PRESS RELEASE
for immediate distribution

Melcor Developments announces third quarter results and declares quarterly dividend of $0.12

Edmonton, Alberta | November 9, 2016

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the quarter ended September 30, 2016. Revenue for the quarter was $63.43 million compared to $87.92 million in Q3-2015. Nine month revenue was $136.07 million compared to $171.59 million in 2015.

Revenue from income-producing assets (Investment Properties and the REIT) grew by 7% over Q3-2015 consistent with our long-term diversification strategy. Income-producing assets represented 41% of total revenue during the quarter, up from 28% in Q3-2015.

Melcor recorded net income of $10.32 million or $0.31 per share (basic) for the first nine months of 2016, compared to net income of $43.30 million or $1.31 per share (basic) in 2015. Melcor's net income during the first nine months of 2016 was significantly affected by non-cash fair value losses on REIT units of $16.28 million (2015 - fair value gains of $17.01 million).

Funds from operations eliminates the elements that have no cash impact on our business from net income and is viewed as a more accurate indicator of Melcor's operating business. Year to date funds from operations was $22.80 million ($0.69 per share) compared to $32.67 million ($0.99 per share) in the same period of 2015.

The Board today declared a quarterly dividend of $0.12 per share, payable on December 30, 2016 to shareholders of record on December 15, 2016. The dividend is an eligible dividend for Canadian tax purposes.

Brian Baker, Melcor’s President and Chief Executive Officer, commented on the quarter: “Our performance remains steady as we continue to navigate the headwinds of an Alberta economy in recession. Our ongoing strategy of growing our revenue property portfolio and our geographic diversification into the US has helped counter lagging Alberta land sales.

Continued emphasis on conservative capital and debt management will enable us to take advantage of strategic investment and development opportunities as they arise."

Third Quarter Results

All divisions remained active in Q3-2016; however the pace of sales in the Community Development division was slower than it has been in prior years. We continue to see interest and steady activity in select regions and asset classes. In other regions builders are still carrying prior year's inventory and sales of single-family lots have softened significantly.

Our strategy of managing our business for the long-term has resulted in a strong and stable balance sheet that enables us to take advantage of potential opportunities to grow our business via raw land and commercial income-producing property acquisitions.

Our strategy of growing and diversifying our investment property portfolio has contributed to a more stable and diverse revenue profile that is less sensitive to rapid changes in the economy. Our income producing commercial properties have increased by 439,666 sf since Q3-2015.

In the third quarter:

- Revenue declined 28% to $63.43 million compared to Q3-2015 primarily due to decreased lot sales in the Community Development division.
- Revenue from income-producing assets (Investment Properties and the REIT) grew by 7% over Q3-2015. This is consistent with our long-term diversification strategy to increase the portion of revenues earned from income-producing assets, which represented 41% of total revenue during the period, up from 28% in Q3-2015.
- Funds from operations was $10.23 million compared to $17.88 million in Q3-2015. Funds from operations eliminates the elements that have no cash impact on our business from net income and we view it as a better indicator of our operating business than net income.
- We continue to take advantage of the favourable financing environment and have taken out new mortgage financing on recently completed projects, which contributed to significant line of credit capacity to support additional acquisitions and investments.

- We continue to acquire new land when opportunities arise. During the quarter, we purchased a joint venture partner interest in raw land in Red Deer, which increased our developable land by 22.94 acres.
- We continue to invest in and grow our portfolio of income-producing assets and completed the construction of three buildings valued at $25.75 million which added 32,205 sf to our portfolio.
- We paid a quarterly dividend of $0.12 per share on September 30, 2016. The REIT paid distributions of $0.05625 per trust unit in July, August and September for a quarterly payout ratio of 77%.
- On November 9, 2016 we declared a quarterly dividend of $0.12 per share, payable on December 30, 2016 to shareholders of record on December 15, 2016. The dividend is an eligible dividend for Canadian tax purposes.

Selected Highlights

($000s except as noted)	Three months ended			Nine months ended		
	September 30, 2016	September 30, 2015	Change	**September 30, 2016**	September 30, 2015	Change
Revenue	**63,432**	87,921	(27.9)%	**136,070**	171,588	(20.7)%
Gross margin (%) *	**45.9%**	40.8%	5.1 %	**48.0%**	43.6%	4.4 %
Net income	**16,260**	24,823	(34.5)%	**10,324**	43,300	(76.2)%
Net Margin (%) *	**25.6%**	28.2%	(2.6)%	**7.6%**	25.2%	(17.6)%
Funds from operations *	**10,225**	17,878	(42.8)%	**22,803**	32,669	(30.2)%
Per Share Data ($)						
Basic earnings	**0.49**	0.75	(34.7)%	**0.31**	1.31	(76.3)%
Diluted earnings	**0.49**	0.74	(33.8)%	**0.31**	1.30	(76.2)%
Funds from operations *	**0.31**	0.54	(42.6)%	**0.69**	0.99	(30.3)%

As at ($000s except as noted)	**September 30, 2016**	December 31, 2015	Change
Shareholders' equity	**970,772**	977,970	(0.7)%
Total assets	**1,886,895**	1,891,969	(0.3)%
Per Share Data ($)			
Book value *	**29.19**	29.43	(0.8)%

**See non-standard measures in the Q3-2016 MD&A for calculations.*

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 nine months ended September 30, 2016, which can be found on the company's website at www.Melcor.ca or on SEDAR (www.sedar.com).

About Melcor Developments Ltd.

Melcor is a diversified real estate development and asset management company that transforms real estate from raw land through to high-quality finished product in both residential and commercial built form. Melcor develops and manages mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. Melcor owns a well diversified portfolio of assets in Alberta, Saskatchewan, British Columbia, Arizona, Colorado and Texas.

Melcor has been focused on real estate since 1923. The company has built over 100 communities across Western Canada and today manages 3.90 million sf in commercial real estate assets and 780 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 2016 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

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

November 9, 2016

The following discussion of Melcor Developments Ltd.'s (Melcor's) financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the quarter ended September 30, 2016 and the management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2015.

The financial statements underlying this MD&A, including 2015 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on November 9, 2016.

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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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.

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Our Business

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

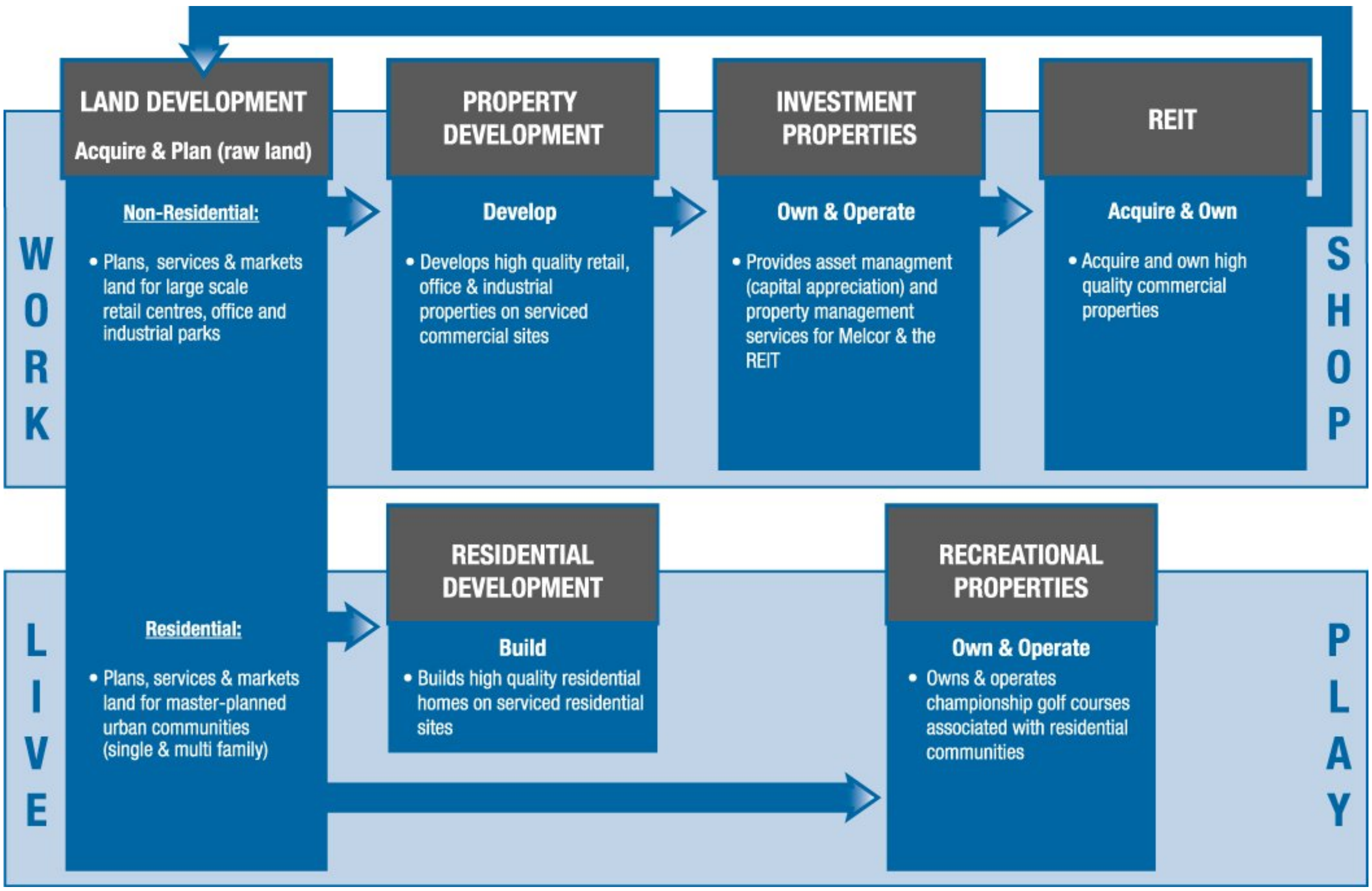
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

