PRESS RELEASE
for immediate distribution

Melcor Developments announces second quarter results, declares quarterly dividend of $0.15

Edmonton, Alberta | August 11, 2015

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the quarter ended June 30, 2015. Revenue for the quarter was $46.11 million compared to $66.06 million in Q2-2014. Year-to-date revenue decreased to $83.67 million from $98.07 million. Growth in size and revenue from our income-producing properties portfolio was offset by lower sales from the Community Development division. The decrease in revenue is primarily due to the timing of plan registrations and softening of demand in Community Development division land sales.

Quarterly comparison of results is not always meaningful as revenue and income fluctuates significantly from period to period due to the timing of plan registrations and land sales, the cyclical nature of real estate and construction markets, the mix of lot sales and product types, and the mix of joint arrangement sales activity.

Funds from operations (FFO) was $0.45 per share year-to-date compared to $0.67 per share in the same period of 2014. FFO adjusts for all non-cash earnings items and was impacted by the conversion of the Melcor debenture, which increased the number of shares outstanding by 7% compared to Q2-2014.

Melcor earned net income of $18.48 million or $0.56 per share (basic) year-to-date , compared to $24.45 million or $0.79 per share (basic) in Q2-2014. Income in Q2-2015 declined from $17.59 million in Q2-2014 to $3.92 million. A contributor to this decline was a non-cash accrual of $4.84 million for future taxes in Q2-2015 as a result of an unexpected 2% increase in the Alberta provincial tax rate.

Brian Baker, Melcor's President and Chief Executive Officer, commented on the quarter: "Our results are in line with expectations for the first half of 2015. Activity levels remain stable across our operating divisions. We continue to conservatively manage our assets and to carefully monitor expenses; an initiative that has been underway since 2013. We are also mitigating risk by carefully monitoring market demand to ensure that we develop saleable product in a changing Alberta economy.

We are taking advantage of this market to proactively plan for the future, progressing land use through municipal approvals, and carefully managing our resources in order to take advantage of acquisition opportunities when they arise. The strength of our balance sheet, geographic diversification and asset diversification ensure we are well positioned for the future."

The Board today declared a quarterly dividend of $0.15 per share, payable on September 30, 2015 to shareholders of record on September 15, 2015. The dividend is an eligible dividend for Canadian tax purposes.

Second Quarter Highlights

All areas of our business remain active through the first half of 2015, with activity level varying based on asset class and region. Growth in our income-producing assets portfolio continues to offset the volatility of revenue recognized in the Community Development division, which is impacted by the timing of plan registrations.

We continue to ensure that our exposure to risk related to the economic environment in Alberta is managed by building only when demand exists. We also 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 second quarter include:

- Revenue declined 30% to $46.11 million compared to Q2-2014 as a result of the timing of plan registrations in our Community Development division and softening of demand on land sales.
- Revenue from income-producing assets grew by 21% over Q2-2015 and by 23% year-to-date. Increasing the mix of revenue from income-producing assets is part of our long-term diversification strategy.
- We continue to invest in income-producing assets and completed two acquisitions in the quarter, including a 63,112 sf office building in Denver, Colorado for $6.15 million (US$4.88 million). The building has a good tenant mix in a high profile commercial location near the Denver airport.
- We continue to move land use designations through the municipal approval process to increase our supply of shovel ready assets so that we are ready to capitalize when market demand improves.

Selected Highlights

($000s except as noted)	Three months ended			Six months ended		
	30-Jun-15	30-Jun-14	Change	**30-Jun-15**	30-Jun-14	Change
Revenue	**46,113**	66,062	(30.2)%	**83,667**	98,073	(14.7)%
Gross margin (%) *	**46.0%**	48.5%	(2.5)%	**46.6%**	49.5%	(2.9)%
Net income	**3,917**	17,585	(77.7)%	**18,477**	24,449	(24.4)%
Net Margin (%) *	**8.5%**	26.6%	(18.1)%	**22.1%**	24.9%	(2.8)%
Funds from operations *	**8,578**	14,409	(40.5)%	**14,791**	20,605	(28.2)%
Per Share Data						
Basic earnings	**0.12**	0.57	(78.9)%	**0.56**	0.79	(29.1)%
Diluted earnings	**0.12**	0.55	(78.2)%	**0.56**	0.77	(27.3)%
Funds from operations *	**0.26**	0.47	(44.7)%	**0.45**	0.67	(32.8)%

As at ($000s except as noted)	**30-Jun-15**	31-Dec-14	Change
Shareholders' equity	**918,389**	901,335	1.9 %
Total assets	**1,891,533**	1,863,296	1.5 %
Per Share Data			
Book value *	**27.67**	27.22	1.7 %

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 and six months ended June 30, 2015, 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 90 communities across Western Canada and today manages over 3.3 million sf in commercial real estate assets and 1,286 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 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 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

August 11, 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 June 30, 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 August 11, 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.

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Our Business

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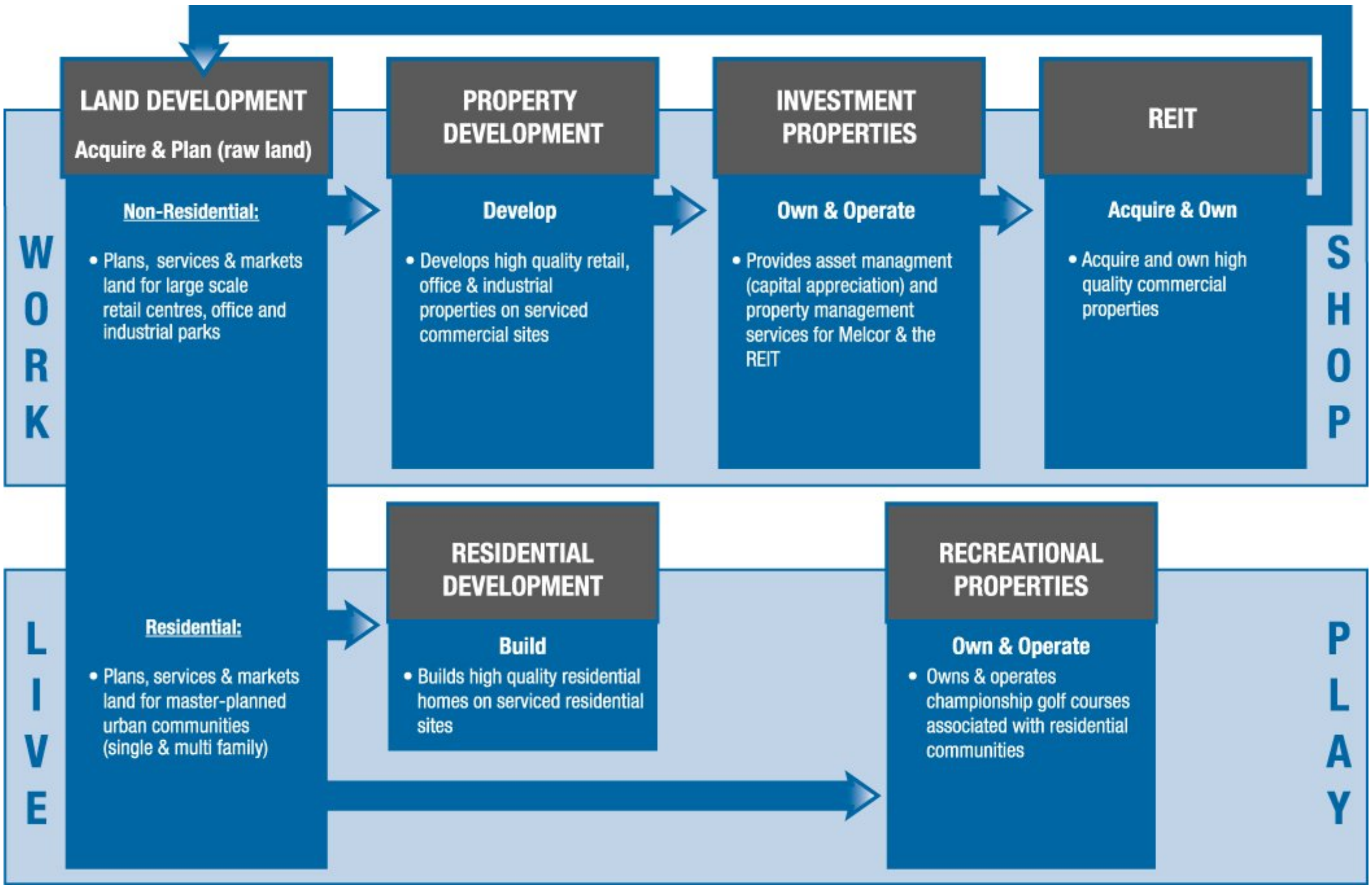
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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, including those owned by Melcor REIT (REIT) (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**).

