communities where inventory has been depleted and we have also put shovels in the ground in three brand new communities - Copperhaven in Spruce Grove, Evergreen in Red Deer and Harmony outside of Denver, CO.

Our Property Development division is breaking ground on two new neighbourhood shopping centres in Edmonton - Jensen Lakes Crossing and The Shoppes at Jagare Ridge. They are also building a new office building at The Village at Blackmud Creek.

Our Investment Properties and REIT divisions now have a portfolio of close to 4 million square feet of high quality commercial and residential properties and have maintained stable occupancy and steady results. The REIT has completed over 90,000 square feet in new and renewed leases.

Several challenges remain in the markets where we operate, however we remain well positioned for the future with a strong and conservatively managed balance sheet."

The Board today declared a quarterly dividend of $0.13 per share, payable on June 30, 2017 to shareholders of record on June 15, 2017. The dividend is an eligible dividend for Canadian tax purposes.

First Quarter Results

We achieved solid results in each of our main operating divisions in Q1-2017, with growth over the comparable quarter driven by the significant increase in sales in the Community Development division over Q1-2016. Efforts throughout 2016 to work with our builders and diversify our product mix with a focus on more affordable lot options to respond to market trends resulted in a strong first quarter and better positioned inventory in many of our active communities.

We continue to conservatively manage our assets and liabilities to create a strong and stable balance sheet that will enable us to take advantage of opportunities to grow our business via opportunistic raw land and commercial income-producing property acquisitions.

Highlights of the first quarter include:

- Revenue increased 26% to $38.57 million compared to Q1-2016 primarily due to increased lot sales in the Community Development division. This resulted in a divisional revenue growth of 86% over Q1-2016. The Investment Properties and REIT division combined revenue grew by 5% over the same period.
- Income producing properties increased by 110,007 sf since Q1-2016.
- The net loss of $9.00 million is significantly impacted by the $13.80 million non-cash fair value loss on investment properties recorded in the period due to an increase in capitalization rates, as well as fair value losses on REIT units

due to price appreciation. Management believes funds from operations (FFO) is a better reflection of our true operating performance. Funds from operations was $6.08 million compared to $4.19 million in Q1-2016.

- We continue to invest in land holdings for future development and made the following acquisitions during the quarter:
    - 59.04 acres in Lethbridge, AB for a purchase price of $1.56 million;
    - 39.91 acres in Edmonton, AB for a purchase price of $0.98 million; and
    - a 50% interest in 52.9 acres in Calgary, AB for a purchase price of $1.90 million.
- Subsequent to the quarter, the REIT completed the sale of a 67,610 sf industrial building in Lethbridge, AB for $7.76 million (including transaction costs).
- We paid a quarterly dividend of $0.13 per share on April 5, 2017. The REIT paid distributions of $0.05625 per trust unit in January, February and March for a quarterly payout ratio of 73%.
- On March 17, 2017 we announced the appointment of Darin Rayburn as Melcor's President & Chief Executive Officer effective April 15, 2017.
- On May 9, 2017 we declared a quarterly dividend of $0.13 per share, payable on June 30, 2017 to shareholders of record on June 15, 2017. The dividend is an eligible dividend for Canadian tax purposes.

Selected Highlights

($000s except as noted)	Three months ended		
	31-Mar-17	31-Mar-16	Change
Revenue	**38,567**	30,554	26.2 %
Gross margin (%) *	**48.3 %**	52.1 %	(3.8)%
Net income (loss)	**(9,003)**	(7,714)	16.7 %
Net Margin (%) *	**(23.3)%**	(25.2)%	1.9 %
Funds from operations *	**6,078**	4,190	45.1 %
Per Share Data ($)			
Basic earnings (loss)	**(0.27)**	(0.23)	17.4 %
Diluted earnings (loss)	**(0.27)**	(0.23)	17.4 %
Funds from operations *	**0.18**	0.13	38.5 %

As at ($000s except as noted)	**31-Mar-17**	31-Dec-16	Change
Shareholders' equity	**980,801**	994,721	(1.4)%
Total assets	**1,870,938**	1,891,988	(1.1)%
Per Share Data ($)			
Book value *	**29.41**	29.83	(1.4)%

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three months ended March 31, 2017, which can be found on the company's website at www.Melcor.ca or on SEDAR (www.sedar.com).

About Melcor Developments Ltd.

Melcor is a diversified real estate development and asset management company that transforms real estate from raw land through to high-quality finished product in both residential and commercial built form. Melcor develops and manages 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.

Melcor has been focused on real estate since 1923. The company has built over 100 communities across Western Canada and today manages 3.88 million sf in commercial real estate assets and 612 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

Melcor's headquarters are located in Edmonton, Alberta, with regional offices throughout Alberta and in Kelowna, British Columbia and Phoenix, Arizona. Melcor has been a public company since 1968 and trades on the Toronto Stock Exchange (TSX:MRD).

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 news release 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 2017 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 Risk in 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 the company or on its behalf.

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Management's Discussion & Analysis

May 9, 2017

The following discussion of Melcor Developments Ltd.'s (Melcor's) 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, 2017 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2016.

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

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on May 9, 2017.

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.

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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 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.