We operate four integrated divisions that together manage the full life cycle of real estate development:

- acquiring raw land and planning residential communities and commercial developments (Community Development)
- project managing development, leasing and construction of commercial properties (Property Development)
- operating a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property management of REIT owned properties (Investment Properties)
- acquiring and owning high quality leasable commercial and residential sites (the REIT)

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

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



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

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

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

Third Quarter Highlights

($000s except as noted)	For the three months ended			Nine months ended September 30, 2016		
	September 30, 2016	September 30, 2015	Change	**September 30, 2016**	September 30, 2015	Change
Revenue	**63,432**	87,921	(27.9)%	**136,070**	171,588	(20.7)%
Gross margin (%) *	**45.9%**	40.8%	5.1 %	**48.0%**	43.6%	4.4 %
Net income	**16,260**	24,823	(34.5)%	**10,324**	43,300	(76.2)%
Net Margin (%) *	**25.6%**	28.2%	(2.6)%	**7.6%**	25.2%	(17.6)%
Funds from operations *	**10,225**	17,878	(42.8)%	**22,803**	32,669	(30.2)%
Per Share Data ($)						
Basic earnings	**0.49**	0.75	(34.7)%	**0.31**	1.31	(76.3)%
Diluted earnings	**0.49**	0.74	(33.8)%	**0.31**	1.30	(76.2)%
Funds from operations *	**0.31**	0.54	(42.6)%	**0.69**	0.99	(30.3)%

As at ($000s except as noted)	**September 30, 2016**	December 31, 2015	Change
Shareholders' equity	**970,772**	977,970	(0.7)%
Total assets	**1,886,895**	1,891,969	(0.3)%
Per Share Data ($)			
Book value *	**29.19**	29.43	(0.8)%

**See non-standard measures for calculation.*

All divisions remained active in Q3-2016; however the pace of sales in the Community Development division was slower than it has been over the past few years. We continue to see interest and steady activity in select regions and asset classes. In other regions builders have excess inventory and sales of single-family lots have softened significantly.

Our strategy of managing our business for the long-term has resulted in a strong and stable balance sheet that enables us to seek out and take advantage of opportunities to grow our business via opportunistic raw land and commercial income-producing property acquisitions.

Our strategy of growing and diversifying our investment property portfolio has contributed to a more stable and diverse revenue profile that is less sensitive to rapid changes in the economy. Our income producing commercial properties, under management, have increased by 439,666 sf since Q3-2015.

In the third quarter:

- Revenue declined 28% to $63.43 million compared to Q3-2015 primarily due to decreased lot sales in the Community Development division.
- Revenue from income-producing assets (Investment Properties and the REIT) grew by 7% over Q3-2015. This is consistent with our long-term diversification strategy to increase the portion of revenues earned from income-producing assets, which represented 41% of total revenue during the period, up from 28% in Q3-2015.
- Funds from operations was $10.23 million compared to $17.88 million in Q3-2015. Funds from operations eliminates the elements that have no cash impact on our business from net income and we view it as a better indicator of our operating business than net income.
- We continue to take advantage of the favourable financing environment and have taken out new mortgage financing on recently completed projects, which contributed to significant line of credit capacity to support additional acquisitions and investments.
- We continue to acquire new land when opportunities arise. During the quarter, we purchased a joint venture partner interest in raw land in Red Deer, which increased our developable land by 22.94 acres.
- We continue to invest in and grow our portfolio of income-producing assets and completed the construction of three buildings valued at $25.75 million which added 32,205 sf to our portfolio.
- We paid a quarterly dividend of $0.12 per share on September 30, 2016. The REIT paid distributions of $0.05625 per trust unit in July, August and September for a quarterly payout ratio of 77%.
- On November 9, 2016 we declared a quarterly dividend of $0.12 per share, payable on December 30, 2016 to shareholders of record on December 15, 2016. The dividend is an eligible dividend for Canadian tax purposes.

Revenue & Margins:

Revenue from income-producing assets grew by 7% compared to Q3-2015. This growth is consistent with our long-term diversification strategy to increase the portion of revenues earned from income-producing assets and has had a positive impact on our results over the past few years. Community Development division revenue decreased by 39% compared to Q3-2015, contributing to the overall revenue decrease of 28% compared to Q3-2015. While we continue to see residential sales activity, the pace has slowed and there is softer demand in some asset classes and regions compared to the prior year.

Gross margin was 46% compared to 41% in Q3-2015 and is impacted by the mix in revenue produced by our operating divisions. Our Investment Properties and REIT divisions contributed to a larger proportion of revenue in the current year, and generally operate at margins in excess of 60%.

Net fair value gains on investment properties of $14.17 million were recognized in Q3-2016. Gains were primarily the result of re-valuation of one property in the US which was classified as held for sale in the quarter. Gains in Property Development were $2.05 million during the quarter as we continue to actively develop commercial properties.

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.

Net income was $10.32 million or $0.31 per share (basic) for the first nine months of 2016, compared to $43.30 million or $1.31 per share (basic) in 2015. Our net income during the first nine months of 2016 was significantly affected by non-cash fair value losses on REIT units of $16.28 million (2015 - fair value gains of $17.01 million).

Funds from operations eliminates the elements that have no cash impact on our business from net income and is viewed as a more accurate indicator of Melcor's operating business.

Funds From Operations (FFO)

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

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

($000s)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Net income for the period	**16,260**	24,823	**10,324**	43,300
Amortization of operating lease incentives	**1,673**	1,755	**4,766**	4,532
Fair value adjustment on investment properties	**(14,170)**	195	**(15,587)**	(6,807)
Depreciation on property and equipment	**564**	608	**1,303**	1,407
Stock based compensation expense	**63**	83	**220**	253
Non-cash interest	**3,721**	252	**5,306**	737
Gain on sale of asset	**(35)**	—	**(38)**	(58)
Deferred income taxes	**253**	(1,059)	**228**	6,315
Fair value adjustment on REIT units	**1,896**	(8,779)	**16,281**	(17,010)
FFO	**10,225**	17,878	**22,803**	32,669
FFO per share	**0.31**	0.54	**0.69**	0.99

FFO during the quarter decreased to $10.23 million compared to $17.88 million in Q3-2015. FFO was impacted by lower sales in the Community Development division (65% decrease in lots sold and 39% decrease in divisional revenue). The growth in revenue from income-producing assets has helped stabilize overall income.

Divisional Results

Our business is comprised of five integrated and complementary operating divisions:

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office and industrial income-producing properties on serviced commercial sites developed by Community Development;
- Investment Properties, which manages and leases the commercial developments produced by the Property Development division and an externally purchased portfolio of assets, as well as assets held in the REIT;
- The REIT, which owns and holds 38 income-producing properties; and
- Recreational Properties, which owns and operates championship golf courses associated with Melcor residential communities.

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

The following tables summarize the results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three months ended September 30		Three months ended September 30		Three months ended September 30		Three months ended September 30		Three months ended September 30	
($000s except as noted)	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Revenue	**35,458**	58,494	**25,763**	17,274	**9,558**	8,407	**16,439**	15,938	**3,952**	4,368
Portion of total revenue	**56%**	67%	**41%**	20%	**15%**	10%	**26%**	18%	**6%**	5%
Cost of sales	**(22,191)**	(37,715)	**(25,750)**	(17,007)	**(3,770)**	(3,142)	**(6,265)**	(5,964)	**(2,409)**	(2,550)
Gross margin	**13,267**	20,779	**13**	267	**5,788**	5,265	**10,174**	9,974	**1,543**	1,818
Gross margin %	**37%**	36%	**—%**	2%	**61%**	63%	**62%**	63%	**39%**	42%
Portion of total margin	**46%**	58%	**—%**	1%	**20%**	15%	**35%**	28%	**5%**	5%
General and administrative expense	**(2,109)**	(2,432)	**(415)**	(328)	**(619)**	(578)	**(629)**	(539)	**(708)**	(720)
Fair value adjustment on investment properties	**—**	—	**2,049**	3,045	**12,366**	(730)	**(947)**	(3,614)	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**35**	—
Interest income	**328**	650	**1**	—	**1**	5	**7**	10	**—**	—
Divisional income before tax	**11,486**	18,997	**1,648**	2,984	**17,536**	3,962	**8,605**	5,831	**870**	1,098