Second Quarter Highlights

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Shareholders' equity	**918,389**	901,335	1.9 %
Total assets	**1,891,533**	1,863,296	1.5 %
Per Share Data			
Book value *	**27.67**	27.22	1.7 %

**See non-standard measures for calculation.*

All areas of our business remained active through the first half of 2015, with activity level varying based on asset class and region. Growth in our income-producing assets portfolio continues to offset the volatility of revenue recognized in the Community Development division, which is impacted by the timing of plan registrations.

We continue to ensure that our exposure to risk related to the economic environment in Alberta is managed by building only when demand exists. We also 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 second quarter include:

- Revenue declined 30% to $46.11 million compared to Q2-2014 as a result of the timing of plan registrations in our Community Development division and softening of demand on land sales.
- Revenue from income-producing assets grew by 21% over Q2-2014 and by 23% year-to-date. Increasing the mix of revenue from income-producing assets is part of our long-term diversification strategy.
- We continue to invest in income-producing assets and completed two acquisitions in the quarter, including a 63,112 sf office building in Denver, Colorado for $6.15 million (US$4.88 million). The building has a good tenant mix in a high profile commercial location near the Denver airport.
- We continue to move land use designations through the municipal approval process to increase our supply of shovel ready assets so that we are ready to capitalize when market demand improves.
- On August 11, 2015 we declared a quarterly dividend of $0.15 per share, payable on September 30, 2015 to shareholders of record on September 15, 2015. The dividend is an eligible dividend for Canadian tax purposes.

Revenue & Margins:

Revenue decreased by 30% to $46.11 million compared to Q2-2014, when plan registrations were strong. Year-to-date revenue was down by 15% to $83.67 million. This decrease is a result of the timing of plan registrations completed in the second quarter in the Community Development division, partially offset by the growth in our portfolio of income-producing assets (Investment Properties and the REIT).

Gross margin was 46% compared to 49% in Q2-2014. This slight decline is due to the regional mix of single-family lot sales and targeted programs designed to increase activity in select communities.

Net margin was 8% compared to 27% in Q2-2014. A contributor to this decline was a non-cash expense of $4.84 million in Q2-2015 for future taxes as a result of the substantively enacted tax rates in Alberta increasing 2% during the quarter.

Net fair value gains on investment properties of $6.36 million were recognized in Q2-2015. Property Development contributed $3.96 million of these gains, as we continue to actively develop commercial properties. Gains in the Investment Properties division were driven by an increase in value recognized on one of our residential properties in the US.

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 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		Six months ended	
	June 30, 2015	June 30, 2014	**June 30, 2015**	June 30, 2014
Net income for the period	**3,917**	17,585	**18,477**	24,449
Amortization of operating lease incentives	**1,517**	1,607	**2,777**	2,467
Fair value adjustment on investment properties	**(6,359)**	(2,423)	**(7,002)**	(6,221)
Depreciation on property and equipment	**541**	477	**799**	688
Stock based compensation expense	**74**	120	**170**	257
Non-cash interest	**246**	227	**485**	440
Gain on sale of asset	**(58)**	(51)	**(58)**	(51)
Deferred income taxes	**7,685**	14	**7,374**	353
Fair value adjustment on REIT units	**1,015**	(3,147)	**(8,231)**	(1,777)
FFO	**8,578**	14,409	**14,791**	20,605
FFO per share	**0.26**	0.47	**0.45**	0.67

FFO during the quarter declined to $8.58 million compared to $14.41 million in Q2-2014 as a result of the 20% decrease in overall gross profit resulting from the decrease in Community Development division revenues due to the timing of plan registrations. The 7% increase in shares outstanding following the conversion of the Melcor debenture contributed to the decline in FFO per share.

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.

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 June 30		Three months ended June 30		Three months ended June 30		Three months ended June 30		Three months ended June 30	
($000s except as noted)	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Revenue	**20,679**	43,075	**7,375**	69,788	**8,083**	9,121	**16,323**	11,119	**4,273**	3,783
Portion of total revenue	**45%**	65%	**16%**	106%	**18%**	14%	**35%**	17%	**9%**	6%
Cost of sales	**(14,206)**	(24,521)	**(5,566)**	(56,195)	**(2,861)**	(3,661)	**(6,442)**	(4,406)	**(2,183)**	(1,989)
Gross margin	**6,473**	18,554	**1,809**	13,593	**5,222**	5,460	**9,881**	6,713	**2,090**	1,794
Gross margin %	**31%**	43%	**25%**	19%	**65%**	60%	**61%**	60%	**49%**	47%
Portion of total margin	**31%**	58%	**9%**	42%	**25%**	17%	**47%**	21%	**10%**	6%
General and administrative expense	**(2,497)**	(2,664)	**(331)**	(437)	**(956)**	(705)	**(516)**	(659)	**(816)**	(803)
Fair value adjustment on investment properties	**—**	—	**3,963**	3,096	**2,898**	628	**(1,899)**	568	**—**	—
Gain (loss) on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**58**	51
Interest income	**674**	606	**—**	—	**3**	6	**18**	21	**—**	—
Divisional income before tax	**4,650**	16,496	**5,441**	16,252	**7,167**	5,389	**7,484**	6,643	**1,332**	1,042