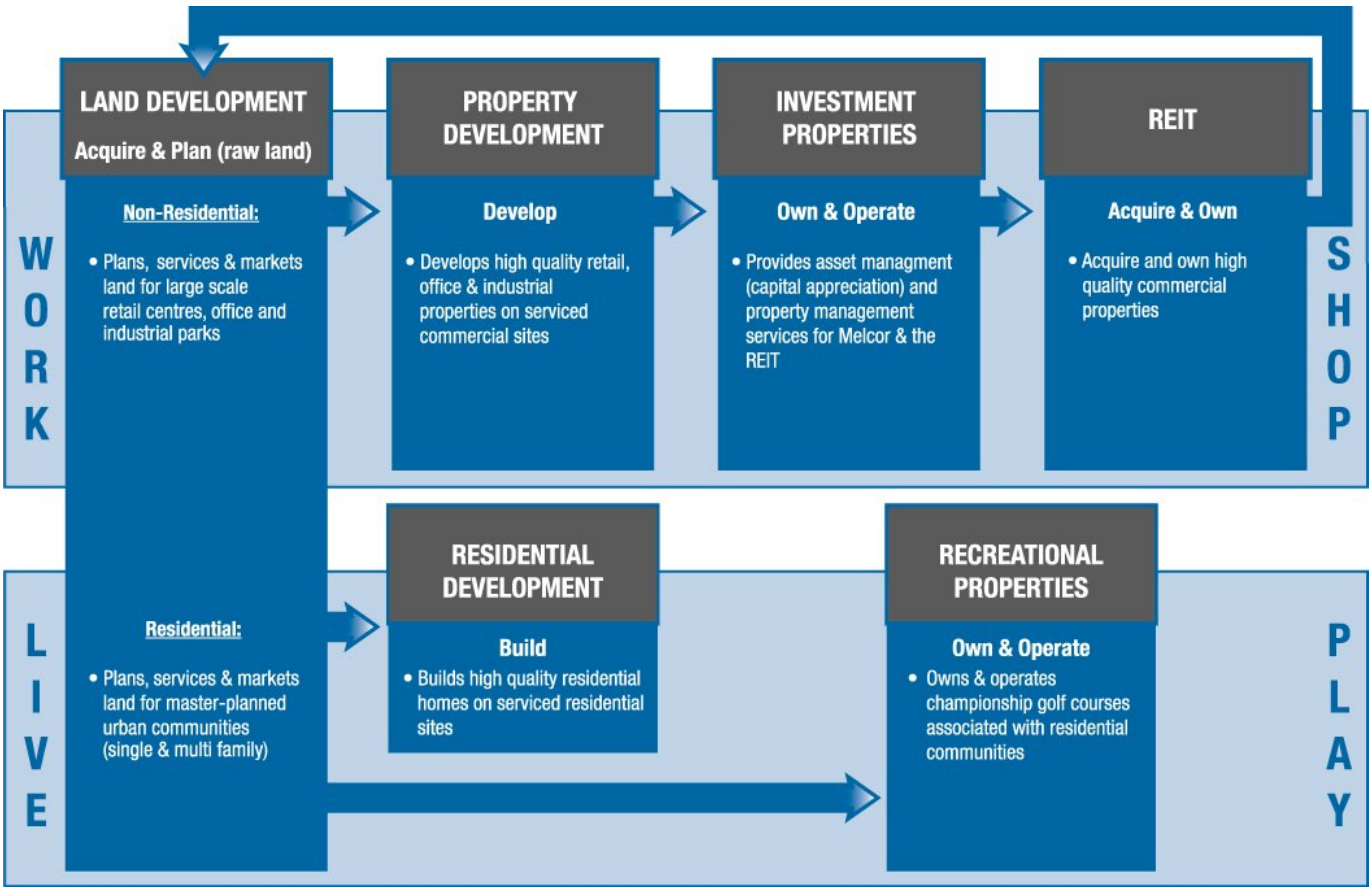
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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, 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 commercial and residential sites (the REIT)

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

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.

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.

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

First Quarter Highlights

($000s except as noted)	Three months ended		
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Revenue	**38,567**	30,554	26.2 %
Gross margin (%) *	**48.3 %**	52.1 %	(3.8)%
Net income (loss)	**(9,003)**	(7,714)	16.7 %
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Total assets	**1,870,938**	1,891,988	(1.1)%
Per Share Data ($)			
Book value *	**29.41**	29.83	(1.4)%

**See non-standard measures for calculation.*

We achieved solid results in each of our main operating divisions in Q1-2017, with growth over the comparable quarter driven by the significant increase in sales in the Community Development division over Q1-2016. Efforts throughout 2016 to work with our builders and diversify our product mix with a focus on more affordable lot options to respond to market trends resulted in a strong first quarter and better positioned inventory in many of our active communities.

We continue to conservatively manage our assets and liabilities to create a strong and stable balance sheet that will enable us to take advantage of opportunities to grow our business via opportunistic raw land and commercial income-producing property acquisitions.

Highlights of the first quarter include:

- Revenue increased 26% to $38.57 million compared to Q1-2016 primarily due to increased lot sales in the Community Development division. This resulted in a divisional revenue growth of 86% over Q1-2016. The Investment Properties and REIT division combined revenue grew by 5% over the same period.
- Income producing properties increased by 110,007 sf since Q1-2016.
- The net loss of $9.00 million is significantly impacted by the $13.80 million non-cash fair value loss on investment properties recorded in the period due to an increase in capitalization rates, as well as fair value losses on REIT units due to price appreciation. Management believes funds from operations (FFO) is a better reflection of our true operating performance. Funds from operations was $6.08 million compared to $4.19 million in Q1-2016.
- We continue to invest in land holdings for future development and made the following acquisitions during the quarter:
    - 59.04 acres in Lethbridge, AB for a purchase price of $1.56 million;
    - 39.91 acres in Edmonton, AB for a purchase price of $0.98 million; and
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Revenue & Margins:

Community Development division revenue increased by 86% compared to Q1-2016 and was the most significant contributor to our overall revenue increase of 26% compared to Q1-2016. Revenue from income-producing assets grew by 5% compared to Q1-2016. We continue to execute our strategy of diversifying our revenue mix to reduce sensitivity to economic cycles.

Gross margin was 48% compared to 52% in Q1-2016. Gross margin is impacted by the revenue mix in a given period and lower margin Community Development revenue comprised 38% of revenue in Q1-2017 compared to 26% in Q1-2016.

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 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 adjusts for certain non-cash earnings items included in income such as fair value adjustments on investment properties and REIT units.

Below is a reconciliation of net income (loss) to FFO:

($000s)	Three months ended	
	31-Mar-17	31-Mar-16
Net loss for the period	**(9,003)**	(7,714)
Amortization of operating lease incentives	**1,224**	1,577
Fair value adjustment on investment properties	**13,804**	1,019
Depreciation on property and equipment	**199**	244
Stock based compensation expense	**98**	88
Non-cash interest	**366**	365
Deferred income taxes	**(1,056)**	(198)
Fair value adjustment on REIT units	**446**	8,809
FFO	**6,078**	4,190
FFO per share	**0.18**	0.13

FFO during the quarter increased to $6.08 million compared to $4.19 million in Q1-2016. The improvement in FFO is driven by strong sales in the Community Development division (86% increase over Q1-2016) and consistent performance of our income-producing assets.

Melcor's net loss during the quarter was the result of fair value losses reported on our investment properties (loss of $13.80 million) and REIT units (loss of $0.45 million). Income before taxes for the quarter, prior to these fair value adjustments, was $5.76 million compared with $3.15 million during Q1-2016, an increase of 83%.

Fair value adjustments on investment properties and REIT units are driven by market forces. The continued pressure on Edmonton office market capitalization rates had resulted in increases of 25-100 basis points over Q4-2016 capitalization rates and fair value losses in the REIT division. These adjustments are non-cash items required to be reported under IFRS.

