Management's Discussion & Analysis

Table of Contents

November 5, 2014

The following discussion of Melcor Developments Ltd.'s ("Melcor" or the "Company") 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, 2014 and the Management's Discussion & Analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2013.

The financial statements underlying this management's discussion and analysis (MD&A), including 2013 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted.

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on November 5, 2014. Disclosures contained in this MD&A are current to November 5, 2014 unless otherwise noted.

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

Other Information

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

Non-standard Measures

We refer to terms that are not specifically defined in the CPA Handbook and do not have any standardized meaning prescribed by IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results.

For a definition of these measures, refer to the section "Non-standard Measures" at the end of the MD&A.

Forward-looking Statements

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

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

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2014 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

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

Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by the company or on its behalf.

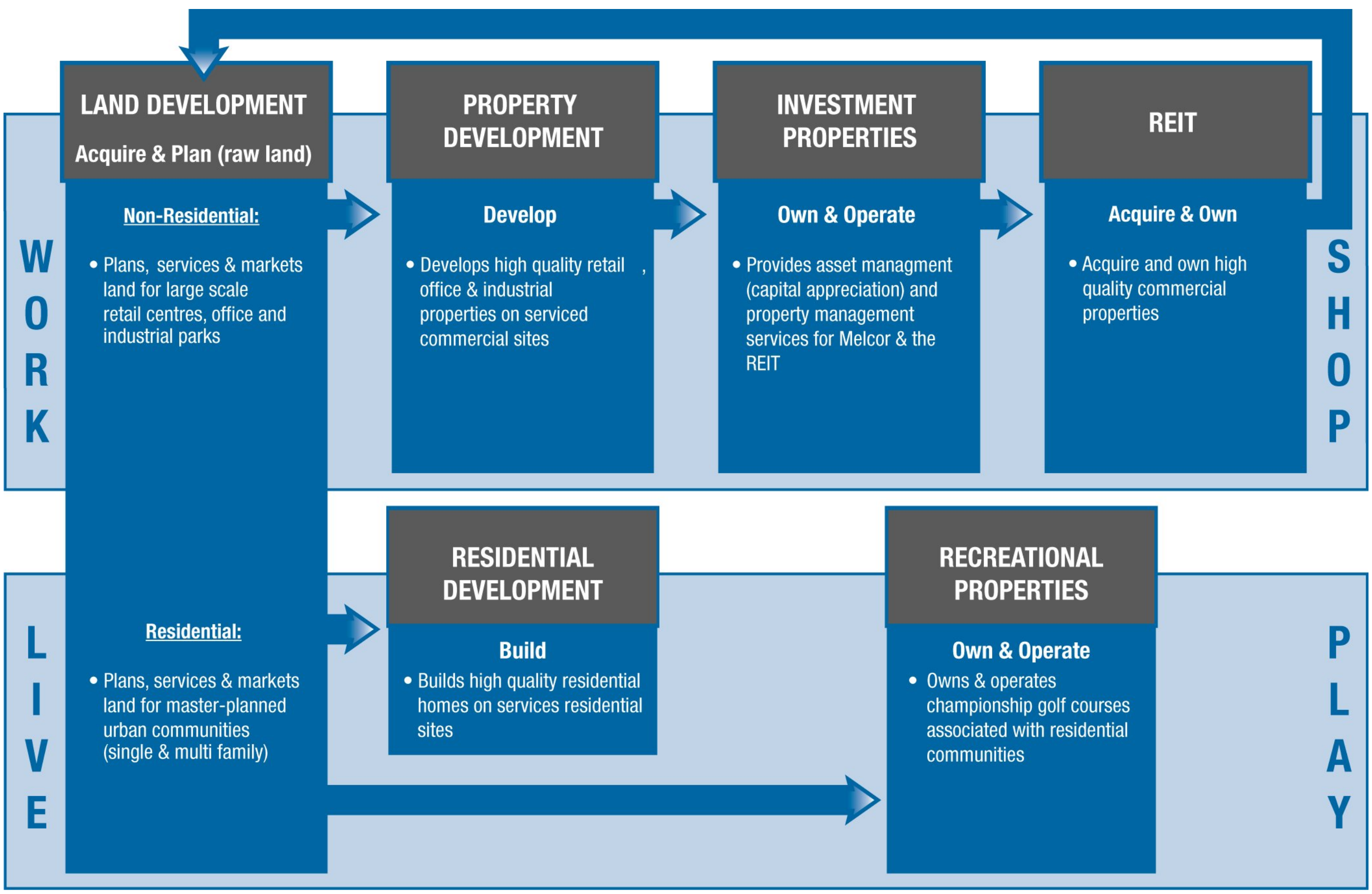
Our Business

Melcor is a diversified real estate development and asset management company with a rich heritage of integrity and innovation in real estate. We develop, manage, and own mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. We are committed to enriching quality of life where people live, work, shop and play.

Through our integrated operating divisions, we manage the full life cycle of real estate development:

- acquiring raw land (Community Development)
- planning residential and commercial communities (Community Development)
- project managing development and construction of commercial properties (Property Development)
- operating a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property management for Melcor REIT ("REIT") (Investment Properties)