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Nine months ended September 30		Nine months ended September 30		Nine months ended September 30		Nine months ended September 30		Nine months ended September 30	
($000s except as noted)	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Revenue	**58,988**	94,394	**29,073**	24,701	**26,331**	24,234	**49,872**	48,519	**8,426**	8,830
Portion of total revenue	**43%**	55%	**21%**	14%	**19%**	14%	**37%**	28%	**6%**	5%
Cost of sales	**(38,116)**	(62,399)	**(29,050)**	(24,358)	**(10,051)**	(8,799)	**(19,280)**	(18,789)	**(5,158)**	(5,232)
Gross margin	**20,872**	31,995	**23**	343	**16,280**	15,435	**30,592**	29,730	**3,268**	3,598
Gross margin %	**35%**	34%	**—%**	1%	**62%**	64%	**61%**	61%	**39%**	41%
Portion of total margin	**32%**	43%	**—%**	—%	**25%**	21%	**47%**	40%	**5%**	5%
General and administrative expense	**(6,302)**	(6,899)	**(1,259)**	(1,103)	**(1,892)**	(2,665)	**(2,022)**	(1,832)	**(1,931)**	(1,865)
Fair value adjustment on investment properties	**—**	—	**6,080**	9,202	**9,546**	1,995	**(2,946)**	(7,322)	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**38**	58
Interest income	**807**	2,025	**3**	—	**3**	11	**24**	46	**—**	—
Divisional income before tax	**15,377**	27,121	**4,847**	8,442	**23,937**	14,776	**25,648**	20,622	**1,375**	1,791

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

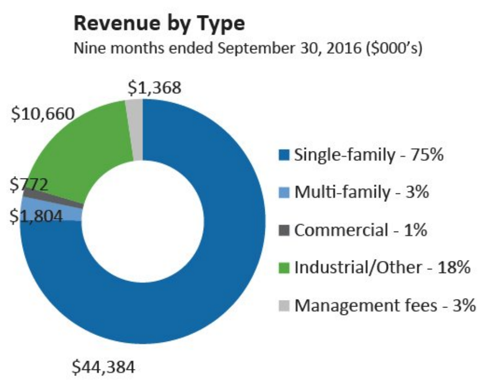
Community Development

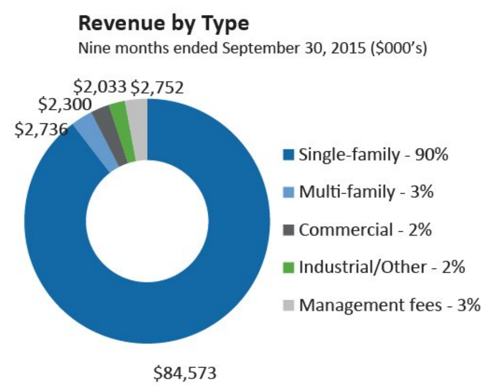
Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning, obtaining approvals from municipalities, developing the land, construction, marketing and ultimately selling the lots to home builders (for residential communities) or developers (for commercial/industrial centres). The division also sells sites to our Property Development division, who in turn develops commercial properties on the land.

Master-planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and multi-family parcels are sold to home builders who share our passion for quality and with whom we have long-standing relationships.

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

Sales Activity





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

Consolidated	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Sales data: (including joint ventures at 100%)				
Single family sales (number of lots)	**202**	574	**337**	859
Gross average revenue per single-family lot ($)	**137,400**	139,200	**158,200**	146,000
Multi-family sales (acres)	**3.34**	3.20	**3.34**	3.20
Gross average revenue per multi-family acre ($)	**900,000**	855,000	**900,000**	855,000
Commercial sales (acres)	**—**	—	**2.11**	2.90
Gross average revenue per commercial land acre ($)	**—**	—	**387,500**	793,100
Industrial sales (acres)	**8.73**	—	**9.68**	1.76
Gross average revenue per industrial land acre ($)	**973,700**	—	**510,000**	500,000
Other land sales - Raw, Other (acres)	**19.62**	6.89	**19.62**	6.89
Gross average revenue per other land acre ($)	**85,400**	167,300	**85,400**	167,300
Financial results: (including joint ventures at Melcor's interest)				
Revenue ($000s)	**35,458**	58,494	**58,988**	94,394
Earnings ($000s)	**11,486**	18,997	**15,377**	27,121

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

The Community Development division remained active in the quarter with development continuing in communities and phases that met pre-sales targets. We remain committed to managing our risk in this uncertain environment by ensuring that market demand is in place prior to proceeding with development. In regions where demand is soft, we are implementing strategic promotions to move inventory. We are also progressing land use through the municipal approvals process to ensure we have "shovel-ready", developable land ready when market demand improves.

Year to date single-family lot sales were down by 61%; however, the average revenue per lot was up by 8%. Industrial acres sold in the quarter contributed to a $3.37 million increase in land sales over the first nine months of 2015. Overall revenue was $35.46 million in Q3-2016, a decrease of $23.04 million from $58.49 million in Q3-2015.

We have begun developing a residential community in the United States which resulted in 65 lot sales in Q3-2016. This is in accordance with our diversification strategy.

Regional Sales Analysis

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

Regional Sales Analysis	**Three months ended September 30, 2016**			Three months ended September 30, 2015		
(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	**61**	**3.34**	**—**	315	—	2.08
Red Deer Region	**47**	**—**	**—**	60	3.20	—
Calgary Region	**11**	**—**	**8.73**	156	—	—
Lethbridge	**5**	**—**	**—**	17	—	—
Kelowna	**13**	**—**	**—**	1	—	—
United States	**65**	**—**	**—**	25	—	—
	202	**3.34**	**8.73**	574	3.20	2.08

Regional Sales Analysis	**Nine months ended September 30, 2016**			Nine months ended September 30, 2015		
(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	**145**	**3.34**	**—**	486	—	3.84
Red Deer	**57**	**—**	**0.95**	110	3.20	—
Calgary Region	**17**	**—**	**10.84**	189	—	2.90
Lethbridge	**30**	**—**	**—**	44	—	—
Kelowna	**23**	**—**	**—**	5	—	—
United States	**65**	**—**	**—**	25	—	—
	337	**3.34**	**11.79**	859	3.20	6.74

We experience variability in our results from quarter to quarter as a result of the seasonal nature of development and the timing of plan registrations with municipalities. As in prior years, we expect the bulk of plan registrations to occur in the fourth quarter.

The Edmonton region had lower sales volume in Q3-2016, but development and pre-sales activity continues in certain communities. Promotional programs designed to move inventory contributed to the sale of 47 single-family lot sales in the Red Deer region in Q3-2016. Single-family lot sales in the Calgary area remain challenging. Lethbridge sales were softer in Q3-2016; however inventory continues to move. The region has implemented a promotional program to help builders move existing inventory. Kelowna continues to achieve strong performance as it is insulated from the impact of the oil and gas industry and benefits from a strong US dollar.

We also sold 65 lots in Arizona in Q3-2016. Subsequent to the quarter, we purchased 42.24 acres in Colorado for future development for $3.75 million US ($4.95 million CDN).

Inventory

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

Developed Inventory	**Nine months ended September 30, 2016**			Nine months ended September 30, 2015		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	**1,433**	**63.10**	**144.41**	1,144	67.61	139.65
Purchases	**—**	**—**	**—**	—	—	—
New developments	**146**	**—**	**15.43**	1,083	12.29	—
Internal sales	**—**	**—**	**—**	—	—	—
Sales	**(337)**	**(3.34)**	**(11.79)**	(859)	(3.20)	(6.74)
	1,242	**59.76**	**148.05**	1,368	76.70	132.91

In Q3-2016, we purchased the interest of our joint venture partner for a 22.94 acre increase in developable land in Red Deer. This is included in the opening balance as joint venture interests are presented at 100% in the table above.

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 Q3-2016, we purchased 42.24 acres in Colorado, US, and in the prior quarters, 54 acres in the Lethbridge region and 40 acres in the Edmonton region. During the same nine month period in 2015, we purchased 147 acres in the Red Deer region.

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. The division currently operates solely in Alberta.

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

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

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

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

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

Division Highlights

($000s except as noted)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Total revenue	**25,763**	17,274	**29,073**	24,701
Revenue from property transfers	**25,750**	13,900	**29,050**	21,250
3rd Party property sales	**—**	3,311	**—**	3,311
Management fees	**13**	63	**23**	140
Gross margin (%) on property transfers	**26%**	27%	**27%**	26%
Square footage transferred (sf, at 100%)	**32,205**	24,609	**46,739**	44,540
Number of buildings transferred	**3**	2	**5**	4
Fair value adjustment on investment properties	**2,049**	3,045	**6,080**	9,202

The Property Development division has approximately 74,000 sf of development planned for the remainder of the 2016 construction season. During the quarter, the division completed and transferred 3 buildings (32,205 sf) to Investment Properties (year to date: 5 buildings (46,739 sf)). Construction on additional phases of existing retail and industrial projects is underway.

This 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 recent years. New projects must meet specific pre-lease thresholds before we begin development and we discontinued speculative development in 2015.