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 income-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)	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Revenue	**14,747**	7,939	**81**	6	**8,748**	7,888	**17,000**	16,626	**161**	218
Portion of total revenue	**38%**	26%	**—%**	—%	**23%**	26%	**44%**	54%	**— %**	1 %
Cost of sales	**(9,794)**	(5,112)	**—**	—	**(3,305)**	(2,858)	**(6,817)**	(6,493)	**(503)**	(561)
Gross margin	**4,953**	2,827	**81**	6	**5,443**	5,030	**10,183**	10,133	**(342)**	(343)
Gross margin %	**34%**	36%	**100%**	100%	**62%**	64%	**60%**	61%	**(212)%**	(157)%
Portion of total margin	**27%**	18%	**—%**	—%	**29%**	32%	**55%**	64%	**(2)%**	(2)%
General and administrative expense	**(1,945)**	(2,173)	**(445)**	(480)	**(608)**	(685)	**(689)**	(741)	**(354)**	(351)
Fair value adjustment on investment properties	**—**	—	**1,720**	2,083	**108**	(2,115)	**(16,459)**	(1,825)	**—**	—
Interest income	**292**	327	**1**	1	**1**	2	**6**	9	**—**	—
Divisional income (loss) before tax	**3,300**	981	**1,357**	1,610	**4,944**	2,232	**(6,959)**	7,576	**(696)**	(694)

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

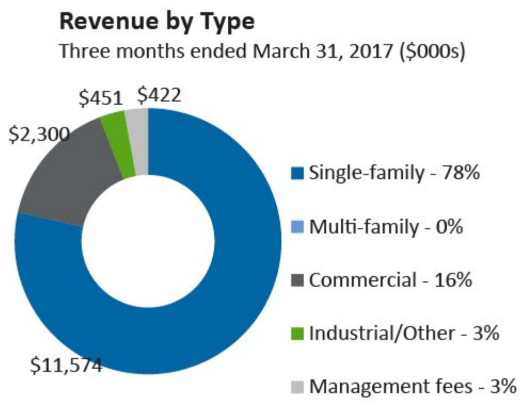
Community Development

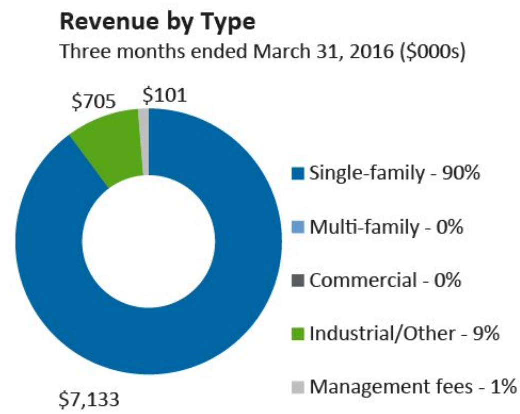
Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning, 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-17	31-Mar-16
Sales data: (including joint ventures at 100%)		
Single family sales (number of lots)	**117**	43
Gross average revenue per single-family lot ($)	**147,521**	195,400
Commercial sales (acres)	**4.65**	—
Gross average revenue per commercial land acre ($)	**494,624**	—
Industrial sales (acres)	**—**	0.95
Gross average revenue per industrial land acre ($)	**—**	510,000
Other land sales - Raw, Other (acres)	**4.10**	—
Gross average revenue per other land acre ($)	**110,000**	—
Financial results: (including joint ventures at Melcor's interest)		
Revenue ($000s)	**14,747**	7,939
Earnings ($000s)	**3,300**	981

Note: The number of lots in the table above includes joint ventures at 100%; however, revenue is reported at Melcor's interest.

The Community Development division remained active in the quarter with new development starting in phases of communities that meet pre-sales targets. We remain committed to managing our risk in this uncertain environment by ensuring that market demand is in place prior to proceeding with development. In regions where demand is soft, we are taking advantage of this opportunity to progress land use through the municipal approvals process to ensure we have "shovel-ready", developable land ready when market demand improves.

Single-family lot sales were up 172% but the average revenue per lot was down by 25%. This is consistent with our expectations as we are seeing more interest in our smaller, more affordable product types. The increase in lot sales and the sale of commercial land contributed to higher overall revenue of $14.75 million in Q1-2017, an increase of $6.81 million from $7.94 million in Q1-2016.

Our primary market is Alberta. Market conditions are showing signs of improvement in some regions and we remain cautiously optimistic. We are committing resources outside of Alberta, primarily in BC and the United States, to diversify our land holding portfolio.

Regional Sales Analysis

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

Regional Sales Analysis	**Three months ended 31-Mar-17**			Three months ended 31-Mar-16		
(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	**62**	**—**	**4.65**	12	—	—
Red Deer Region	**27**	**—**	**—**	2	—	0.95
Calgary Region	**13**	**—**	**4.10**	1	—	—
Lethbridge	**13**	**—**	**—**	21	—	—
Kelowna	**2**	**—**	**—**	7	—	—
United States	**—**	**—**	**—**	—	—	—
	117	**—**	**8.75**	43	—	0.95

Improved sales in Edmonton, Red Deer and Calgary contributed to solid results in the quarter. Sales in Lethbridge and Kelowna remain consistent with our plans. Subsequent to the quarter, we broke ground in two new residential communities - Copperhaven in Spruce Grove, AB and Evergreen in Red Deer, AB.

We have no serviced lot inventory available for sale in the United States. Subsequent to the quarter, we commenced development of our US landholdings in Aurora, CO (Harmony).

We sold 4.65 acres of commercial land in a new neighbourhood shopping centre in southwest Edmonton for $2.30 million. We also sold 4.1 acres of raw land for $0.45 million in Kings Heights in Airdrie, AB.

Inventory

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

Developed Inventory	**Three months ended 31-Mar-17**			Three months ended 31-Mar-16		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	**987**	**64.61**	**142.37**	1,433	63.10	144.40
Purchases	**—**	**—**	**—**	—	—	—
New developments	**—**	**—**	**—**	64	—	—
Internal sales	**—**	**—**	**—**	—	—	—
Sales	**(117)**	**—**	**(8.75)**	(43)	—	(0.95)
	870	**64.61**	**133.62**	1,454	63.10	143.45

Our strategic inventory reduction program throughout 2016 resulted in a 40% reduction in single-family lots over March 31, 2016.

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 59.04 acres in the Lethbridge region, 26.45 acres in the Calgary region, and 39.91 acres in the Edmonton region.

Subsequent to the quarter, we purchased 43.06 acres in the Kelowna region.

We did not acquire land in the comparative period.

We continue to monitor our land holdings to secure future positions in our target markets.

Property Development

Our Property Development division develops, manages construction, markets and initially leases high-quality retail, office and industrial income-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 except as noted)	Three months ended	
	31-Mar-17	31-Mar-16
Total revenue	**81**	6
Fair value adjustment on investment properties	**1,720**	2,083

The Property Development division has approximately 185,000 sf of development planned for the 2017 construction season.

Over the past few years, the Property Development division has been focused on the planning, design and pre-leasing of future Edmonton area projects. As a result of this focus, we are breaking ground on 2 new neighbourhood shopping centres (Jensen Lakes Crossing and The Shoppes at Jagare Ridge) and constructing a second office building (53,000 sf) at The Village at Blackmud Creek in 2017. The division continues to make progress in pre-leasing and planning on future Calgary area projects.

Regional Highlights

($000s except as noted)	Three months ended	
Fair value adjustments by region	**31-Mar-17**	31-Mar-16
Northern Alberta	**1,143**	863
Southern Alberta	**577**	1,220
	1,720	2,083

In the first quarter of 2017, we recognized $1.72 million in fair value adjustments. We recognized a $1.08 million gain related to a reduction in costs to complete for a building transfered to the Investment Property division in Q4-2016. We also recognized $0.64 million in gains as a result of continued development on two buildings in Chestermere Station (20,585 sf (at 100%)) as well as leasing activity on a CRU in our Clearview Market development. Construction and lease-up of these assets is expected to be completed in 2017 and transferred to our Investment Properties division for long-term holding.