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

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Six months ended June 30		Six months ended June 30		Six months ended June 30		Six months ended June 30		Six months ended June 30	
($000s except as noted)	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Revenue	**35,900**	56,922	**7,427**	69,959	**15,827**	17,469	**32,581**	21,766	**4,462**	3,875
Portion of total revenue	**43%**	58%	**9%**	71%	**19%**	18%	**39%**	22%	**5%**	4%
Cost of sales	**(24,684)**	(32,211)	**(5,566)**	(56,195)	**(5,657)**	(6,938)	**(12,825)**	(8,751)	**(2,682)**	(2,439)
Gross margin	**11,216**	24,711	**1,861**	13,764	**10,170**	10,531	**19,756**	13,015	**1,780**	1,436
Gross margin %	**31%**	43%	**25%**	20%	**64%**	60%	**61%**	60%	**40%**	37%
Portion of total margin	**29%**	51%	**5%**	28%	**26%**	22%	**51%**	27%	**5%**	3%
General and administrative expense	**(4,467)**	(4,354)	**(775)**	(1,057)	**(2,087)**	(1,267)	**(1,293)**	(1,022)	**(1,145)**	(1,120)
Fair value adjustment on investment properties	**—**	—	**6,157**	5,043	**2,725**	2,057	**(3,708)**	737	**—**	—
Gain (loss) on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**58**	51
Interest income	**1,375**	1,179	**—**	—	**6**	14	**36**	39	**—**	—
Divisional income before tax	**8,124**	21,536	**7,243**	17,750	**10,814**	11,335	**14,791**	12,769	**693**	367

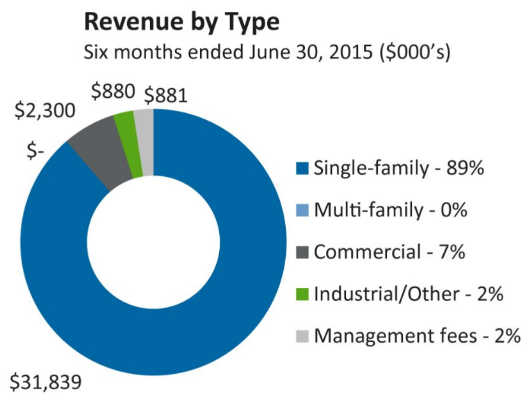
Community Development

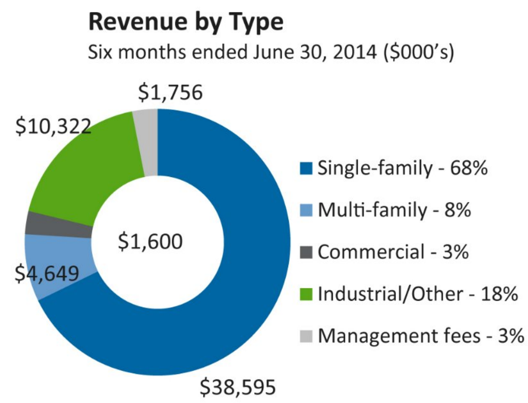
Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning, 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		Six months ended	
	30-Jun-15	30-Jun-14	**30-Jun-15**	30-Jun-14
Sales data: (including joint ventures at 100%)				
Single family sales (number of lots)	**202**	244	**285**	369
Gross average revenue per single-family lot ($)	**153,300**	181,700	**159,800**	172,400
Multi-family sales (acres)	**—**	10.09	**—**	10.09
Gross average revenue per multi-family acre ($)	**—**	1,003,100	**—**	1,003,100
Commercial sales (acres)	**—**	—	**2.90**	1.23
Gross average revenue per commercial land acre ($)	**—**	—	**793,100**	1,300,800
Industrial sales (acres)	**1.76**	6.36	**1.76**	9.03
Gross average revenue per industrial land acre ($)	**500,000**	431,000	**500,000**	342,400
Other land sales - Raw, Other (acres)	**—**	12.60	**—**	12.60
Gross average revenue per other land acre ($)	**—**	333,300	**—**	333,300
Financial results: (including joint ventures at Melcor's interest)				
Revenue ($000s)	**20,679**	43,075	**35,900**	56,922
Earnings ($000s)	**4,650**	16,496	**8,124**	21,536

The Community Development division remains active in several communities. We remain committed to managing our risk in this uncertain environment by ensuring that market demand is in place prior to developing. In regions where the demand is lower, 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.

The timing of plan registrations contributed to the overall decrease in sales activity experienced in the Community Development division in Q2-2015. The timing of plan registrations is outside of our control and creates quarterly variability in our results.

The Community Development division generated revenue of $20.68 million in Q2-2015, a decrease of $22.40 million from $43.08 million in Q2-2014 when plan registrations were strong.

Our primary market is Alberta. Throughout the first half of the year, 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 30-Jun-15**			Three months ended 30-Jun-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	**101**	—	**1.76**	153	2.27	4.47
Red Deer Region	**46**	—	—	7	—	—
Calgary Region	**29**	—	—	74	7.82	1.89
Lethbridge	**23**	—	—	9	—	—
Kelowna	**3**	—	—	1	—	—
United States	—	—	—	—	—	—
	202	—	**1.76**	244	10.09	6.36

Regional Sales Analysis	**Six months ended June 30, 2015**			Six months ended June 30, 2014		
(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	**171**	—	**1.76**	227	2.27	4.47
Red Deer Region	**50**	—	—	50	—	2.67
Calgary Region	**33**	—	**2.90**	80	7.82	3.12
Lethbridge	**27**	—	—	11	—	—
Kelowna	**4**	—	—	1	—	—
United States	—	—	—	—	—	—
	285	—	**4.66**	369	10.09	10.26

The Edmonton region delivered strong sales activity in Q2-2015, with 101 lots sold - primarily in our West Edmonton community of Rosenthal. Our Red Deer region sold 46 single-family lots during Q2-2015, compared to 7 in Q2-2014 and contributed $4.13 million to the division's overall revenue in the quarter.

Inventory

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

Developed Inventory	**Six months ended June 30, 2015**			Six months ended June 30, 2014		
(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**	**67.61**	**139.65**	1,498	70.93	181.15
Purchases	—	—	—	—	—	—
New developments	**474**	**6.83**	—	150	4.58	(4.58)
Internal sales	—	—	—	—	—	—
Sales	**(285)**	—	**(4.66)**	(369)	(10.09)	(10.26)
	1,333	**74.44**	**134.99**	1,279	65.42	166.31

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. In Q1-2015, we purchased 147 acres in the Red Deer region for future residential development. No land was purchased during the second quarter. 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.

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		Six months ended	
	30-Jun-15	30-Jun-14	**30-Jun-15**	30-Jun-14
Total revenue	**7,375**	69,788	**7,427**	69,959
Revenue from property transfers	**7,350**	69,400	**7,350**	69,400
Management fees	**25**	388	**77**	559
Gross margin (%) on property transfers	**24%**	19%	**24%**	19%
Square footage transferred (sf, at 100%)	**19,931**	231,314	**19,931**	231,314
Number of buildings transferred	**2**	11	**2**	11
Fair value adjustment on investment properties	**3,963**	3,096	**6,157**	5,043

The Property Development division completed and transferred 2 buildings (19,931 sf) to Investment Properties during Q2-2015 - a CRU in Airdrie (Kingsview Market) and a CRU in Chestermere (Chestermere Station).

The Property Development division continues to focus on the planning and design of future projects, including new product types following the completion of several major multi-year projects in 2014. New projects must meet specific pre-lease thresholds before we begin development and we have discontinued speculative development in 2015.

Regional Highlights

($000s except as noted)	Three months ended		Six months ended	
Fair value adjustments	**30-Jun-15**	30-Jun-14	**30-Jun-15**	30-Jun-14
Northern Alberta	**3,613**	**2,832**	**3,613**	4,537
Central Alberta	**—**	**64**	**—**	306
Southern Alberta	**350**	**200**	**2,544**	200
	3,963	**3,096**	**6,157**	5,043

Fair value adjustments during the quarter were primarily in the Northern Alberta region where construction progressed on our Telford Industrial project which will be an estimated 500,000 sf on completion.