During the quarter we announced that Landmark Cinemas Canada will be an anchor tenant at Jensen Lakes Crossing, a neighbourhood shopping centre in St. Albert, Alberta. The deal exemplifies our commitment to unique and quality developments and complements the adjoining residential community that is under development by our land division. Construction is expected to commence in 2017 with tenancy in 2018.

Regional Highlights

($000s except as noted)	Three months ended		Nine months ended	
Fair value adjustments by region	**September 30, 2016**	September 30, 2015	**September 30, 2016**	September 30, 2015
Northern Alberta	**1,478**	**1,647**	**3,301**	5,260
Southern Alberta	**571**	**1,398**	**2,779**	3,942
	2,049	**3,045**	**6,080**	9,202

Year-to-date we recognized fair value adjustments of $2.82 million as we completed development on two buildings in Southern Alberta. The assets were transferred to the Investment Properties division for $9.50 million. During the quarter we also substantially completed development on a 15-acre site for the Northern Alberta Institute of Technology (NAIT) in Spruce Grove, Alberta, with $3.05 million in fair value adjustments recorded year-to-date.

Future development opportunities

We continually identify parcels of land from our land inventory that are well suited for commercial development. We also work with municipalities to gain approvals to commence development on new projects. The following tables illustrate our current and future project expectations.

Current Projects

Project	Location	Type	Total SF *	Developed to Date	SF Under Development
The Village at Blackmud Creek	South Edmonton	*Regional business park*	607,000	57,364	—
Telford Industrial	Leduc	*Industrial Park*	385,000	98,790	44,000
West Henday Promenade	West Edmonton	*Regional mixed use centre*	726,000	96,627	—
Kingsview Market	Airdrie	*Regional shopping centre*	331,000	145,357	—
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	308,000	236,219	20,600
Clearview Market	Red Deer	*Neighbourhood shopping centre*	151,120	141,120	10,000
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	2,250,000	23,155	—
Campsite Business park	Spruce Grove	*Industrial Park*	170,000	13,654	—

Expected Future Projects

Project	Location	Type	Total SF *	Ownership Interest	Expected Start (year)
The Shoppes at Jagare Ridge	South Edmonton	*Neighbourhood shopping centre*	105,000	50%	2017
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	100%	2017
Greenwich	West Calgary	*Regional mixed use centre*	395,000	100%	2017
Jensen Crossing	St. Albert	*Regional mixed use centre*	148,000	100%	2017
Rollyview	Leduc	*Neighbourhood shopping centre*	150,000	100%	2017
West Pointe Marketplace	Lethbridge	*Regional power centre*	750,000	100%	2018
Keystone Common	North Calgary	*Regional power centre*	775,000	100%	2020
West Calgary Marketplace	West Calgary	*Regional power centre*	800,000	100%	2020

** Size represents the estimated total square footage projected for full build-out. This includes sites that may be individually sold to retailers or end-users.*

Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality office, retail, industrial and residential properties, which are located across western Canada and the US, including the properties owned by the REIT.

Our Investment Properties division manages 3.90 million sf of income-producing commercial GLA and 780 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 growing US commercial portfolio is part of a strategic initiative to reduce 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		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Commercial properties GLA under management (sf, total)	**3,904,986**	3,465,320	**3,904,986**	3,465,320
Properties owned and managed (sf)	**775,213**	442,613	**775,213**	442,613
Properties managed (sf)	**3,129,773**	3,022,707	**3,129,773**	3,022,707
Revenue (total)	**9,558**	8,407	**26,331**	24,234
Commercial properties	**3,225**	2,611	**8,978**	7,081
US properties	**4,574**	4,326	**12,594**	12,753
Management fees	**1,417**	1,129	**3,729**	3,335
Parking lots and other assets	**342**	341	**1,030**	1,065
Net operating income (NOI) *	**5,576**	5,022	**15,550**	15,137
Funds from operations *	**5,432**	4,776	**14,855**	13,058
Funds from operations per share *	**0.16**	0.14	**0.45**	0.39

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

Commercial properties

During Q3-2016 Property Development transferred three buildings, adding 32,205 sf to owned and managed GLA. Over the past twelve months, Property Development transferred 6 buildings (54,067 sf, at JV%) which generated a significant increase in commercial property revenue and NOI over 2015. With 74,000 sf of GLA under active development in the remainder of the 2016 construction season, we expect continued growth. Approximately 31,597 sf of 2015 building transfers were subsequently sold to the REIT as part of a property sale completed in November 2015.

Revenues generated on assets acquired from Property Development and were held through the period were $1.19 million in the third quarter and $2.92 million year to date (2015 - $0.26 million and $0.38 million respectively). During the comparative three and nine-month we recognized revenue of $0.47 million and $0.76 million related to assets sold to the REIT. Same asset revenue remained steady over Q3-2015.

Occupancy on properties owned by Investment Properties was 92% at September 30, 2016 compared to 90% at year end. Stability in occupancy reflects the slower pace of development over the past twelve months and a larger proportion of the portfolio being comprised of mature properties.

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

($000s except as noted)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Same asset NOI *	**1,451**	1,697	**4,357**	4,638
Properties transferred from PD	**895**	185	**2,339**	282
Properties transferred to REIT	**(6)**	216	**29**	412
NOI before adjustments	**2,340**	2,098	**6,725**	5,332
Amortization of operating lease incentives	**106**	71	**278**	264
Straight-line rent adjustment	**(137)**	(299)	**(697)**	(546)
NOI *	**2,309**	1,870	**6,306**	5,050

** 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 decreased over 2015 due to higher property taxes as a result of recently constructed suburban retail properties converting from land based valuation to income based taxation on buildings which have lower recovery ratios. Decline in same asset NOI is also due to uptick in bad debt expense, primarily in our secondary retail markets.

US properties

We saw significant growth in our commercial portfolio in 2016 with three properties purchased during the first quarter with a total GLA of 306,169 sf. Details of acquisitions completed to date in 2016 are as follows:

	Date	Type	Area	Price ($ millions)
Offices at Promenade, Greater Denver Area, Colorado	Feb 2016	Office	128,383 sf / 8.74 ac	$20.07 (US$17.03)
Offices at Inverness, Greater Denver Area, Colorado	Mar 2016	Office	95,127 sf / 6.85 ac	$13.07 (US$9.75)
Syracuse Hill One, Greater Denver Area, Colorado	Mar 2016	Office	82,659 sf / 4.56 ac	$13.22 (US$10.19)

Since Q3-2015, the US property portfolio has seen significant activity. We divested three residential assets and acquired four commercial properties. During the third quarter we committed to the divestiture of our remaining multi-family residential property in Texas, classifying the asset as held for sale at Q3-2016. Through asset acquisitions and divestitures we have eliminated our investments in Texas and increased investments in Phoenix and Denver, reflecting our commitment to increasing our US commercial portfolio in regions which hedge our exposure to resource economies.

Third quarter revenue experienced a 6% uptick over Q3-2015 due to the lag time of reinvesting funds following the sale of residential assets in 2015. Year-to-date revenues also increased as a result of the impact of a stronger US dollar on foreign currency translations. Revenue from residential assets sold during 2015 was $1.74 million (US$1.35 million) in Q3-2015 and $5.81 million (US$4.64 million) year-to-date. Comparatively, revenue from newly acquired commercial assets in Q3-2016 was $2.21 million (US$1.69 million) and $5.34 million (US$4.21 million) year to date (2015 - $0.33 million (US$0.26 million) and $0.55 million (US$0.44 million)) in the comparative three and nine month periods). Same asset revenue was steady over 2015 with stable occupancy and rental rates.

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

($000s except as noted)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Same asset NOI	**695**	814	**2,438**	2,510
Third party acquisitions	**857**	135	**2,127**	227
Third party disposition	**—**	669	**(72)**	2,597
NOI before adjustments	**1,552**	1,618	**4,493**	5,334
Foreign current translation	**560**	487	**1,452**	1,369
Amortization of operating lease incentives	**113**	13	**143**	13
Straight-line rent adjustment	**(222)**	(28)	**(382)**	(29)
NOI *	**2,003**	2,090	**5,706**	6,687

** 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 decreased in the third quarter due to the timing of maintenance projects undertaken on our residential assets and was steady year-to-date over 2015.

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 $0.29 million over Q3-2015 to $1.42 million ($3.73 million year to date). Growth in management fees is due to additional fees negotiated with our partners on three of our JV agreements in order to align the fee structure with other management agreements and fairly compensate Melcor for administration of the assets. Higher JV management fees were partially offset by a decrease in leasing fees earned from Melcor REIT. These fees fluctuate based on the timing of leasing activity completed by the REIT.

During Q3-2016 we recognized $0.34 million in revenue on our 516 parking stalls and other assets (Q3-2015- $0.34 million). This revenue can fluctuate from period to period.

Funds from operations (FFO) increased by $0.66 million or 14% over Q3-2015 as a result of higher NOI on commercial assets and US properties, higher management fees and lower general & administrative expense (G&A). The fluctuation in G&A relates to payments made to the REIT under Head and Bridge Lease Agreements entered into for property acquisitions from Investment Properties completed during 2014 in addition to classification of fee income earned from other divisions. These amounts are eliminated on consolidation.