Future development opportunities

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

The following tables illustrate our current and future project expectations.

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	53,000
Telford Industrial	Leduc	*Industrial Park*	500,000	142,790	—
West Henday Promenade	West Edmonton	*Regional mixed use centre*	726,000	109,711	6,500
Kingsview Market	Airdrie	*Regional shopping centre*	331,000	181,927	—
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	297,416	220,576	20,585
Clearview Market	Red Deer	*Neighbourhood shopping centre*	150,090	139,567	10,523
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	2,250,000	494,359	—
Campsite Industrial	Spruce Grove	*Industrial Park*	170,000	13,654	—
The Shoppes at Jagare Ridge	South Edmonton	*Neighbourhood shopping centre*	105,000	—	28,000
Jensen Lakes Crossing	St. Albert	*Neighbourhood shopping centre*	173,000	—	67,000

Expected Future Projects

Project	Location	Type	Total SF *	Ownership Interest	Expected Start (year)
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	100%	2019
Greenwich	West Calgary	*Regional mixed use centre*	395,000	100%	2019
Rollyview	Leduc	*Neighbourhood shopping centre*	150,000	100%	2019
Keystone Common	North Calgary	*Regional power centre*	775,000	100%	2022
West Pointe Marketplace	Lethbridge	*Regional power centre*	750,000	100%	2021+
West Calgary Marketplace	West Calgary	*Regional power centre*	800,000	100%	2022+

** 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. Developed to date includes buildings built by third parties.*

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 3.95 million sf of income-producing commercial GLA and 612 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 potential.

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-17	31-Mar-16
Commercial properties GLA under management (sf, total)	**3,947,476**	3,837,469
Properties owned and managed (sf)	**821,851**	727,116
Properties managed (sf)	**3,125,625**	3,110,353
Revenue (total)	**8,748**	7,888
Commercial properties	**3,578**	2,928
US properties	**3,569**	3,464
Management fees	**1,247**	1,151
Parking lots and other assets	**354**	345
Net operating income (NOI) *	**5,465**	4,626
Funds from operations *	**5,021**	4,458
Funds from operations per share *	**0.15**	0.13

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

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

Commercial properties

Q1-2017 revenues were up 22% over 2016 as a result of portfolio growth of 6 commercial buildings (90,694 sf) and 72 residential units. To date in 2017 Property Development has not transferred any buildings; however, with 185,000 sf of GLA under active development we expect continued growth through the development pipeline. Revenues generated on assets acquired from Property Development over the past twelve months and held through the quarter were $1.26 million (2016 - $0.75 million). In October 2016 we acquired a residential apartment building which complements our Jensen Lakes development. This asset added $0.26 million to Q1-2017 revenues (2016 - $nil). Same asset revenue remained steady over Q1-2016.

Occupancy on properties owned by Investment Properties was 94% at March 31, 2017. Weighted average base rental rates were also stable over year-end at $26.29. Stability in occupancy and average base rents reflects the slower pace of development over the past twelve months and a larger proportion of the portfolio being comprised of mature properties.

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

($000s except as noted)	**Three months ended**	
	31-Mar-17	31-Mar-16
Same asset NOI *	**1,456**	1,492
Third party acquisition	**75**	—
Properties transferred from PD	**1,072**	659
Properties transferred to REIT	**—**	31
NOI before adjustments	**2,603**	2,182
Amortization of operating lease incentives	**83**	101
Straight-line rent adjustment	**(99)**	(466)
NOI *	**2,587**	1,817

** See non-standard measures for definition.*

NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustments. Same-asset NOI was stable with lower straight-line rent adjustments offset by additional income as a result of truing up 2016 year-end estimates in Q1-2017.

US properties

Over the past twelve months we have seen significant change in the make-up of our US portfolio with three commercial property acquisitions completed, adding 306,169 sf of GLA; in conjunction with sale of a 240 unit residential building. Revenues increased 3% over Q1-2016, tempered by un-deployed capital from the disposition completed in December 2016, proceeds of which have not been reinvested to date. Revenues from newly acquired commercial assets was $1.67 million (US$1.26 million) in Q1-2017 compared to $0.47 million (US$0.34 million) in Q1-2016. Conversely, revenues from our residential asset sold in the comparative Q1-2016 period were $0.95 million (US$0.69 million). Same asset revenue declined by 3% due to tenant rollover at our Phoenix area properties acquired in 2014/2015.

Occupancy was down 2% over year-end at 87% and by 4% over Q1-2016, reflecting tenancy rollovers in some of our same asset commercial properties. Rental rates on our commercial US properties were stable over year-end at US$17.83.

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

($000s except as noted)	Three months ended	
	31-Mar-17	31-Mar-16
Same asset NOI	**584**	667
Third party acquisitions	**635**	193
Third party disposition	**(2)**	292
NOI before adjustments	**1,217**	1,152
Foreign current translation	**394**	450
Amortization of operating lease incentives	**102**	10
Straight-line rent adjustment	**(64)**	(49)
NOI *	**1,649**	1,563

** See non-standard measures for definition.*

NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustment. Same asset NOI was down 13% over Q1-2016, a result of lower occupancy on certain commercial properties.

Management fees & other

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 were up 8% over Q1-2016 at $1.25 million. Higher fees were the result of increased leasing activity in the REIT, generating an additional $0.10 million in first quarter revenues. Leasing fees fluctuate based on the timing of leasing activity in the REIT. Other asset management and property management fees were consistent in Q1-2017.

During Q1-2017 we recognized $0.35 million in revenues on our 516 parking stalls and other assets (Q1-2016 - $0.35 million). These revenues can fluctuate from period to period.

Funds from operations (FFO) increased by $0.56 million or 13% over Q1-2016 as a result of higher NOI from all revenue streams combined with lower general & administrative expense. The decrease in general & administrative expense relates to re-classification of certain costs related to management of the REIT assets from G&A to operating costs in Q2-2016.

REIT

The REIT owns 38 income-producing office, retail and industrial properties, comprising 2,779,431 square feet of GLA and a land lease community at March 31, 2017. 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 56.7% effective interest in the REIT through ownership of all Class B LP Units (December 31, 2016 - 56.7%). 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-17	31-Mar-16
Rental revenue	**17,000**	16,626
Net operating income (NOI) *	**10,737**	10,613
Same asset NOI * *(see calculation following)*	**9,980**	9,986
Fair value adjustment on investment properties	**(16,459)**	(1,825)
Gross leasable area (GLA) (sf)	**2,779,431**	2,768,750
Occupancy % (weighted by GLA)	**92.5%**	93.9%
Fair value of portfolio	**643,602**	660,745
Funds from operations *	**10,269**	10,226
Funds from operations per share *	**0.31**	0.31

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

Q1-2017 rental revenue was up 2% or $0.37 million as a result of higher operating cost and realty tax recoveries ("recovery") revenue on account of increased direct operating expenses. First quarter base rent and straight-line rent adjustment declined $0.14 million and $0.13 million respectively, reflecting downward trends in occupancy and weighted average base rent over Q1-2016. This was partially offset by the development of 7,732 sf of new GLA through densification at an existing retail property in May 2016 which added $0.08 million to first quarter revenue (2016 - $nil). On April 27, 2017 we sold a 67,610 sf industrial property, LC Industrial, in Lethbridge, Alberta. Rental revenue recognized in the first quarter from this asset was $0.15 million (2016 - $0.16 million). On a same-asset basis, rental revenue was higher over Q1-2016 driven by increased recoveries.