Future development opportunities

We continually identify parcels of land from our land inventory that are well suited for commercial development in the near future. We also work with municipalities to gain approvals to commence development on new projects. The following 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	110,000
Telford Industrial	Leduc	*Industrial Park*	500,000	88,699	44,000
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	2,250,000	—	22,770
West Henday Promenade	West Edmonton	*Regional mixed use centre*	378,000	96,627	20,000
Clearview Market	Red Deer	*Neighbourhood shopping centre*	151,120	141,120	10,000
Kingsview Market	Airdire	*Regional shopping centre*	331,000	126,852	7,300
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	308,361	229,310	—

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 3.39 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		Six months ended	
	30-Jun-15	30-Jun-14	**30-Jun-15**	30-Jun-14
Commercial properties GLA under management (sf, total)	**3,393,048**	2,650,821	**3,393,048**	2,650,821
Properties owned and managed (sf)	**369,592**	656,799	**369,592**	656,799
Properties managed (sf)	**3,023,456**	1,994,022	**3,023,456**	1,994,022
Revenue (total)	**8,083**	9,121	**15,827**	17,469
Commercial properties	**2,296**	4,348	**4,470**	8,292
US properties	**4,334**	3,377	**8,427**	6,488
Management fees	**1,089**	1,045	**2,206**	1,958
Parking lots and other assets	**364**	351	**724**	731
Net operating income (NOI) *	**5,277**	5,901	**10,115**	11,104
Funds from operations *	**4,393**	5,549	**8,282**	10,565
Funds from operations per share *	**0.13**	0.18	**0.25**	0.34

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

Commercial properties

During Q2-2015 we grew our commercial property portfolio by 31,930 sf (at 100%) through a third party property acquisition and transfers from Property Development. In June 2015 we formed a joint venture (of which we own 1/3 interest) with two other partners for the purposes of acquiring and re-developing a commercial building in downtown Edmonton, AB. In June 2015 the joint venture completed the property acquisition for a gross purchase price of $2.95 million. Also during the quarter, Property Development transferred 2 commercial retail units (CRUs) in Southern Alberta (19,931 sf at 100%). During the comparative period we sold 2 buildings with 54,141 sf to the REIT. The high churn of assets underscores the division's role as asset manager with same asset revenue and NOI representing a small proportion of Investment Properties activity. Revenues generated on assets acquired from Property Development and held through the quarter were $0.85 million; year-to-date $2.42 million (2014 - $0.22 million; year-to-date $0.51 million).

Occupancy on properties owned by Investment Properties was 77% at June 30, 2015 compared to 85% at year end. The decrease reflects the high turnover 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 Q2-2015 we recognized $nil revenues and a loss of $0.12 million year-to-date related to accrual adjustments on assets sold to the REIT (2014 - revenue of $3.00 million; year-to-date $5.94 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		Six months ended	
	30-Jun-15	30-Jun-14	**30-Jun-15**	30-Jun-14
Same asset NOI *	**663**	674	**1,081**	1,115
Properties transferred from PD	**963**	240	**2,169**	461
Properties transferred to REIT	**(30)**	1,772	**(163)**	3,467
NOI before adjustments	**1,596**	2,686	**3,087**	5,043
Amortization of operating lease incentives	**124**	968	**193**	1,287
Straight-line rent adjustment	**(69)**	(332)	**(248)**	(704)
NOI *	**1,651**	3,322	**3,032**	5,626

** 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 Q2-2014.

US properties

In April 2015, we acquired a 63,112 sf office building on 4.59 acres in Denver, Colorado for a purchase price of $6.14 million (US$4.88 million). During the comparative period, we acquired 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 $0.49 million in Q2-2015 and $0.79 million year-to-date (2014 - $0.22 million during the three and six-month periods). Growth in our same asset revenue and NOI was due to improved occupancy on residential assets, higher rental rates and foreign currency gains. Higher occupancy and modest increases in average rental rates in Q2-2015 were the result of the improved economic environment in our US markets in conjunction with completion of structural work at one of our Texas properties which had affected 48 of 240 units in the complex. Same asset NOI also improved due to lower property taxes from successful appeal of property assessments on one of our Texas properties. Portfolio growth and foreign currency gains led to revenue and NOI growth of 28% and 44% over Q2-2014.

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

($000s except as noted)	Three months ended		Six months ended	
	30-Jun-15	**30-Jun-14**	**30-Jun-15**	30-Jun-14
Same asset NOI	**1,685**	1,440	**3,301**	2,809
Third party acquisitions	**242**	103	**416**	103
NOI before adjustments	**1,927**	1,543	**3,717**	2,912
Foreign current translation	**442**	116	**873**	271
Straight-line rent adjustment	**2**	(10)	**(1)**	(10)
NOI *	**2,371**	1,649	**4,589**	3,173

** See non-standard measures for definition.*

Divisional NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustment. Same asset NOI grew by $0.25 million or 17% over Q2-2014 from higher occupancy and growth in average rental rates, while maintaining costs.

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 increased by $0.04 million or 4% compared to Q2-2014 reflecting the growth in the REIT's portfolio over Q2-2014. Growth in property management and asset management fees was offset by a decrease in leasing and acquisition fees which fluctuate based upon the timing of leasing activity and acquisitions by the REIT. We collected $0.18 million in leasing fees in Q2-2015 and $0.37 million year-to-date (Q2-2014 - $0.39 million and $0.66 million). In 2014 we earned $0.06 million and $0.12 million in acquisition fees during the three and six-month periods respectively.

During Q2-2015 we recognized $0.36 million in revenues on our 516 parking stalls and other assets (Q2-2014 - $0.35 million). These revenues can fluctuate from period to period.

Funds from operations (FFO) decreased by $1.16 million or 21% over Q2-2014 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.

REIT

The REIT owns 38 income-producing office, retail and industrial properties, comprising 2,738,212 square feet of GLA and a land lease community at June 30, 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		Six months ended	
	30-Jun-15	30-Jun-14	**30-Jun-15**	30-Jun-14
Rental revenue	**16,323**	11,119	**32,581**	21,766
Net operating income (NOI) *	**10,382**	7,203	**20,587**	13,937
Same asset NOI * *(see calculation following)*	**6,431**	6,530	**12,528**	12,561
Fair value adjustment on investment properties	**(1,899)**	568	**(3,708)**	737
Gross leasable area (GLA) (sf)	**2,738,212**	1,837,439	**2,738,212**	1,837,439
Occupancy % (weighted by GLA)	**92.1%**	92.0%	**92.1%**	92.0%
Fair value of portfolio	**644,139**	469,165	**644,139**	469,165
Funds from operations *	**10,279**	6,694	**20,117**	13,192
Funds from operations per share *	**0.31**	0.22	**0.61**	0.43

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

Rental revenue for the three and six months ended June 30, 2015 was $5.20 million and $10.82 million higher compared to the same periods in 2014. This increase was driven by portfolio growth of 49% since June 30, 2014. Rental revenue related to newly acquired properties was $5.59 million and $11.24 million during the three and six-month periods respectively (2014 - $0.40 million and $0.54 million). On a same-asset basis, rental revenue was steady over 2014 reflecting stable occupancy and weighted average base rents.

Weighted average base rent increased modestly compared to year end. Changes to our asset class mix as a result of recent acquisitions contributed to the increase, but were offset by lower than average base rents on recently leased space that has been chronically vacant.