REIT

The REIT owned 38 income-producing office, retail and industrial properties, comprising 2,775,832 square feet of GLA and a land lease community at September 30, 2016. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants operating in a variety of industries.

We have a controlling 56.7% effective interest in the REIT through ownership of all Class B LP Units (December 31, 2015 - 56.7%). As Melcor controls the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities.

Operating results

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

($000s except as noted)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Rental revenue	**16,439**	15,938	**49,872**	48,519
Net operating income (NOI) *	**10,692**	10,325	**32,078**	30,912
Same asset NOI * *(see calculation following)*	**9,796**	9,953	**29,642**	29,705
Fair value adjustment on investment properties	**(947)**	(3,614)	**(2,946)**	(7,322)
Gross leasable area (GLA) (sf)	**2,775,832**	2,737,837	**2,775,832**	2,737,837
Occupancy % (weighted by GLA)	**92.4%**	92.5%	**92.4%**	92.5%
Fair value of portfolio	**662,012**	641,914	**662,012**	641,914
Funds from operations *	**10,371**	10,203	**31,023**	30,320
Funds from operations per share *	**0.31**	0.31	**0.93**	0.91

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

Rental revenue increased by 3% or $0.50 million in Q3-2016 and by $1.35 million year to date as a result of portfolio growth of 39,464 sf over the past twelve months. We acquired additional phases at two existing properties and also densified existing retail properties with new CRUs. Rental revenue from the newly acquired/constructed GLA was $0.45 million in Q3-2016 and $1.16 million year to date (2015 - $0.32 million and $0.33 million respectively). Positive movement in base rent, recoveries and other income were offset by negative changes to straight-line rent adjustment and amortization of tenant incentives, resulting in flat same-asset rental revenue over 2015.

Weighted average base rent was $15.59, up 1% compared to December 31, 2015. Increases in base rent correlated with a decrease in straight-line rent adjustments.

Direct operating expenses increased $0.30 million or 5% and $0.49 million or 3% over the comparative three and nine-month periods. Excluding the impact of newly acquired/constructed properties, direct operating expenses increased 2%. On a same-asset basis, property taxes increased 5% over 2015 as a result of recently constructed suburban retail properties converting from land based valuation to income based taxation. Mill rates and appraised values across the rest of the portfolio remained relatively stable over 2015. These increases were offset by a 5% reduction in utility costs as a result of lower energy consumption combined with cost savings on utility contracts. Same-asset operating expenses increased 2% over 2015 as a result of the timing of maintenance projects undertaken and inflation.

GLA added in the past twelve months via property acquisitions and construction led to a 4% increase in NOI over 2015. On a same-asset basis, NOI was steady year to date. Timing of direct operating costs and negative non-cash adjustments related to amortization of tenant incentives and straight-line rent adjustments resulted in a 2% decline in the quarterly same-asset NOI.

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

($000s except as noted)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Same asset NOI *	**9,796**	9,953	**29,642**	29,705
Acquisitions/Development	**378**	21	**950**	25
NOI before adjustments	**10,174**	9,974	**30,592**	29,730
Amortization of operating lease incentives	**819**	758	**2,429**	2,376
Straight-line rent adjustment	**(301)**	(407)	**(943)**	(1,194)
Divisional NOI	**10,692**	10,325	**32,078**	30,912

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

Funds from operations

Funds from operations (FFO) increased by $0.17 million or 2% over Q3-2015 as a result of higher NOI, partially offset by increased general and administrative expenses.

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.

		2016		2015	
	Ownership interest	Season opened	Rounds of Golf	Season opened	Rounds of Golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	**March 31**	**31,160**	**April 9**	32,687
The Links (Spruce Grove)	100%	**April 1**	**24,606**	**April 10**	27,086
Black Mountain (Kelowna)	100%	**March 11**	**30,117**	**March 13**	27,405
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	**April 8**	**23,300**	**April 17**	24,633

Favourable spring conditions resulted in an early season start for our golf courses. This was offset by unfavorable weather conditions during the summer months. Rounds of golf played during the nine months ended September 30, 2016 decreased 2% over the same period in Q3-2015.

General and Administrative Expense

Cost management strategies implemented across the company contributed to an overall 10% reduction in G&A expense over Q3-2015.

Income Tax Expense

The statutory tax rate for the nine months ended September 30, 2016 is 27%, compared to 26% for the comparative period in 2015. Significant adjustments that impact the 2016 tax rate include a higher tax rate for income earned in our US subsidiary, permanent differences related to revaluation adjustments on investment properties and various adjustments related to the REIT units. In 2015, significant adjustments that impacted the effective tax rate included a higher tax rate for income earned on our US subsidiary, permanent differences related to revaluation adjustments on investment properties, various adjustments related to the REIT units and the impact of a 3% statutory rate increase which affected our deferred tax liability.

Liquidity & Capital Resources

The following table represents selected information as at September 30, 2016, compared to December 31, 2015.

As at ($000s except as noted)	**September 30, 2016**	31-Dec-15
Cash & cash equivalents	**37,476**	48,674
Restricted cash	**—**	2,288
Accounts receivable	**12,048**	18,744
Agreements receivable	**93,870**	152,183
Revolving credit facilities	**76,979**	104,071
Accounts payable and accrued liabilities	**34,410**	40,534
Total assets	**1,886,895**	1,891,969
Total liabilities	**916,123**	913,999
Debt to equity ratio*	**0.94**	0.93

**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 September 30, 2016, our total general debt outstanding was $635.19 million. This compares to $631.01 million at December 31, 2015.

A summary of our debt is as follows:

As at ($000s)	**September 30, 2016**	December 31, 2015
Melcor - revolving credit facilities	**60,661**	84,813
REIT - revolving credit facility	**16,318**	19,258
Project specific financing	**5,570**	25,280
Secured vendor take back debt on land inventory	**63,459**	76,092
Debt on investment properties and golf course assets	**458,012**	395,006
REIT - convertible debenture	**32,621**	32,251
Derivative financial liabilities - interest rate swaps	**886**	318
Unamortized deferred financing fees	**(2,334)**	(2,010)
	635,193	631,008

In anticipation of the sale of our interest in a US residential rental property, we have included a prepayment defeasance penalty in our re-calculation of the amortized cost on the associated loan. This resulted in an increase of $3,447 in our general debt and charge to interest expense.

We are subject to financial covenants on our revolving credit facility. We were in compliance with these covenants at September 30, 2016.

	Covenant	September 30, 2016
Maximum debt to total capital	1.25	0.74
Minimum interest coverage ratio	3.00	3.52
Minimum net book value of shareholders' equity	$ 300,000	$ 970,772

We are also subject to financial covenants on the REIT's $35.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.50, and a minimum adjusted unitholders' equity of $140.00 million. As at September 30, 2016, 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**		**Nine months ended**	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Cash flows from operating activities	**34,887**	23,789	**60,179**	**22,371**
Cash flows from (used in) investing activities	**(2,408)**	26,363	**(44,730)**	**2,013**
Cash flows used in financing activities	**(30,483)**	(20,605)	**(24,624)**	**(6,027)**

Cash flows from operating activities were $34.89 million in Q3-2016, an increase of $11.10 million over Q3-2015. During the quarter, the timing of collections on accounts receivable and agreements receivable, combined with settlement of liabilities, resulted in net inflows of $28.42 million compared with $7.06 million in the same period last year. A $7.65 million decrease in FFO, driven by the decline in gross profit in the Community Development division and investments of $1.65 million on development activities and land purchases during the third quarter partially offset this increase.

Cash flows used in investing activities were $2.41 million in the quarter compared to cash flows generated of $26.36 million in Q3-2015. In the current quarter, we invested in enhancing existing commercial properties and constructing new commercial properties. In the same period last year, a US residential property was sold for net cash of $41.41 million, offset by the purchase of a US office property for $8.47 million and $6.47 million in investments to enhance existing commercial properties and construct new commercial properties.

Cash flows used in financing activities were $30.48 million in Q3-2016, a change of $9.88 million over Q3-2015. Repayments on our credit facilities of $14.06 million and general debt of $29.06 million were partially offset by proceeds from general debt of $16.52 million. In the same period last year, repayment of general debt was $64.82 million, partially offset by proceeds from our credit facility of $11.17 million and general debt of $38.52 million. In the current quarter, we paid a $0.12 per share dividend for a total of $3.99 million, a decrease of $0.99 million over the same period in 2015 as the dividend was reduced by $0.03 per share.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at September 30, 2016 there were 33,254,462 common shares issued and outstanding and 716,334 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 September 30, 2016 in comparison to the December 31, 2015 annual MD&A.

Normal Course Issuer Bid

On March 29, 2016 we announced a new Normal Course Issuer bid commencing March 31, 2016 and ending March 30, 2017. Under the bid, we may acquire up to 1,661,810 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 1,433 common shares. As at September 30, 2016, we did not repurchase any common shares. Subsequent to the period we repurchased 12,231 common shares at a cost of $0.15 million.

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.