Weighted average base rent was $15.57, down 1% compared to December 31, 2016. This downward trend is primarily due to market conditions across our office portfolio, which have seen significant changes as a result of new GLA brought online in downtown Edmonton and Calgary. Competition in this asset class has intensified, resulting in net effective rent erosion through lower base rent and higher tenant incentives.

Direct operating expenses increased $0.32 million or 5% over Q1-2016. Timing of maintenance projects and higher snow removal costs led to a 5% increase in operating costs over Q1-2016. These increases were partially offset by lower non-recoverable costs during the first quarter. Utilities and property taxes were up 5% as a result of higher property taxes and the introduction of a carbon tax in Alberta effective January 1, 2017.

Higher recovery ratio led to a 1% increase in NOI over Q1-2016. On a same-asset basis, NOI was steady.

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

($000s except as noted)	Three months ended	
	31-Mar-17	31-Mar-16
Same asset NOI *	**9,980**	9,986
Acquisitions/Dispositions	**203**	147
NOI before adjustments	**10,183**	10,133
Amortization of operating lease incentives	**769**	825
Straight-line rent adjustment	**(215)**	(345)
Divisional NOI	**10,737**	10,613

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

Funds from operations

Funds from operations (FFO) was stable in the first quarter at $10.27 million.

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. Our Alberta courses that opened in early April closed a short time later due to snow.

	Ownership interest	Season opened 2017	Season opened 2016
Managed by Melcor:			
Lewis Estates (Edmonton)	60%	**April 6**	**March 31**
The Links (Spruce Grove)	100%	**April 7**	**April 1**
Black Mountain (Kelowna)	100%	**April 1**	**March 11**
Managed by a Third Party:			
Jagare Ridge (Edmonton)	50%	**April 29**	**April 8**

General and Administrative Expense

Accrual of a retirement allowance payment was the significant factor in the 20% increase in general and administrative expense over Q1-2016.

Income Tax Expense

The statutory tax rate is 27% for the three months ended March 31, 2017. Significant adjustments that impacted the 2017 effective tax rate include permanent differences related to revaluation adjustments on investment properties and REIT units and a higher tax rate for income earned in our US subsidiary. The adjustments are offset by the non-taxable portion of REIT income. For the same period last year, the statutory tax rate was 27% and significant adjustments included permanent differences related to revaluation adjustments on investment properties and REIT units, a higher tax rate for income earned in our US subsidiary and the non-taxable portion of REIT income.

Liquidity & Capital Resources

The following table represents selected information as at March 31, 2017, compared to December 31, 2016.

As at ($000s except as noted)	**31-Mar-17**	31-Dec-16
Cash & cash equivalents	**44,452**	39,892
Accounts receivable	**11,226**	16,918
Agreements receivable	**104,339**	116,244
Revolving credit facilities	**58,099**	50,052
Accounts payable and accrued liabilities	**32,812**	35,274
Total assets	**1,870,938**	1,891,988
Total liabilities	**890,137**	897,267
Debt to equity ratio*	**0.91**	0.90

**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, 2017, our total general debt outstanding was $606.49 million. This compares to $608.61 million at December 31, 2016. A summary of our debt is as follows:

As at ($000s)	**31-Mar-17**	31-Dec-16
Melcor - revolving credit facilities	**39,593**	32,728
REIT - revolving credit facility	**18,506**	17,324
Project specific financing	**3,390**	5,213
Secured vendor take back debt on land inventory	**63,602**	65,408
Debt on investment properties and golf course assets	**451,152**	455,189
REIT - convertible debenture	**32,882**	32,749
	609,125	608,611
Mortgage held for sale	**2,640**	—
	606,485	608,611

We are subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to total capital ratio of 125%, a minimum debt service coverage ratio of 3.00, and a minimum net book value of shareholder's equity of $300.00 million. As at March 31, 2017 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT $35.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.50, and a minimum adjusted unitholders' equity of $140.00 million. As at March 31, 2017 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:

($000s)	Three months ended	
	31-Mar-17	31-Mar-16
Cash flows from operating activities	**13,609**	**22,942**
Cash flows used in investing activities	**(2,412)**	**(38,655)**
Cash flows from (used in) financing activities	**(6,414)**	**(4,718)**

Cash flows from operating activities were $13.61 million in Q1-2017, a decrease of $9.33 million over Q1-2016. FFO during the quarter increased to $6.08 million compared to $4.19 million in Q1-2016. This contributed to an operating cash increase of $1.89 million, which is offset by decreases in net collections on accounts receivable and agreements receivable, combined with settlement of liabilities, resulted in net cash inflows of $10.22 million, compared to $21.55 million in the same period last year. Additionally, land purchases of $1.68 million was made during the current quarter.

Cash flows used in investing activities was $2.41 million compared with cash used in investing activities of $38.66 million during Q1-2016. During the quarter, we invested $2.41 million in the construction of new commercial properties as well as enhancements to existing commercial properties. During the same period last year we purchased three suburban office properties in the Greater Denver area for total cash consideration of $33.74 million (US $25.46 million) and invested $4.84 million in the construction of new commercial properties as well as enhancements to existing commercial properties.

Cash flows used in financing activities were $6.41 million, a change of $1.70 million over Q1-2016. Repayments on our credit facilities of $10.18 million were partially offset by net proceeds of $8.05 million from our revolving credit facilities. During the same period last year, net proceeds from general debt of $42.33 million was offset by repayments of $43.19 million on general debt. During the quarter, we paid a $0.13 per share dividend for a total of $4.34 million, an increase of $0.35 million over Q1-2016 as the dividend was $0.12 per share in that period.

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, 2017 there were 33,354,751 common shares issued and outstanding and 779,347 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, 2017 in comparison to the December 31, 2016 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

Normal Course Issuer Bid

On March 29, 2017 we announced a new Normal Course Issuer Bid (NCIB) commencing March 31, 2017 and ending March 30, 2018. Under the bid, we may acquire up to 1,667,704 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 2,158 common shares. During the quarter ended March 31, 2017, we did not repurchase any common shares.

In connection with the commencement of the NCIB, we entered into an automatic share purchase plan agreement with a broker to allow for the purchase of common shares under the NCIB at times when the Corporation ordinarily would not be active in the market due to regulatory restrictions or self-imposed trading blackout periods.