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. During the three and six months ended June 30, 2015, recovery revenue increased by $1.81 million and $4.02 million or 42% and 49% over the respective 2014 periods and correlates with the increase in direct operating expenses over 2014. Recoveries on newly acquired properties were $1.73 million and $3.63 million during the three and six months ended June 30, 2015 (2014 - $0.06 million during the three and six-months).

Direct operating expenses increased by $2.04 million and $4.07 million during the three and six months ended June 30, 2015. Excluding the impact of the newly acquired properties, direct operating expenses increased by $0.07 million and $0.11 million respectively. On a same-asset basis, property taxes and utilities decreased nominally over 2014 as a result of lower utility costs. Same-asset operating expenses increased by $0.19 million year-to-date as a result of the timing of expenditures incurred.

Property acquisitions completed in the past twelve months led to a 44% increase in NOI over Q2-2014 and 48% year-to-date. Q2-2015 and year-to-date same-asset NOI were steady over 2014.

The calculation of same-asset NOI is as follows:

($000s except as noted)	Three months ended		Six months ended	
	30-Jun-15	30-Jun-14	**30-Jun-15**	30-Jun-14
Same asset NOI *	**6,431**	6,530	**12,528**	12,561
Acquisitions	**3,450**	183	**7,228**	454
NOI before adjustments	**9,881**	6,713	**19,756**	13,015
Amortization of operating lease incentives	**896**	619	**1,618**	1,160
Straight-line rent adjustment	**(395)**	(129)	**(787)**	(238)
Divisional NOI	**10,382**	7,203	**20,587**	13,937

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

Funds from operations

Funds from operations (FFO) increased by $3.59 million or 54% over Q2-2014. 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 $1.90 million in the three months ended June 30, 2015 (2014 - fair value gain of $0.57 million). Fair value losses were primarily driven by capital and tenant incentive spending that did not result in a significant change in the fair value of the related property. Fair value adjustments represent a change of 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.

	Ownership interest	**Six months ended June 30, 2015**		Six months ended June 30, 2014	
		Season opened 2015	Rounds of Golf	Season opened 2014	Rounds of Golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	**April 9**	14,722	April 20	**11,752**
The Links (Spruce Grove)	100%	**April 10**	12,607	April 19	**11,148**
Black Mountain (Kelowna)	100%	**March 13**	13,220	March 28	**12,637**
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	**April 17**	10,741	April 30	**9,978**

Favourable weather conditions and an early start to the year contributed to strong second quarter results for Recreational Properties. Rounds of golf played increased 13% over Q2-2014, contributing to a 13% increase in revenue, up to $4.27 million from $3.78 million during the same quarter last year. Green fees were up by 11% over Q2-2014 while food and beverage operations increased by 15% over Q2-2014.

General and Administrative Expense

Cost management strategies implemented across the company contributed to a 14% reduction in G&A expense over Q2-2014 and a 4% reduction year-to-date. G&A expense reductions in the Corporate and Property Development divisions were partially offset by G&A expense growth in the REIT and Investment Properties divisions, where expenses have increased to support the significant growth in GLA under management in the past year.

Liquidity & Capital Resources

The following table represents selected information as at June 30, 2015, compared to December 31, 2014.

As at ($000s except as noted)	**30-Jun-15**	31-Dec-14
Cash & cash equivalents	**7,995**	19,011
Restricted cash	**2,521**	2,945
Accounts receivable	**16,114**	21,407
Agreements receivable	**136,644**	167,773
Revolving credit facilities	**102,016**	86,510
Accounts payable and accrued liabilities	**36,990**	56,077
Total assets	**1,891,533**	1,863,296
Total liabilities	**973,144**	961,961
Debt to equity ratio*	**1.06**	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 June 30, 2015, our total general debt outstanding was $662.13 million. This compares to $621.34 million at December 31, 2014. A summary of our debt is as follows:

As at ($000s)	**30-Jun-15**	31-Dec-14
Melcor - revolving credit facility	**97,242**	81,549
REIT - revolving credit facility	**4,774**	4,961
Project specific financing	**38,102**	34,205
Secured vendor take back debt on land inventory	**84,476**	80,335
Debt on investment properties and golf course assets	**405,344**	388,326
REIT - convertible debenture	**32,192**	31,965
	662,130	621,341

We are subject to financial covenants on our revolving credit facility. We were in compliance with these covenants at June 30, 2015.

	Covenant	30-Jun-15
Maximum debt to total capital	**1.25**	**0.80**
Minimum interest coverage ratio	**3.00**	**6.23**
Minimum net book value of shareholders' equity	**$ 300,000**	**$ 918,389**

We are also subject to financial covenants on our REIT $35.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60%, a minimum interest coverage ratio of 1.50. As at June 30, 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:

($000s)	Three months ended		Six months ended	
	30-Jun-15	**30-Jun-14**	**30-Jun-15**	**30-Jun-14**
Cash flows from operating activities	**9,545**	21,693	**3,892**	**33,539**
Cash flows used in investing activities	**(15,595)**	(43,996)	**(29,660)**	**(58,922)**
Cash flows from (used in) financing activities	**(27)**	26,665	**14,578**	**20,658**

Cash flows from operations were $9.55 million in the current quarter, a decrease of $12.15 million over Q2-2014. The decrease in FFO during the second quarter of $7.22 million was the largest contributor to the decrease in cash flows from operations and was driven primarily by the decline in NOI realized in the Community Development division during the quarter. There was an increase in net working capital used in the quarter primarily to lower accounts payable and accrued liabilities, which reflects the cyclical nature of the land development business and is consistent with Q2-2014. Collection on agreements receivable contributed $16.36 million to cash from operations in the quarter.

Cash flows used in investing activities decreased by $29.26 million to $15.60 million during the quarter. During the quarter, our Investment Properties division purchased a commercial property in Denver, Colorado for $6.15 million (US $4.88). We also entered into a new joint arrangement and purchased a commercial building in Edmonton for $2.95 million ($0.98 million at joint arrangement interest). Additions to investment properties remained relatively steady over Q2-2014, 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.

Cash flows used in financing activities were $0.03 million, a decrease of $26.69 million over Q2-2014. Proceeds from general debt of $17.05 million was offset by dividends paid in the quarter of $4.98 million and repayments on general debt on our revolving credit facilities of $12.76 million. Commencing in Q1-2015, we began paying dividends quarterly as opposed to semi-annually. As a result, comparing dividends paid during the quarter to the prior year is not meaningful. Year-to-date dividends paid out remain relatively stable. During Q2-2014 we raised $22.85 million through a secondary offering on the REIT.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at June 30, 2015 there were 33,185,257 common shares issued and outstanding and 855,700 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 June 30, 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 six months ended June 30, 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)	**30-Jun-15**	31-Mar-15	31-Dec-14	30-Sep-14	30-Jun-14	31-Mar-14	31-Dec-13	30-Sep-13
Revenue	**46,113**	37,554	121,452	93,484	66,062	32,011	152,193	59,195
Net income	**3,917**	14,560	50,077	26,193	17,585	6,864	53,909	21,882
Per Share								
Basic earnings	**0.12**	0.44	1.56	0.83	0.57	0.22	1.76	0.72
Diluted earnings	**0.12**	0.44	1.46	0.83	0.55	0.22	1.64	0.68
Book value	**27.67**	27.76	27.22	25.96	25.49	25.35	25.03	23.52