($000s)	**30-Sep-16**	30-Jun-16	31-Mar-16	31-Dec-15	30-Sept-15	30-Jun-15	31-Mar-15	31-Dec-14
Revenue	**63,432**	42,084	30,554	91,721	87,921	46,113	37,554	121,452
Net income (loss)	**16,260**	1,778	(7,714)	32,658	24,823	3,917	14,560	50,077
Per Share								
Basic earnings	**0.49**	0.05	(0.23)	0.98	0.75	0.12	0.44	1.56
Diluted earnings	**0.49**	0.05	(0.23)	0.99	0.74	0.12	0.44	1.46
Book value	**29.19**	28.80	28.86	29.43	28.47	27.67	27.76	27.22

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

Subsequent Events

Refer to note 11 of the interim consolidated financial statements for information pertaining to subsequent events.

Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

Non-standard Measures

Throughout this MD&A, we refer to terms that are not specifically defined in the CICA Handbook and do not have any standardized meaning prescribed by IFRS. These non-standard measures may not be comparable to similar measures presented by other companies.

We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results.

The non-standard terms that we refer to in this MD&A are defined below.

Net operating income (NOI): this is a measure of revenue less direct operating expenses.

Same asset NOI: this measure compares the NOI on assets that have been owned for the entire current and comparative period.

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

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

Investment Properties

($000s)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Segment Earnings	**17,536**	3,962	**23,937**	14,776
Fair value adjustment on investment properties	**(12,366)**	730	**(9,546)**	(1,995)
General and administrative expenses	**619**	578	**1,892**	2,665
Interest income	**(1)**	(5)	**(3)**	(11)
Amortization of operating lease incentives	**262**	84	**464**	277
Straight-line rent adjustment	**(474)**	(327)	**(1,194)**	(575)
Divisional NOI	**5,576**	5,022	**15,550**	15,137

REIT

($000s)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Segment Earnings	**8,605**	5,831	**25,648**	20,622
Fair value adjustment on investment properties	**947**	3,614	**2,946**	7,322
General and administrative expenses	**629**	539	**2,022**	1,832
Interest income	**(7)**	(10)	**(24)**	(46)
Amortization of operating lease incentives	**819**	758	**2,429**	2,376
Straight-line rent adjustment	**(301)**	(407)	**(943)**	(1,194)
Divisional NOI	**10,692**	10,325	**32,078**	30,912

Funds from operations (FFO) = (net income (loss)) + (amortization of operating lease incentives) +/– (fair value adjustment on investment properties) + (depreciation of property and equipment) + (stock based compensation expense) + (non-cash interest) +/- (gain (loss) on sale of asset) + (deferred income taxes) +/– (fair value adjustment on REIT Units). A reconciliation of NOI to the most comparable IFRS measure, net income (loss), is as follows:

Consolidated

($000s)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Net income for the period	**16,260**	24,823	**10,324**	43,300
Amortization of operating lease incentives	**1,673**	1,755	**4,766**	4,532
Fair value adjustment on investment properties	**(14,170)**	195	**(15,587)**	(6,807)
Depreciation on property and equipment	**564**	608	**1,303**	1,407
Stock based compensation expense	**63**	83	**220**	253
Non-cash interest	**3,721**	252	**5,306**	737
Gain on sale of asset	**(35)**	—	**(38)**	(58)
Deferred income taxes	**253**	(1,059)	**228**	6,315
Fair value adjustment on REIT units	**1,896**	(8,779)	**16,281**	(17,010)
FFO	**10,225**	17,878	**22,803**	32,669

Investment Properties

($000s)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Segment Earnings	**17,536**	3,962	**23,937**	14,776
Fair value adjustment on investment properties	**(12,366)**	730	**(9,546)**	(1,995)
Amortization of operating lease incentives	**262**	84	**464**	277
Divisional FFO	**5,432**	4,776	**14,855**	13,058

REIT

($000s)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Segment Earnings	**8,605**	5,831	**25,648**	20,622
Fair value adjustment on investment properties	**947**	3,614	**2,946**	7,322
Amortization of operating lease incentives	**819**	758	**2,429**	2,376
Divisional FFO	**10,371**	10,203	**31,023**	30,320

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

MELCOR

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2016

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

(Unaudited) '000s	For the three months ended **September 30, 2016**	 September 30, 2015	For the nine months ended **September 30, 2016**	 September 30, 2015
Revenue	**63,432**	87,921	**136,070**	171,588
Cost of sales	**(34,345)**	(52,052)	**(70,714)**	(96,726)
Gross profit	**29,087**	35,869	**65,356**	74,862
General and administrative expense	**(5,025)**	(5,582)	**(14,674)**	(16,555)
Fair value adjustment on investment properties (note 5 and 10)	**14,170**	(195)	**15,587**	6,807
Adjustments related to REIT units (note 9)	**(3,778)**	6,884	**(21,927)**	11,310
Gain on sale of asset	**35**	—	**38**	58
Operating earnings	**34,489**	36,976	**44,380**	76,482
Interest income	**337**	665	**838**	2,083
Finance costs (note 5)	**(9,558)**	(6,234)	**(22,439)**	(18,094)
Net finance costs	**(9,221)**	(5,569)	**(21,601)**	(16,011)
Income before income taxes	**25,268**	31,407	**22,779**	60,471
Income tax expense	**(9,008)**	(6,584)	**(12,455)**	(17,171)
Net income for the period	**16,260**	24,823	**10,324**	43,300
Earnings per share:				
Basic earnings per share:	**0.49**	0.75	**0.31**	1.31
Diluted earnings per share:	**0.49**	0.74	**0.31**	1.30

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income

(Unaudited) '000s	For the three months ended **September 30, 2016**	 September 30, 2015	For the nine months ended **September 30, 2016**	 September 30, 2015
Net income for the period	**16,260**	24,823	**10,324**	43,300
Other comprehensive income				
Items that may be reclassified subsequently to net income (loss):				
Currency translation differences	**979**	18,131	**(6,037)**	13,980
Comprehensive income	**17,239**	42,954	**4,287**	57,280

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

(Unaudited) '000s	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	37,476	48,674
Restricted cash (note 3)	—	2,288
Accounts receivable	12,048	18,744
Income taxes recoverable	2,941	2,455
Agreements receivable	93,870	152,183
Land inventory (note 4)	698,675	696,802
Investment properties (note 5 and 10)	937,372	904,348
Property and equipment	15,724	16,269
Other assets	49,832	50,206
Investment property held for sale (note 5)	38,957	—
	1,886,895	1,891,969
LIABILITIES		
Accounts payable and accrued liabilities	34,410	40,534
Income taxes payable	—	1,342
Provision for land development costs	82,870	93,839
General debt (note 6 and 10)	635,193	631,008
Deferred income tax liabilities	66,968	66,875
REIT units (note 9 and 10)	96,682	80,401
	916,123	913,999
SHAREHOLDERS' EQUITY		
Share capital (note 7)	70,398	70,061
Contributed surplus	2,889	2,743
Accumulated other comprehensive income (AOCI)	22,668	28,705
Retained earnings	874,817	876,461
	970,772	977,970
	1,886,895	1,891,969

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

(Unaudited) '000s	Equity attributable to Melcor's shareholders Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
Balance at January 1, 2016	**70,061**	**2,743**	**28,705**	**876,461**	**977,970**
Net income for the period	—	—	—	10,324	10,324
Cumulative translation adjustment	—	—	(6,037)	—	(6,037)
Transactions with equity holders					
Dividends	—	—	—	(11,968)	(11,968)
Employee share options					
Value of services recognized	—	220	—	—	220
Share issuance	337	(74)	—	—	263
Balance at September 30, 2016	**70,398**	**2,889**	**22,668**	**874,817**	**970,772**

(Unaudited) '000s	Equity attributable to Melcor's shareholders Share capital	Contributed surplus	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	—	—	—	43,300	43,300
Cumulative translation adjustment	—	—	13,980	—	13,980
Transactions with equity holders					
Dividends	—	—	—	(14,926)	(14,926)
Employee share options					
Value of services recognized	—	253	—	—	253
Share issuance	1,378	(314)	—	—	1,064
Balance at September 30, 2015	69,145	2,886	24,003	848,972	945,006