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-17**	31-Dec-16	30-Sept-16	30-Jun-16	31-Mar-16	31-Dec-15	30-Sept-15	30-Jun-15
Revenue	**38,567**	106,391	63,432	42,084	30,554	91,721	87,921	46,113
Net income (loss)	**(9,003)**	24,109	16,260	1,778	(7,714)	32,658	24,823	3,917
Per Share								
Basic earnings	**(0.27)**	0.73	0.49	0.05	(0.23)	0.98	0.75	0.12
Diluted earnings	**(0.27)**	0.73	0.49	0.05	(0.23)	0.99	0.74	0.12
Book value	**29.41**	29.83	29.19	28.80	28.86	29.43	28.47	27.67

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. Growth in our income-producing assets serves to offset this cyclicality.

Subsequent Events

Refer to note 11 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, 2017 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 (%) = (gross profit) / (revenue) This measure indicates the relative efficiency with which we earn revenue

Net margin (%) = (net income (loss)) / (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 (loss)) +/– (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 (loss), is as follows:

Investment Properties

($000s)	Three months ended	
	March 31, 2017	March 31, 2016
Segment Earnings	**4,944**	2,232
Fair value adjustment on investment properties	**(108)**	2,115
General and administrative expenses	**608**	685
Interest income	**(1)**	(2)
Amortization of operating lease incentives	**185**	111
Straight-line rent adjustment	**(163)**	(515)
Divisional NOI	**5,465**	4,626

REIT

($000s)	Three months ended	
	March 31, 2017	March 31, 2016
Segment Earnings	**(6,959)**	7,576
Fair value adjustment on investment properties	**16,459**	1,825
General and administrative expenses	**689**	741
Interest income	**(6)**	(9)
Amortization of operating lease incentives	**769**	825
Straight-line rent adjustment	**(215)**	(345)
Divisional NOI	**10,737**	10,613

Funds from operations (FFO) = (net income (loss)) + (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 (loss), is as follows:

Consolidated

($000s)	Three months ended	
	March 31, 2017	March 31, 2016
Net loss for the period	**(9,003)**	(7,714)
Amortization of operating lease incentives	**1,224**	1,577
Fair value adjustment on investment properties	**13,804**	1,019
Depreciation on property and equipment	**199**	244
Stock based compensation expense	**98**	88
Non-cash interest	**366**	365
Deferred income taxes	**(1,056)**	(198)
Fair value adjustment on REIT units	**446**	8,809
FFO	**6,078**	4,190

Investment Properties

($000s)	Three months ended	
	March 31, 2017	March 31, 2016
Segment Earnings	**4,944**	2,232
Fair value adjustment on investment properties	**(108)**	2,115
Amortization of operating lease incentives	**185**	111
Divisional FFO	**5,021**	4,458

REIT

($000s)		Three months ended
	March 31, 2017	March 31, 2016
Segment Earnings (loss)	**(6,959)**	7,576
Fair value adjustment on investment properties	**16,459**	1,825
Amortization of operating lease incentives	**769**	825
Divisional FFO	**10,269**	10,226

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

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2017

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Loss

For the three months ended (Unaudited)	March 31, 2017	March 31, 2016
Revenue	38,567	30,554
Cost of sales	(19,920)	(14,636)
Gross profit	18,647	15,918
General and administrative expense	(5,803)	(4,842)
Fair value adjustment on investment properties (note 5 and 10)	(13,804)	(1,019)
Adjustments related to REIT units (note 9)	(2,328)	(10,690)
Operating loss	(3,288)	(633)
Interest income	320	339
Finance costs	(5,518)	(6,389)
Net finance costs	(5,198)	(6,050)
Loss before income taxes	(8,486)	(6,683)
Income tax expense	(517)	(1,031)
Net loss for the period	(9,003)	(7,714)
Loss per share:		
Basic loss per share	(0.27)	(0.23)
Diluted loss per share	(0.27)	(0.23)

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Loss

For the three months ended (Unaudited)	March 31, 2017	March 31, 2016
Net loss for the period	(9,003)	(7,714)
Other comprehensive loss		
Items that may be reclassified subsequently to net loss:		
Currency translation differences	(732)	(7,335)
Comprehensive loss	(9,735)	(15,049)

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

(Unaudited)	March 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	44,452	39,892
Accounts receivable	11,226	16,918
Income taxes recoverable	4,378	1,909
Agreements receivable	104,339	116,244
Land inventory (note 4)	679,759	680,260
Investment properties (note 5 and 10)	950,957	970,693
Property and equipment	15,308	15,507
Other assets	52,759	50,565
Asset held for sale (note 5)	7,760	—
	1,870,938	1,891,988
LIABILITIES		
Accounts payable and accrued liabilities	32,812	35,274
Provision for land development costs	86,999	91,584
General debt (note 6)	606,485	608,611
Deferred income tax liabilities	66,402	67,458
REIT units (note 9 and 10)	94,786	94,340
Liability held for sale (note 5)	2,653	—
	890,137	897,267
SHAREHOLDERS' EQUITY		
Share capital (note 7)	72,197	72,137
Contributed surplus	2,685	2,594
Accumulated other comprehensive income (AOCI)	24,458	25,190
Retained earnings	881,461	894,800
	980,801	994,721
	1,870,938	1,891,988

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

(Unaudited)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2017	**72,137**	**2,594**	**25,190**	**894,800**	**994,721**
Net loss for the period	—	—	—	(9,003)	(9,003)
Cumulative translation adjustment	—	—	(732)	—	(732)
Transactions with equity holders					
Dividends	—	—	—	(4,336)	(4,336)
Employee share options					
Value of services recognized	—	98	—	—	98
Share issuance	60	(7)	—	—	53
Balance at March 31, 2017	**72,197**	**2,685**	**24,458**	**881,461**	**980,801**

(Unaudited)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2016	70,061	2,743	28,705	876,461	977,970
Net loss for the period	—	—	—	(7,714)	(7,714)
Cumulative translation adjustment	—	—	(7,335)	—	(7,335)
Transactions with equity holders					
Dividends	—	—	—	(3,988)	(3,988)
Employee share options					
Value of services recognized	—	88	—	—	88
Share issuance	40	(10)	—	—	30
Balance at March 31, 2016	70,101	2,821	21,370	864,759	959,051