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 June 30, 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

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

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

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

Investment Properties

($000s)	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Divisional income for the period	**7,167**	5,389	**10,814**	11,335
Fair value adjustment on investment properties	**(2,898)**	(628)	**(2,725)**	(2,057)
General and administrative expenses	**956**	705	**2,087**	1,267
Interest income	**(3)**	(6)	**(6)**	(14)
Amortization of operating lease incentives	**124**	788	**193**	1,287
Straight-line rent adjustment	**(69)**	(347)	**(248)**	(714)
Divisional NOI	**5,277**	5,901	**10,115**	11,104

REIT

($000s)	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Divisional income for the period	**7,484**	6,643	**14,791**	12,769
Fair value adjustment on investment properties	**1,899**	(568)	**3,708**	(737)
General and administrative expenses	**516**	659	**1,293**	1,022
Interest income	**(18)**	(21)	**(36)**	(39)
Amortization of operating lease incentives	**896**	619	**1,618**	1,160
Straight-line rent adjustment	**(395)**	(129)	**(787)**	(238)
Divisional NOI	**10,382**	7,203	**20,587**	13,937

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		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net income for the period	**3,917**	17,585	**18,477**	24,449
Amortization of operating lease incentives	**1,517**	1,607	**2,777**	2,467
Fair value adjustment on investment properties	**(6,359)**	(2,423)	**(7,002)**	(6,221)
Depreciation on property and equipment	**541**	477	**799**	688
Stock based compensation expense	**74**	120	**170**	257
Non-cash interest	**246**	227	**485**	440
Gain on sale of asset	**(58)**	(51)	**(58)**	(51)
Deferred income taxes	**7,685**	14	**7,374**	353
Fair value adjustment on REIT units	**1,015**	(3,147)	**(8,231)**	(1,777)
FFO	**8,578**	14,409	**14,791**	20,605

Investment Properties

($000s)	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Divisional income for the period	**7,167**	5,389	**10,814**	11,335
Fair value adjustment on investment properties	**(2,898)**	(628)	**(2,725)**	(2,057)
Amortization of operating lease incentives	**124**	788	**193**	1,287
Divisional FFO	**4,393**	5,549	**8,282**	10,565

REIT

($000s)	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Divisional income for the period	**7,484**	6,643	**14,791**	12,769
Fair value adjustment on investment properties	**1,899**	(568)	**3,708**	(737)
Amortization of operating lease incentives	**896**	619	**1,618**	1,160
Divisional FFO	**10,279**	6,694	**20,117**	13,192

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

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2015

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

	For the three months ended		For the six months ended	
(Unaudited)	**June 30, 2015**	June 30, 2014	**June 30, 2015**	June 30, 2014
Revenue	**46,113**	66,062	**83,667**	98,073
Cost of sales	**(24,899)**	(34,003)	**(44,674)**	(49,533)
Gross profit	**21,214**	32,059	**38,993**	48,540
General and administrative expense	**(5,964)**	(6,924)	**(10,973)**	(11,434)
Fair value adjustment on investment properties (note 5 and 11)	**6,359**	2,423	**7,002**	6,221
Adjustments related to REIT units (note 10 and 11)	**(2,917)**	(377)	**4,426**	(3,288)
Gain on sale of asset	**58**	51	**58**	51
Operating earnings	**18,750**	27,232	**39,506**	40,090
Interest income	**696**	653	**1,418**	1,252
Finance costs	**(6,664)**	(4,619)	**(11,860)**	(8,802)
Net finance costs	**(5,968)**	(3,966)	**(10,442)**	(7,550)
Income before income taxes	**12,782**	23,266	**29,064**	32,540
Income tax expense	**(8,865)**	(5,681)	**(10,587)**	(8,091)
Net income for the period	**3,917**	17,585	**18,477**	24,449
Earnings per share:				
Basic earnings per share	**0.12**	0.57	**0.56**	0.79
Diluted earnings per share	**0.12**	0.55	**0.56**	0.77

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income

	For the three months ended		For the six months ended	
(Unaudited)	**June 30, 2015**	June 30, 2014	**June 30, 2015**	June 30, 2014
Net income for the period	**3,917**	17,585	**18,477**	24,449
Other comprehensive income				
Items that may be reclassified subsequently to net income:				
Currency translation differences	**(1,282)**	(4,151)	**7,443**	(622)
Comprehensive income	**2,635**	13,434	**25,920**	23,827

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

(Unaudited)	**June 30, 2015**	December 31, 2014
ASSETS		
Cash and cash equivalents	**7,995**	19,011
Restricted cash	**2,521**	2,945
Accounts receivable	**16,114**	21,407
Income taxes recoverable	**8,768**	—
Agreements receivable	**136,644**	167,773
Land inventory (note 4)	**711,287**	688,453
Investment properties (note 5 and 11)	**941,439**	901,104
Property and equipment	**16,996**	16,848
Other assets	**49,769**	45,755
	1,891,533	1,863,296
LIABILITIES		
Accounts payable and accrued liabilities	**36,990**	56,077
Income taxes payable	**—**	5,256
Provision for land development costs	**102,391**	108,268
General debt (note 6)	**662,130**	621,341
Deferred income tax liabilities	**73,202**	64,357
REIT units (note 10 and 11)	**98,431**	106,662
	973,144	961,961
SHAREHOLDERS' EQUITY		
Share capital (note 7)	**68,946**	67,767
Contributed surplus	**2,849**	2,947
Accumulated other comprehensive income (AOCI)	**17,466**	10,023
Retained earnings	**829,128**	820,598
	918,389	901,335
	1,891,533	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	—	—	—	—	18,477	18,477
Cumulative translation adjustment	—	—	—	7,443	—	7,443
Transactions with equity holders						
Dividends	—	—	—	—	(9,947)	(9,947)
Employee share options						
Value of services recognized	—	170	—	—	—	170
Share issuance	1,179	(268)	—	—	—	911
Balance at June 30, 2015	**68,946**	**2,849**	**—**	**17,466**	**829,128**	**918,389**

(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	—	—	—	—	24,449	24,449
Cumulative translation adjustment	—	—	—	(622)	—	(622)
Transactions with equity holders						
Dividends	—	—	—	—	(8,638)	(8,638)
Employee share options						
Value of services recognized	—	257	—	—	—	257
Share issuance	2,069	(494)	—	—	—	1,575
Balance at June 30, 2014	25,474	3,120	639	2,758	754,261	786,252