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

Unaudited ($000s)	For the three months ended September 30, 2016	September 30, 2015	For the nine months ended September 30, 2016	September 30, 2015
CASH FLOWS FROM (USED IN)		(note 12)		(note 12)
OPERATING ACTIVITIES				
Net income for the period	**16,260**	24,823	**10,324**	43,300
Non cash items:				
Amortization of tenant incentives	**1,673**	1,755	**4,766**	4,532
Depreciation of property and equipment	**564**	608	**1,303**	1,407
Stock based compensation expense	**63**	83	**220**	253
Non cash interest	**3,721**	252	**5,306**	737
Straight-line rent adjustment	**(372)**	(695)	**(1,560)**	(1,589)
Fair value adjustment on investment properties (note 5 and 10)	**(14,170)**	195	**(15,587)**	(6,807)
Fair value adjustment on REIT units (note 9 and 10)	**1,896**	(8,779)	**16,281**	(17,010)
Gain on sale of asset	**(35)**	—	**(38)**	(58)
Deferred income taxes	**253**	(1,059)	**228**	6,315
	9,853	17,183	**21,243**	31,080
Agreements receivable	**13,836**	(2,885)	**58,313**	28,244
Development activities	**(1,049)**	1,788	**(9,176)**	(10,521)
Purchase of land inventory (note 4)	**(600)**	—	**(1,909)**	(2,500)
Payment of tenant lease incentives and direct leasing costs	**(1,738)**	(2,247)	**(4,308)**	(5,120)
Change in restricted cash (note 3)	**—**	1		64
Operating assets and liabilities	**14,585**	9,949	**(3,984)**	(18,876)
	34,887	23,789	**60,179**	22,371
INVESTING ACTIVITIES				
Purchase of investment properties	**—**	(8,474)	**(33,738)**	(18,620)
Additions to investment properties	**(2,455)**	(6,470)	**(11,523)**	(19,785)
Change in restricted cash (note 3)	**—**	—	**1,041**	—
Purchase of property and equipment	**(207)**	(103)	**(773)**	(1,062)
Proceeds on disposal of investment properties (note 5)	**210**	41,410	**210**	41,410
Proceeds on disposal of property and equipment	**44**	—	**53**	70
	(2,408)	26,363	**(44,730)**	2,013
FINANCING ACTIVITIES				
Revolving credit facilities	**(14,055)**	11,170	**(27,092)**	26,676
Proceeds from general debt	**16,518**	38,516	**72,116**	58,492
Repayment of general debt	**(29,057)**	(64,818)	**(59,190)**	(77,047)
Change in restricted cash (note 3)	**—**	130	**1,247**	491
Repurchase of non-controlling interest	**—**	(777)	**—**	(777)
Dividends paid	**(3,990)**	(4,979)	**(11,968)**	(14,926)
Share capital issued	**101**	153	**263**	1,064
	(30,483)	(20,605)	**(24,624)**	(6,027)
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	**302**	184	**(2,023)**	358
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**2,298**	29,731	**(11,198)**	18,715
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**35,178**	7,995	**48,674**	19,011
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**37,476**	37,726	**37,476**	37,726
Total income taxes paid	**2,360**	3,104	**17,252**	20,344
Total interest paid	**6,870**	7,162	**20,141**	21,053

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 September 30, 2016 Melton Holdings Ltd. holds 47.2% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at November 9, 2016, Melcor through an affiliate, holds an approximate 56.7% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

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

2. BASIS OF PRESENTATION

We prepare our condensed interim consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on November 9, 2016.

3. RESTRICTED CASH

Restricted cash represents subsidies funded by Melcor as part of the REIT's Initial Public Offering to subsidize finance costs on assumed debt and Class C LP Units, and to fund capital expenditures, environmental expenditures, tenant incentives and lease costs. The cash was required to be presented as restricted pursuant to a covenant in the underwriting agreement. On May 1, 2016 the term of the covenant elapsed, at which point the remaining restricted cash was re-classified to cash and cash equivalents.

4. LAND INVENTORY

	September 30, 2016	December 31, 2015
Raw land held	**336,322**	353,809
Land under development	**156,107**	134,200
Developed land	**206,246**	208,793
	698,675	696,802

During the nine-month period ended September 30, 2016, we purchased 94 acres of land at a cost of $3,443 and received vendor financing of $2,134. We had also acquired 22.94 acres of land at a cost of $2,810, through an arrangement to buyout the interest of one of our joint venture partners. This purchase was satisfied with cash consideration of $600 and a receivable settlement of $2,210.

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

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	September 30, 2016	December 31, 2015
Investment properties	894,739	847,387
Properties under development	42,633	56,961
Total	937,372	904,348

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

			Nine months ended September 30, 2016
	Investment Properties	Properties under Development	Total
Balance - beginning of period	847,387	56,961	904,348
Additions			
Direct acquisition	49,356	—	49,356
Transfer from land inventory	—	254	254
Direct leasing costs	680	259	939
Property improvements	2,747	—	2,747
Development costs	1,896	6,777	8,673
Capitalized borrowing costs	—	103	103
Disposals	(210)	—	(210)
Transfer to property held for sale	(38,957)	—	(38,957)
Transfers	28,367	(28,367)	—
Fair value adjustment on investment properties	8,941	6,646	15,587
Foreign currency translation (included in OCI)	(5,468)	—	(5,468)
Balance - end of period	894,739	42,633	937,372

			Year ended December 31, 2015
	Investment Properties	Properties under Development	Total
Balance - beginning of year	863,966	37,138	901,104
Additions			
Direct acquisition	983	3,018	4,001
Acquisition through business combination	14,619	—	14,619
Transfer from land inventory	—	4,211	4,211
Direct leasing costs	587	424	1,011
Property improvements	5,024	—	5,024
Development costs	439	25,533	25,972
Capitalized borrowing costs	—	258	258
Disposals	(81,153)	(3,088)	(84,241)
Transfers	20,067	(20,067)	—
Fair value adjustment on investment properties	40	9,534	9,574
Foreign currency translation (included in OCI)	22,815	—	22,815
Balance - end of year	847,387	56,961	904,348

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

During the nine months ended September 30, 2016, we completed the acquisition of three suburban office properties in the greater Denver area:

- On February 26 - the Offices at Promenade for $23,073 (US$17,032) (including transaction costs). As part of the purchase Melcor also assumed a mortgage on the property with a carrying value of $15,618 (US$11,529). As at financial liability we recorded the assumed mortgage at its fair value on initial recognition. The fair value of the mortgage was calculated using a market interest rate for an equivalent mortgage;
- On March 3 - the Offices at Inverness for $13,067 (US$9,746) (including transaction costs); and
- On March 31 - Syracuse Hill One for $13,216 (US$10,188) (including transaction costs).

These acquisitions were funded through available cash and were accounted for as direct acquisitions.

During the period our intention with respect to a US residential rental property in the Greater Dallas area changed (from hold on a long-term basis to sell) and meets the criteria established in IFRS 5 for separate classification. As at September 30, 2016 the investment property has a fair value of $38,957 (net of costs to sell), and has been re-classified to held for sale. Concurrent with the sale of the property, we will retire the debt on the asset, triggering a defeasance penalty for prepayment. As at September 30, 2016, we have re-calculated the amortized cost of the loan to include the defeasance penalty, resulting in a $3,447 increase in our general debt and charge to interest expense.

Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 10.

6. GENERAL DEBT

	September 30, 2016	December 31, 2015
Melcor - revolving credit facilities	**60,661**	84,813
REIT - revolving credit facility	**16,318**	19,258
Project specific financing	**5,570**	25,280
Secured vendor take back debt on land inventory	**63,459**	76,092
Debt on investment properties and golf course assets	**458,012**	395,006
REIT - convertible debenture	**32,621**	32,251
Derivative financial liabilities - interest rate swaps	**886**	318
Unamortized deferred financing fees	**(2,334)**	(2,010)
	635,193	631,008

7. SHARE CAPITAL

Issued and outstanding common shares at September 30, 2016 are 33,254,462 (December 31, 2015 – 33,233,712). During the three and nine months ended September 30, 2016, there were 7,900 and 20,750 options exercised (Q3-2015 – 11,550 and 81,116).

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

8. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
United States	**8,830**	7,832	**17,307**	16,258
Canada	**54,602**	80,089	**118,763**	155,330
Total	**63,432**	87,921	**136,070**	171,588

Total Assets *As at*	**September 30, 2016**	December 31, 2015
United States	**220,115**	184,908
Canada	**1,666,780**	1,707,061
Total	**1,886,895**	1,891,969

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

8. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

For the three months ended September 30, 2016	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	35,458	25,763	9,558	16,439	3,952	—	91,170	(27,738)	63,432
Cost of sales	(22,191)	(25,750)	(3,770)	(6,265)	(2,409)	(124)	(60,509)	26,164	(34,345)
Gross profit	13,267	13	5,788	10,174	1,543	(124)	30,661	(1,574)	29,087
General and administrative expense	(2,109)	(415)	(619)	(629)	(708)	(1,417)	(5,897)	872	(5,025)
Fair value adjustment on investment properties	—	2,049	12,366	(947)	—	—	13,468	702	14,170
Gain on sale of assets	—	—	—	—	35	—	35	—	35
Interest income	328	1	1	7	—	—	337	—	337
	11,486	1,648	17,536	8,605	870	(1,541)	38,604	—	38,604
Finance costs									(9,558)
Adjustments related to REIT units									(3,778)
Income before tax									25,268
Income tax expense									(9,008)
Net income									16,260

For the three months ended September 30, 2015	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	58,494	17,274	8,407	15,938	4,368	—	104,481	(16,560)	87,921
Cost of sales	(37,715)	(17,007)	(3,142)	(5,964)	(2,550)	(152)	(66,530)	14,478	(52,052)
Gross profit	20,779	267	5,265	9,974	1,818	(152)	37,951	(2,082)	35,869
General and administrative expense	(2,432)	(328)	(578)	(539)	(720)	(1,962)	(6,559)	977	(5,582)
Fair value adjustment on investment properties	—	3,045	(730)	(3,614)	—	—	(1,299)	1,104	(195)
Gain on sale of assets	—	—	—	—	—	—	—	—	—
Interest income	650	—	5	10	—	—	665	—	665
	18,997	2,984	3,962	5,831	1,098	(2,114)	30,758	(1)	30,757
Finance costs									(6,234)
Adjustments related to REIT units									6,884
Income before tax									31,407
Income tax expense									(6,584)
Net income									24,823