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, 2017	March 31, 2016
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net loss for the period	**(9,003)**	(7,714)
Non cash items:		
Amortization of tenant incentives	**1,224**	1,577
Depreciation of property and equipment	**199**	244
Stock based compensation expense	**98**	88
Non cash interest	**366**	365
Straight-line rent adjustment	**(298)**	(715)
Fair value adjustment on investment properties (note 5 and 10)	**13,804**	1,019
Fair value adjustment on REIT units (note 9 and 10)	**446**	8,809
Deferred income taxes	**(1,056)**	(198)
	5,780	3,475
Agreements receivable	**11,905**	27,639
Development activities	**52**	(845)
Purchase of land inventory (note 4)	**(1,679)**	—
Payment of tenant lease incentives and direct leasing costs	**(794)**	(1,240)
Operating assets and liabilities	**(1,655)**	(6,087)
	13,609	22,942
INVESTING ACTIVITIES		
Purchase of investment properties	**—**	(33,738)
Additions to investment properties	**(2,412)**	(4,844)
Purchase of property and equipment	**(8)**	(73)
Proceeds on disposal of property and equipment	**8**	—
	(2,412)	(38,655)
FINANCING ACTIVITIES		
Revolving credit facilities	**8,047**	(17,756)
Proceeds from general debt	**—**	42,330
Repayment of general debt	**(10,178)**	(25,435)
Change in restricted cash	**—**	101
Dividends paid	**(4,336)**	(3,988)
Share capital issued	**53**	30
	(6,414)	(4,718)
FOREIGN EXCHANGE LOSS ON CASH HELD IN A FOREIGN CURRENCY	**(223)**	(2,432)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**4,560**	(22,863)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**39,892**	48,674
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**44,452**	25,811
Total income taxes paid	**4,100**	8,542
Total interest paid	**5,898**	7,023

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, 2017 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 May 9, 2017, 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".

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”) 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, 2016, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 9, 2017.

3. ACCOUNTING POLICIES

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those of the previous financial year. We have adopted amendments to standards IAS 7, Statement of Cash Flows and IAS 12, Income Taxes, effective January 1, 2017. Adoption of these amended standards did not require any adjustment to the presentation or disclosures within these condensed interim consolidated financial statements.

4. LAND INVENTORY

	March 31, 2017	December 31, 2016
Raw land held	**339,044**	333,854
Land under development	**140,574**	142,350
Developed land	**200,141**	204,056
	679,759	680,260

During the three month period ended March 31, 2017, we purchased 125.40 acres of land at a cost of $4,444 and received vendor financing of $2,765.

During the comparative three month period ended March 31, 2016, no land was purchased.

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	March 31, 2017	December 31, 2016
Investment properties	905,696	929,299
Properties under development	45,261	41,394
Total	950,957	970,693

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

			Three months ended March 31, 2017
	Investment Properties	Properties under Development	Total
Balance - beginning of period	929,299	41,394	970,693
Additions			
Direct leasing costs	224	57	281
Property improvements	315	—	315
Development costs	7	2,063	2,070
Capitalized borrowing costs	—	27	27
Investment property classified as held for sale during the period	(7,723)	—	(7,723)
Fair value adjustment on investment properties	(15,524)	1,720	(13,804)
Foreign currency translation (included in OCI)	(902)	—	(902)
Balance - end of period	905,696	45,261	950,957

			Year ended December 31, 2016
	Investment Properties	Properties under Development	Total
Balance - beginning of year	847,387	56,961	904,348
Additions			
Direct acquisition	64,186	—	64,186
Transfer from land inventory	—	12,140	12,140
Direct leasing costs	1,006	289	1,295
Property improvements	3,777	—	3,777
Development costs	1,939	8,949	10,888
Capitalized borrowing costs	—	103	103
Disposals	(38,961)	—	(38,961)
Transfers	44,967	(44,967)	—
Fair value adjustment on investment properties	7,876	7,919	15,795
Foreign currency translation (included in OCI)	(2,878)	—	(2,878)
Balance - end of year	929,299	41,394	970,693

In accordance with our policy we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 10.

As at March 31, 2017, we classified an industrial property as asset held for sale with a fair value of $7,760 (including investment property of $7,723, tenant incentives of $20 and straight line rent of $17) and associated liabilities of $2,653 (including a mortgage payable of $2,640 and security deposits of $13). As at March 31, 2017 management has committed to a plan of sale of the property, with a contract in place. Subsequent to the quarter the property was sold to a third party for a purchase price of $7,760 (net of transaction costs) (note 11).

6. GENERAL DEBT

	March 31, 2017	December 31, 2016
Melcor - revolving credit facilities	**39,593**	32,728
REIT - revolving credit facility	**18,506**	17,324
Project specific financing	**3,390**	5,213
Secured vendor take back debt on land inventory	**63,602**	65,408
Debt on investment properties and golf course assets	**451,152**	455,189
REIT - convertible debenture	**32,882**	32,749
	609,125	608,611
Mortgage held for sale (note 5)	**2,640**	—
	606,485	608,611

7. SHARE CAPITAL

Issued and outstanding common shares at March 31, 2017 are 33,354,751 (December 31, 2016 – 33,350,898). During the three months ended March 31, 2017, there were 3,853 options exercised (Q1-2016 – 2,500).

8. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues

For the three months ended	**March 31, 2017**	March 31, 2016
United States	**3,594**	3,684
Canada	**34,973**	26,870
Total	**38,567**	30,554

Total Assets

As at	**March 31, 2017**	December 31, 2016
United States	**200,836**	203,415
Canada	**1,670,102**	1,688,573
Total	**1,870,938**	1,891,988

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

8. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

For the three months ended March 31, 2017	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	14,747	81	8,748	17,000	161	—	**40,737**	(2,170)	**38,567**
Cost of sales	(9,794)	—	(3,305)	(6,817)	(503)	(112)	**(20,531)**	611	**(19,920)**
Gross profit	4,953	81	5,443	10,183	(342)	(112)	**20,206**	(1,559)	**18,647**
General and administrative expense	(1,945)	(445)	(608)	(689)	(354)	(2,494)	**(6,535)**	732	**(5,803)**
Fair value adjustment on investment properties	—	1,720	108	(16,459)	—	—	**(14,631)**	827	**(13,804)**
Interest income	292	1	1	6	—	20	**320**	—	**320**
Segment Earnings (Loss)	3,300	1,357	4,944	(6,959)	(696)	(2,586)	**(640)**	—	**(640)**
Finance costs									**(5,518)**
Adjustments related to REIT units									**(2,328)**
Loss before tax									**(8,486)**
Income tax expense									**(517)**
Net loss for the period									**(9,003)**

For the three months ended March 31, 2016	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	7,939	6	7,888	16,626	218	—	**32,677**	(2,123)	**30,554**
Cost of sales	(5,112)	—	(2,858)	(6,493)	(561)	(139)	**(15,163)**	527	**(14,636)**
Gross profit	2,827	6	5,030	10,133	(343)	(139)	**17,514**	(1,596)	**15,918**
General and administrative expense	(2,173)	(480)	(685)	(741)	(351)	(1,170)	**(5,600)**	758	**(4,842)**
Fair value adjustment on investment properties	—	2,083	(2,115)	(1,825)	—	—	**(1,857)**	838	**(1,019)**
Interest income	327	1	2	9	—	—	**339**	—	**339**
Segment Earnings (Loss)	981	1,610	2,232	7,576	(694)	(1,309)	**10,396**	—	**10,396**
Finance costs									**(6,389)**
Adjustments related to REIT units									**(10,690)**
Loss before tax									**(6,683)**
Income tax expense									**(1,031)**
Net loss for the period									**(7,714)**

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

9. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 43.3% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at March 31, 2017 the REIT units had a fair value of $94,786 . We recorded adjustments related to REIT units for the three months ended March 31, 2017 of $2,328 (Q1-2016 - $10,690).