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

	For the three months ended		For the six months ended	
(Unaudited)	**June 30, 2015**	June 30, 2014	**June 30, 2015**	June 30, 2014
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	**3,917**	17,585	**18,477**	24,449
Non cash items:				
Amortization of tenant incentives	**1,517**	1,607	**2,777**	2,467
Depreciation of property and equipment	**541**	477	**799**	688
Stock based compensation expense	**74**	120	**170**	257
Non cash interest	**246**	227	**485**	440
Straight-line rent adjustment	**(128)**	(476)	**(894)**	(957)
Fair value adjustment on investment properties (note 5 and 11)	**(6,359)**	(2,423)	**(7,002)**	(6,221)
Fair value adjustment on REIT Units (note 10)	**1,015**	(3,147)	**(8,231)**	(1,777)
Gain on sale of asset	**(58)**	(51)	**(58)**	(51)
Deferred income taxes	**7,685**	14	**7,374**	353
	8,450	13,933	**13,897**	19,648
Agreements receivable	**16,360**	11,949	**31,129**	45,119
Development activities	**(11,376)**	(10,024)	**(12,309)**	(8,273)
Operating assets and liabilities	**(3,889)**	5,835	**(28,825)**	(22,955)
	9,545	21,693	**3,892**	33,539
INVESTING ACTIVITIES				
Purchase of land inventory (note 4)	**—**	(11,145)	**(2,500)**	(11,145)
Payment of tenant incentives	**(1,284)**	(7,406)	**(2,873)**	(9,592)
Purchase of investment properties	**(7,128)**	(18,073)	**(10,146)**	(24,135)
Additions to investment properties	**(6,551)**	(7,580)	**(13,315)**	(14,480)
Purchase of property and equipment	**(702)**	(599)	**(959)**	(845)
Proceeds on disposal of property and equipment	**70**	83	**70**	83
Change in restricted cash	**—**	724	**63**	1,192
	(15,595)	(43,996)	**(29,660)**	(58,922)
FINANCING ACTIVITIES				
Proceeds from issuance of trust units	**—**	22,845	**—**	22,845
Revolving credit facilities	**(7,043)**	6,933	**15,506**	(4,869)
Proceeds from general debt	**17,045**	20,494	**19,976**	45,929
Repayment of general debt	**(5,716)**	(16,164)	**(12,229)**	(36,689)
Change in restricted cash	**168**	251	**361**	505
Dividends paid	**(4,976)**	(8,638)	**(9,947)**	(8,638)
Share capital issued	**495**	944	**911**	1,575
	(27)	26,665	**14,578**	20,658
FOREIGN EXCHANGE GAIN ON CASH HELD IN A FOREIGN CURRENCY	**(39)**	(42)	**174**	4
DECREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**(6,116)**	4,320	**(11,016)**	(4,721)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**14,111**	19,932	**19,011**	28,973
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**7,995**	24,252	**7,995**	24,252
Total income taxes paid	**4,470**	5,234	**17,240**	17,301
Total interest paid	**4,684**	5,511	**13,891**	11,367

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 June 30, 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 August 11, 2015, Melcor through an affiliate, holds an approximate 56.5% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

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 August 11, 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

	June 30, 2015	December 31, 2014
Raw land held	**352,899**	337,292
Land under development	**157,422**	156,480
Developed land	**200,966**	194,681
	711,287	688,453

During the six-month period ended June 30, 2015 we purchased 146 acres of land at a cost of $14,000 and received vendor financing of $11,500.

During the six-month period ended June 30, 2014, we purchased 348 acres of land at a cost of $18,010 and received vendor financing of $14,665. We also entered into a joint arrangement by purchasing a 50% interest in 148 acres of land at a cost of $10,490 and financing of $2,690, and purchased an additional 10% interest in 162 acres of land at a cost of $1,718.

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	June 30, 2015	December 31, 2014
Investment properties	**889,351**	863,966
Properties under development	**52,088**	37,138
Total	**941,439**	901,104

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

			Six months ended June 30, 2015
	Investment Properties	**Properties under Development**	**Total**
Balance - beginning of period	863,966	37,138	**901,104**
Additions			
Direct acquisition	983	3,018	**4,001**
Acquisitions through business combinations	6,145	—	**6,145**
Transfer from land inventory	—	763	**763**
Direct leasing costs	126	146	**272**
Property improvements	1,959	—	**1,959**
Development costs	202	10,736	**10,938**
Capitalized borrowing costs	—	146	**146**
Transfers	6,481	(6,481)	**—**
Net fair value adjustment on investment properties	380	6,622	**7,002**
Foreign currency translation (included in OCI)	9,109	—	**9,109**
Balance - end of period	**889,351**	**52,088**	**941,439**

			Year ended December 31, 2014
	Investment Properties	Properties under Development	**Total**
Balance - beginning of year	642,275	142,235	**784,510**
Additions			
Direct acquisition	44,226	—	**44,226**
Acquisition through business combination	12,272	—	**12,272**
Transfer from land inventory	—	3,561	**3,561**
Direct leasing costs	663	1,268	**1,931**
Property improvements	4,768	—	**4,768**
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

	June 30, 2015	December 31, 2014
Melcor - revolving credit facility	**97,242**	81,549
REIT - revolving credit facility	**4,774**	4,961
Project specific financing	**38,102**	34,205
Secured vendor take back debt on land inventory	**84,476**	80,335
Debt on investment properties and golf course assets	**405,344**	388,326
REIT - convertible debenture	**32,192**	31,965
	662,130	621,341

On May 1, 2015, the REIT entered into a revolving term facility credit agreement with two Western Canadian financial institutions (the "new facility"). Under the terms of the agreement the REIT has an available credit limit based upon the carrying values of specific investment properties up to a maximum of $35,000 for general purposes, including a $5,000 swingline sub-facility. The agreement also provides the REIT with $5,000 in available letters of credit which bear interest at 2.25%. The facility matures on May 1, 2018, with an extension option of up to three years at the discretion of the lenders. Depending on the form under which the credit facility is accessed, rates of interest will vary between prime plus 1.15% or bankers acceptance plus 2.25% stamping fee. Concurrent with commencement of the new facility the REIT canceled their previous credit facility with two major Canadian chartered banks.

7. SHARE CAPITAL

Issued and outstanding common shares at June 30, 2015 are 33,185,257 (December 31, 2014 – 33,115,691). During the three and six months ended June 30, 2015, there were 37,466 and 69,566 options exercised (Q2-2014 – 472,350 and 476,650).

8. RELATED PARTY TRANSACTIONS

During 2014, the Melcor debenture was converted into common shares. As a result, during the three and six months ended June 30, 2015, there were no debenture coupon payments paid. During the comparative three and six months ended June 30, 2014, there was $343 and $682 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**		**For the six months ended**	
For the three months ended (in Canadian dollars)	**June 30, 2015**	June 30, 2014	**June 30, 2015**	June 30, 2014
United States	**4,334**	3,887	**8,426**	6,998
Canada	**41,779**	62,175	**75,241**	91,075
	46,113	66,062	**83,667**	98,073

Total Assets		
As at (in Canadian dollars)	**June 30, 2015**	December 31, 2014
United States	**202,515**	181,349
Canada	**1,689,018**	1,681,947
	1,891,533	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 June 30, 2015	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	20,679	7,375	8,083	16,323	4,273	—	**56,733**	(10,620)	**46,113**
Cost of sales	(14,206)	(5,566)	(2,861)	(6,442)	(2,183)	(154)	**(31,412)**	6,513	**(24,899)**
Gross profit	6,473	1,809	5,222	9,881	2,090	(154)	**25,321**	(4,107)	**21,214**
General and administrative expense	(2,497)	(331)	(956)	(516)	(816)	(1,774)	**(6,890)**	926	**(5,964)**
Fair value adjustment on investment properties	—	3,963	2,898	(1,899)	—	—	**4,962**	1,397	**6,359**
Gain on sale of assets	—	—	—	—	58	—	**58**	—	**58**
Interest income	674	—	3	18	—	1	**696**	—	**696**
	4,650	5,441	7,167	7,484	1,332	(1,927)	**24,147**	(1,784)	**22,363**
Finance costs									**(6,664)**
Adjustments related to REIT units									**(2,917)**
Income before tax									**12,782**
Income tax expense									**(8,865)**
Net income									**3,917**