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

Nine months ended September 30, 2016	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	58,988	29,073	26,331	49,872	8,426	—	172,690	(36,620)	136,070
Cost of sales	(38,116)	(29,050)	(10,051)	(19,280)	(5,158)	(394)	(102,049)	31,335	(70,714)
Gross Profit	20,872	23	16,280	30,592	3,268	(394)	70,641	(5,285)	65,356
General and administrative expense	(6,302)	(1,259)	(1,892)	(2,022)	(1,931)	(3,646)	(17,052)	2,378	(14,674)
Fair value adjustment on investment properties	—	6,080	9,546	(2,946)	—	—	12,680	2,907	15,587
Gain on sale of assets	—	—	—	—	38	—	38	—	38
Interest Income	807	3	3	24	—	1	838	—	838
	15,377	4,847	23,937	25,648	1,375	(4,039)	67,145	—	67,145
Finance costs									(22,439)
Adjustment related to REIT units									(21,927)
Income before tax									22,779
Income tax expense									(12,455)
Net income									10,324

Nine months ended September 30, 2015	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	94,394	24,701	24,234	48,519	8,830	—	200,678	(29,090)	171,588
Cost of sales	(62,399)	(24,358)	(8,799)	(18,789)	(5,232)	(460)	(120,037)	23,311	(96,726)
Gross profit	31,995	343	15,435	29,730	3,598	(460)	80,641	(5,779)	74,862
General and administrative expense	(6,899)	(1,103)	(2,665)	(1,832)	(1,865)	(5,038)	(19,402)	2,847	(16,555)
Fair value adjustment on investment properties	—	9,202	1,995	(7,322)	—	—	3,875	2,932	6,807
Gain on sale of assets	—	—	—	—	58	—	58	—	58
Interest Income	2,025	—	11	46	—	1	2,083	—	2,083
	27,121	8,442	14,776	20,622	1,791	(5,497)	67,255	—	67,255
Finance costs									(18,094)
Adjustment related to REIT units									11,310
Income before tax									60,471
Income tax expense									(17,171)
Net income									43,300

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

9. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 43.3% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss (“FVTPL”). The adjustments related to the REIT units are illustrated below:

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Fair value adjustment on REIT units (note 10)	**(1,896)**	8,779	**(16,281)**	17,010
Distributions to REIT unitholders	**(1,882)**	(1,895)	**(5,646)**	(5,700)
Adjustments related to REIT units	**(3,778)**	6,884	**(21,927)**	11,310

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	**September 30, 2016**	December 31, 2015
Assets	**668,197**	666,458
Liabilities	**362,140**	362,129
Net assets	**306,057**	304,329
Cost of NCI	**102,707**	102,707
Fair value of NCI	**96,682**	80,401

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Revenue	**16,439**	15,938	**49,872**	48,519
Net income (loss) and comprehensive income (loss)	**153**	11,287	**(13,966)**	24,689
Cash flows from operating activities	**3,688**	3,802	**9,234**	6,721
Cash flows used in investing activities	**(952)**	(787)	**(1,869)**	(1,851)
Cash flows from (used in) financing activities, before distributions to REIT unitholders	**864**	(2,591)	**1,216**	(5,308)
Cash flows used in financing activities - cash distributions to REIT unitholders	**(1,882)**	(1,895)	**(5,646)**	(5,700)
Net increase (decrease) in cash and cash equivalents	**1,718**	(1,471)	**2,935**	(6,138)

10. FAIR VALUE MEASUREMENT

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

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

- the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, agreements receivable and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.
- fair values of general debt and derivative financial liabilities - interest rate swaps are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).
- fair value of derivative financial liabilities - conversion feature on the REIT's 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 based on the accepted valuation methods of direct income capitalization or discounted future cash flows (Level 3).

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

	September 30, 2016				December 31, 2015	
	Fair Value	**Amortized Cost**	**Total Carrying Value**	**Total Fair Value**	Total Carrying Value	Total Fair Value
Non-financial assets						
Investment properties	**937,372**	**—**	**937,372**	**937,372**	904,348	904,348
Financial liabilities						
General debt, excluding derivative financial liabilities	**—**	**634,307**	**634,307**	**643,818**	630,685	638,297
Derivative financial liabilities						
Interest rate swaps	**881**	**—**	**881**	**881**	318	318
Conversion feature on convertible debenture	**5**	**—**	**5**	**5**	5	5
REIT units	**96,682**	**—**	**96,682**	**96,682**	80,401	80,401

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

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
Non-financial assets				
Investment properties	—	—	937,372	937,372
Financial liabilities				
REIT units	96,682	—	—	96,682
Derivative financial liabilities				
Interest rate swaps	—	881	—	881
Conversion feature on convertible debenture	—	—	5	5

Investment properties

Investment properties are remeasured to fair value on a recurring basis, determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows.

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

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

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

The significant unobservable inputs in the Level 3 valuations are as follows:

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

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

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

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

Investment properties were reviewed by qualified external valuators at September 30, 2016, which resulted in fair value gains of $15,587 recorded as fair value adjustment on investment properties in the interim condensed consolidated statements of income and comprehensive income.

For the year ended December 31, 2015, Melcor Development Ltd.'s internal valuation team performed the valuation assessment. Of 76 legal phases assessed, 37 properties with a fair value of $586,298 were valued by qualified independent external valuation professionals during the year, which resulted in fair value gains of $9,574.

The following table summarizes the valuation approach, significant unobservable inputs, and the relationship between the inputs and the fair value:

Asset	Valuation approach	Significant unobservable inputs	Relationship between inputs and fair value
Investment properties	Direct capitalization or discounted cash flows	- Capitalization rate - Discount rate - Terminal rate - Stabilized NOI - Cash flows	Inverse relationship between capitalization, discount and terminal rates and fair value (higher rates result in decreased fair value); whereas higher stabilized NOI or cash flows results in increased fair value.
Properties under development	Direct capitalization less cost to complete	- Capitalization rate - Stabilized NOI - Costs to complete	Inverse relationship between capitalization rate and fair value (higher capitalization rate results in lower fair value); whereas higher stabilized NOI results in increased fair value.
Properties under development - undeveloped land	Direct comparison	- Comparison to market transactions for similar assets	Land value reflects market value.

Weighted average annual stabilized net operating income for investment properties as at September 30, 2016 is $1,461 (December 31, 2015 - $1,488). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

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

	Investment Properties			**Properties under Development**		
September 30, 2016	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**8.75%**	**6.58%**	**6.00%**	**6.75%**	**6.65%**
Terminal capitalization rate	**5.75%**	**9.00%**	**6.80%**	**6.25%**	**7.25%**	**7.11%**
Discount rate	**6.50%**	**9.75%**	**7.65%**	**7.00%**	**7.75%**	**7.67%**

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

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by $56,298 (December 31, 2015 - $55,483). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by $65,564 (December 31, 2015 - $64,662).

REIT units

REIT units are remeasured to fair value on a recurring basis. The units are fair valued based on the trading price of the REIT units at the period end date. At September 30, 2016 the fair value of the REIT units was $96,682, resulting in a fair value loss for the nine month period of $16,281 (December 31, 2015 - gain of $25,261) recorded in the statement of income and comprehensive income (note 9).

Derivative financial liabilities

Our derivative financial liabilities are comprised of floating for fixed interest rate swaps on mortgages (level 2) and the conversion feature on our convertible debenture (level 3).

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at September 30, 2016 the fair value of interest rate swap contracts was $881.

The significant unobservable inputs used in the fair value measurement of the conversion feature on the convertible debenture as at September 30, 2016 are as follows:

- Volatility - expected volatility as at September 30, 2016 was derived from the historical prices of our trust units. As the REIT was formed on May 1, 2013, price history is limited and we use the entire historical data up until September 30, 2016. Volatility was 15.86% (December 31, 2015 - 15.86%).
- Credit spread - the credit spread of the convertible debenture was imputed from the traded price of the convertible debenture as at September 30, 2016. The credit spread used was 4.60% (December 31, 2015 - 4.60%).

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

11. EVENTS AFTER THE REPORTING PERIOD

Distributions on REIT trust units

On October 14, 2016 we declared a distribution of $0.05625 per unit for the months of October, November and December 2016. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
October 2016	October 31, 2016	November 15, 2016	$0.05625 per unit
November 2016	November 30, 2016	December 15, 2016	$0.05625 per unit
December 2016	December 30, 2016	January 16, 2017	$0.05625 per unit

Dividends declared

On November 9, 2016 our board of directors declared a dividend of $0.12 per share payable on December 30, 2016 to shareholders of record on December 15, 2016.

12. COMPARATIVE FIGURES

The three and nine month comparative 2015 balances of payment of tenant incentives and direct leasing costs of $1,738 and $5,120 change in restricted cash of $1 and $64, and purchase of land inventory of $nil and $2,500 have been reclassified from investing activities to operating activities in the consolidated statement of cash flows to reflect better presentation of the underlying nature of the cash flows.