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

For the three months ended	March 31, 2017	March 31, 2016
Fair value adjustment on REIT units (note 10)	(446)	(8,809)
Distributions to REIT unitholders	(1,882)	(1,881)
Adjustments related to REIT units	**(2,328)**	(10,690)

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, 2017	December 31, 2016
Assets	647,763	663,724
Liabilities	358,654	359,828
Net assets	**289,109**	303,896
Cost of NCI	103,959	103,959
Fair value of NCI	**94,786**	94,340

For the three months ended	March 31, 2017	March 31, 2016
Revenue	17,000	16,626
Net loss and comprehensive loss	(13,490)	(9,966)
Cash flows from operating activities	2,827	2,609
Cash flows used in investing activities	(213)	(1,481)
Cash flows from (used in) financing activities, before distributions to REIT unitholders	(1,374)	3,644
Cash flows used in financing activities - cash distributions to REIT unitholders	(1,882)	(1,881)
Net increase (decrease) in cash and cash equivalents	**(642)**	2,891

10. 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 are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 3).
- fair value of derivative financial liabilities, which is the conversion feature on the REIT convertible debenture, and our floating for fixed interest rate swap, are 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 and the fair value of the convertible debenture is estimated based on the closing trading price of the REIT's debenture (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 based on the accepted valuation methods of direct income capitalization or discounted future cash flows (Level 3).

The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

- Level 1: quoted 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.

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.

					March 31, 2017	December 31, 2016	
	Fair Value Hierarchy	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
Non-financial assets							
Investment properties	Level 3	950,957	—	950,957	950,957	970,693	970,693
Assets held for sale	Level 3	7,760	—	7,760	7,760	—	—
Financial liabilities							
General debt, excluding convertible debenture and derivative financial liability	Level 3	—	573,478	573,478	579,821	575,801	583,489
Convertible debenture	Level 1	—	32,882	32,882	35,241	32,749	35,017
Derivative financial liability							
Interest rate swaps	Level 3	64	—	64	64	27	27
Conversion feature on convertible debenture	Level 3	61	—	61	61	61	61
Liability held for sale	Level 3	—	2,653	2,653	2,653	—	—
REIT units	Level 1	94,786	—	94,786	94,786	94,340	94,340

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.

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

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

- 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 two years, the valuations are performed by qualified external valuators 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's internal valuation team as at March 31, 2017 of which 7 investment properties (of 47 legal phases) with a fair value of $78,500 were valued by qualified independent external valuation professionals during the period. Valuations performed during the period resulted in fair value losses of $13,804. As at December 31, 2016 Melcor's internal valuation team valued investment properties of which 45 investment properties (of 82 legal phases valued) with a fair value of $430,312 were valued by qualified independent external valuation professionals during the year. Valuations performed during the year resulted in fair value gains of $15,795.

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	- 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.

Weighted average annual stabilized net operating income for investment properties as at March 31, 2017 is $1,462 (December 31, 2016 - $1,447). 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, 2017	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**8.75%**	**6.64%**	**6.00%**	**6.00%**	**6.00%**
Terminal capitalization rate	**5.75%**	**9.00%**	**6.81%**	**6.25%**	**6.25%**	**6.25%**
Discount rate	**6.00%**	**9.75%**	**7.71%**	**7.00%**	**7.00%**	**7.00%**

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

	Investment Properties			Properties under Development		
December 31, 2016	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	8.75%	6.58%	6.00%	6.00%	6.00%
Terminal capitalization rate	5.75%	9.00%	6.81%	6.25%	6.25%	6.25%
Discount rate	6.00%	9.75%	7.65%	7.00%	7.50%	7.07%

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by $55,734 (December 31, 2016 - $57,485). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by $64,804 (December 31, 2016 - $66,944).

General debt, excluding derivative financial liabilities

The fair value of revolving credit facilities approximates the carrying value excluding unamortized financing costs. The facilities bear interest, at our option, at a rate per annum equal to either the bank's prime lending rate plus 0.75% to 2.25% or at the bank's then prevailing banker's acceptance rate plus a stamping fee of 2.25% to 3.00%.

The fair value of project specific financing, secured vendor take back debt on land inventory and debt on investment properties and golf course assets and convertible debenture have been calculated by discounting the expected cash flows of each loan using a discount rate specific to each individual loan. The discount rate is determined using the bond yield for similar instruments of similar maturity adjusted for each individual project's specific credit risk. In determining the adjustment for credit risk, we consider current market conditions and other indicators of credit worthiness.

The fair value of convertible debenture is estimated based on the closing trading price of the REIT's debenture.

REIT units

REIT units are remeasured to fair value on a recurring basis. The units are fair valued based on the trading price of the REIT units at the period end date. At March 31, 2017 the fair value of the REIT units was $94,786, resulting in a fair value loss of $446 (2016 - loss of $8,809) in the statement of income and comprehensive income during the three months ended March 31, 2017 (note 9).

Derivative financial liabilities

Our derivative financial liability is comprised of floating for fixed interest rate swaps on mortgage levels and the conversion feature on the REIT convertible debenture.

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date.

The significant unobservable inputs used in the fair value measurement of the conversion feature on the REIT convertible debenture as at March 31, 2017 are as follows:

- Volatility - expected volatility as at March 31, 2017 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, 2017. Volatility was 16.73% (December 31, 2016 - 16.73%).
- Credit spread - the credit spread of the convertible debenture was imputed from the traded price of the convertible debenture as at March 31, 2017. The credit spread used was 3.71% (December 31, 2016 - 3.71%).

11. EVENTS AFTER THE REPORTING PERIOD

Distributions on REIT trust units

On April 15, 2017 the REIT declared a distribution of $0.05625 per unit for the months of April, May and June 2017. The distributions will be payable as follows:

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

Month	Record Date	Distribution Date	Distribution Amount
April 2017	April 28, 2017	May 15, 2017	$0.05625 per unit
May 2017	May 31, 2017	June 15, 2017	$0.05625 per unit
June 2017	June 30, 2017	July 17, 2017	$0.05625 per unit

Dividends declared

On May 9, 2017 our board of directors declared a dividend of $0.13 per share payable on June 30, 2017 to shareholders of record on June 15, 2017.

Asset disposition

On April 28, 2017 we sold an investment property for gross proceeds of $8,000. The purchase price was settled through mortgage assumption of $2,647 (including accrued interest), issuance of a vendor take back mortgage of $900, and cash of $4,453 (excluding working capital adjustments). The vendor take-back mortgage bears interest at an annual rate of 6.00%, with interest only payments payable monthly over a 36 month term. As a condition of the sale Melcor is required to head lease one unit should the current tenant vacate at the end of their lease. The head lease has a one year term, representing a maximum obligation of $48.