For the three months ended June 30, 2014	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	43,075	69,788	9,121	11,119	3,783	—	**136,886**	(70,824)	**66,062**
Cost of sales	(24,521)	(56,195)	(3,661)	(4,406)	(1,989)	(125)	**(90,897)**	56,894	**(34,003)**
Gross profit	18,554	13,593	5,460	6,713	1,794	(125)	**45,989**	(13,930)	**32,059**
General and administrative expense	(2,664)	(437)	(705)	(659)	(803)	(2,357)	**(7,625)**	701	**(6,924)**
Fair value adjustment on investment properties	—	3,096	628	568	—	—	**4,292**	(1,869)	**2,423**
Gain on sale of assets	—	—	—	—	51	—	**51**	—	**51**
Interest income	606	—	6	21	—	20	**653**	—	**653**
	16,496	16,252	5,389	6,643	1,042	(2,462)	**43,360**	(15,098)	**28,262**
Finance costs									**(4,619)**
Adjustments related to REIT units									**(377)**
Income before tax									**23,266**
Income tax expense									**(5,681)**
Net income									**17,585**

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

9. SEGMENTED INFORMATION (continued)

For the six months ended June 30, 2015	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	35,900	7,427	15,827	32,581	4,462	—	96,197	(12,530)	83,667
Cost of sales	(24,684)	(5,566)	(5,657)	(12,825)	(2,682)	(308)	(51,722)	7,048	(44,674)
Gross Profit	11,216	1,861	10,170	19,756	1,780	(308)	44,475	(5,482)	38,993
General and administrative expense	(4,467)	(775)	(2,087)	(1,293)	(1,145)	(3,076)	(12,843)	1,870	(10,973)
Fair value adjustment on investment properties	—	6,157	2,725	(3,708)	—	—	5,174	1,828	7,002
Gain on sale of assets	—	—	—	—	58	—	58	—	58
Interest Income	1,375	—	6	36	—	1	1,418	—	1,418
	8,124	7,243	10,814	14,791	693	(3,383)	38,282	(1,784)	36,498
Finance costs									(11,860)
Adjustment related to REIT units									4,426
Income before tax									29,064
Income tax expense									(10,587)
Net income									18,477

For the six months ended June 30, 2014	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	56,922	69,959	17,469	21,766	3,875	—	169,991	(71,918)	98,073
Cost of sales	(32,211)	(56,195)	(6,938)	(8,751)	(2,439)	(245)	(106,779)	57,246	(49,533)
Gross Profit	24,711	13,764	10,531	13,015	1,436	(245)	63,212	(14,672)	48,540
General and administrative expense	(4,354)	(1,057)	(1,267)	(1,022)	(1,120)	(3,804)	(12,624)	1,190	(11,434)
Fair value adjustment on investment properties	—	5,043	2,057	737	—	—	7,837	(1,616)	6,221
Gain on sale of assets	—	—	—	—	51	—	51	—	51
Interest Income	1,179	—	14	39	—	20	1,252	—	1,252
	21,536	17,750	11,335	12,769	367	(4,029)	59,728	(15,098)	44,630
Finance costs									(8,802)
Adjustments related to REIT Units									(3,288)
Income before tax									32,540
Income tax recovery									(8,091)
Net income									24,449

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 June 30, 2015 the REIT units had a fair value of $98,431. We recorded adjustments related to REIT units for the three and six months ended June 30, 2015 of $2,917 and $4,426 (2014 - $377 and $3,288, respectively).

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

	For the three months ended		For the six months ended	
($000s)	**June 30, 2015**	June 30, 2014	**June 30, 2015**	June 30, 2014
Fair value adjustment on REIT units (note 11)	**(1,015)**	3,147	**8,231**	1,777
Transaction costs on REIT IPO	**—**	(1,742)	**—**	(1,742)
Distributions to REIT unitholders	**(1,902)**	(1,782)	**(3,805)**	(3,323)
Adjustments related to REIT units	**(2,917)**	(377)	**4,426**	(3,288)

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	**June 30, 2015**	December 31, 2014
Assets	**653,111**	657,765
Liabilities	**349,456**	353,038
Net assets	**303,655**	304,727
Cost of NCI	**103,959**	103,959
Fair value of NCI	**98,431**	106,662

	For the three months ended		For the six months ended	
($000s)	**June 30, 2015**	June 30, 2014	**June 30, 2015**	June 30, 2014
Revenue	**16,323**	11,119	**32,581**	21,766
Net income and comprehensive income	**111**	5,296	**13,402**	6,174
Cash flows from operating activities	**1,432**	1,806	**5,419**	4,102
Cash flows used in investing activities	**(1,879)**	(13,126)	**(3,564)**	(20,387)
Cash flows from (used in) financing activities, before distributions to REIT unitholders	**4,378**	9,527	**(2,717)**	13,676
Cash flows used in financing activities - cash distributions to REIT unitholders	**(1,902)**	(1,782)	**(3,805)**	(3,323)
Net increase (decrease) in cash and cash equivalents	**2,029**	**(3,575)**	**(4,667)**	(5,932)

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 and liabilities carried at fair value and its financial liabilities where carrying value does not approximate fair value.

	June 30, 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	**941,439**	**—**	**941,439**	**941,439**	901,104	901,104
Financial liabilities						
General debt, excluding derivative financial liability	**—**	**662,130**	**662,130**	**665,438**	621,156	633,119
Derivative financial liability	**185**	**—**	**185**	**185**	185	185
REIT units	**98,431**	**—**	**98,431**	**98,431**	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 value 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	—	—	941,439	941,439
Financial liabilities				
REIT units	98,431	—	—	98,431
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 June 30, 2015 and considered whether changes to any valuation model variables resulted in significant changes to any of the investment property fair values at June 30, 2015. Fair values of investment properties were revised based on the updated data and model variables with fair value gains of $7,002 (June 30, 2014 - $6,221) recorded as fair value adjustment on investment properties in income year to date.

(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 June 30, 2015 is $1,467 (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**		
June 30, 2015	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**9.00%**	**6.45%**	**5.75%**	**6.75%**	**6.34%**
Terminal capitalization rate	**5.75%**	**9.25%**	**6.73%**	**6.00%**	**7.25%**	**6.73%**
Discount rate	**6.50%**	**10.00%**	**7.67%**	**7.00%**	**7.75%**	**7.46%**

	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 $54,950 or $64,181 (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 June 30, 2015 the fair value of the REIT units was $98,431, resulting in a fair value loss of $1,015 and gain of $8,231 (2014 - gain of $3,147 and $1,777) in the statement of income and comprehensive income during the three and six months ended June 30, 2015.

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 June 30, 2015 are as follows:

- Volatility - expected volatility as at June 30, 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 June 30, 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 June 30, 2015. The credit spread used was 3.76%.

12. EVENTS AFTER THE REPORTING PERIOD

Distributions on REIT trust units

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

Month	Record Date	Distribution Date	Distribution Amount
July 2015	July 31, 2015	August 17, 2015	$0.05625 per unit
August 2015	August 31, 2015	September 15, 2015	$0.05625 per unit
September 2015	September 30, 2015	October 15, 2015	$0.05625 per unit

Dividends declared

On August 11, 2015 our board of directors declared a dividend of $0.15 per share payable on September 30, 2015 to shareholders of record on September 15, 2015.