- acquiring and owning high quality leasable office, retail and residential sites (REIT: 47.6% owned). We retain a controlling 47.6% effective interest in the REIT and continue to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement.
- own and operate championship golf courses associated with our residential communities (Recreational Properties).

These diversified operating divisions enable us to manage our business through real estate cycles (both general market strength and the seasonality associated with construction and development), diversify our revenue base and build value out of our asset base.



We are one of Canada's leading real estate development and management companies, an accomplishment we attained by demonstrating our values – honesty, integrity, loyalty, respect, quality and pride in our products – in all that we do and in our interactions with our customers, suppliers, shareholders and employees.

Our headquarters are in Edmonton, Alberta, with regional offices in Alberta, British Columbia, and Phoenix, Arizona. Our developments span Western Canada and the US. We have been publicly traded since 1968 (TSX:**MRD**).

Third Quarter Highlights

($000s except as noted)	Three months ended			Nine months ended		
	30-Sep-14	30-Sep-13	Change	30-Sep-14	30-Sep-13	Change
Revenue	**93,484**	59,195	57.9%	**191,557**	151,549	26.4%
Gross margin (%)	**47.2%**	45.5%	1.7%	**48.4%**	46.2%	2.2%
Net income	**26,193**	21,882	19.7%	**50,642**	44,714	13.3%
Margin on net income	**28.0%**	37.0%	(9.0%)	**26.4%**	29.5%	(3.1%)
Adjusted earnings*	**22,721**	20,146	12.8%	**48,259**	54,702	(11.8%)
Funds from operations *	**27,623**	10,628	159.9%	**48,228**	26,290	83.4%
Per Share Data						
Basic earnings	**0.83**	0.72	15.3%	**1.62**	1.47	10.2%
Diluted earnings	**0.83**	0.68	22.1%	**1.60**	1.41	13.5%
Adjusted basic earnings*	**0.73**	0.66	10.6%	**1.54**	1.80	(14.4%)
Adjusted diluted earnings*	**0.72**	0.61	18.0%	**1.53**	1.67	(8.4%)
Funds from operations *	**0.88**	0.35	151.4%	**1.54**	0.87	77.0%

As at ($000s except as noted)	30-Sep-14	31-Dec-13	Change
Shareholders' equity	**857,981**	769,231	11.5%
Total assets	**1,811,021**	1,727,933	4.8%
Per Share Data			
Book value *	**25.96**	25.03	3.7%

**See non-standard measures for calculation.*

Highlights include:

- Revenue grew by 58% compared to Q3-2013 and 26% year-to-date, driven by:
  - Strong residential demand continues in Alberta, with a 90% increase in single-family lot sales in the quarter and 35% year-to-date.
  - A 32% increase in gross leasable area (GLA) owned by our Investment Properties and REIT divisions since Q3-2013. This growth is a result of executing on our growth strategy for external acquisitions and the transfer of newly completed commercial properties from the Property Development division.
  - Our Property Development division completed and transferred 3 buildings (79,353 sq. ft.) from 2 projects, McKenzie Industrial and Chestermere Station, to Investment Properties in Q3-2014. Year-to-date, 12 buildings (279,115 sq. ft.) across 6 projects were completed and transferred.
- We continued to invest in raw land inventory to support future growth in our strategic markets with the following acquisitions:
  - 147.27 acres of land in SE Edmonton (Alberta) at a cost of $17.32 million.
  - 122.85 acres of land in Arizona for $7.10 million (US$6.51 million).
- Melcor REIT continues to execute its operating and growth strategy:
  - REIT revenue grew by 13% over Q3-2013 as a result of our growing portfolio. Occupancyremained steady in the quarter. Higher revenue resulted in a 13% increase in NOI over Q3-2013.
  - The REIT entered into an agreement with a third party to acquire a 158,320 sq. ft. office and retail property situated on an 18.98 acre site (including approximately 2 acres of undeveloped area) located in Edmonton, AB for a purchase price of $31.38 million. The purchase price will be settled through the assumption of approximately $15.10 million in mortgage debt and cash from the revolving line of credit. The acquisition is expected to close in Q4-2014.
- We continue our tradition of returning capital to our investors:
  - Melcor declared a semi-annual dividend of $0.30 per share, payable on December 31, 2014 to shareholders of record on December 15, 2014. The dividend is an eligible dividend for Canadian tax purposes.
  - Melcor REIT paid distributions of $0.05625 per trust unit in July, August and September. Distributions made in FY-2014 represent a payout ratio of 86%. Melcor REIT also declared distributions of $0.05625 per trust unit for October, November and December, 2014.

Revenue & Margins:

- Revenue in Q3-2014 improved by 58% to $93.48 million compared to $59.20 million in Q3-2013 as a result of:
  - Strong residential demand, particularly in Alberta. Community Development revenue is up 66% over Q3-2013 and 26% year-to-date.
  - Investment Properties revenue grew by 59% in the quarter and 67% year-to-date due to acquisitions completed earlier in 2014 and the subsequent growth in GLA, and as commercial properties were completed and transferred from the Property Development division.
  - REIT revenue grew by 13% as a result of increased GLA subsequent to acquisitions completed earlier in 2014. Year-to-date revenue increased 12% to $32.84 million.

- FFO per share adjusts for certain non-cash earnings items included in income such as fair value adjustments on investment properties and stock based compensation expense. FFO per share was $0.88 in Q3-2014, an increase of $0.53 per share, or 151.4% from the same quarter last year as a result of higher revenue and improved margins in the quarter.
- Adjusted earnings attributable to Melcor's shareholders ("adjusted earnings"), which reflects our proportionate interest in the earnings of the REIT, was $22.72 million in Q3-2014, an increase of 13% over Q3-2013. Adjusted basic earnings per share were $0.73, an increase of 11% over Q3-2013.
- Our quarterly results are impacted by the cyclical nature of our business. 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.

Melcor REIT

The REIT began operations on May 1, 2013 when its trust units were issued for cash pursuant to the initial public offering ("IPO"). Units of the REIT trade on the Toronto Stock Exchange under the symbol MR.UN. The REIT is externally managed, administered and operated by Melcor Developments Ltd. ("Melcor") pursuant to the Property Management Agreement and Asset Management Agreement.

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust dated January 25, 2013, which was subsequently amended and restated May 1, 2013.

On May 7, 2014 the REIT completed the issuance of 1,900,000 trust units at a price of $10.65 per unit to a syndicate of underwriters, on a bought deal basis, for gross proceeds of $20.24 million. Subsequently, the underwriters exercised their over-allotment option to purchase an additional 245,000 trust units at a price of $10.65 for gross proceeds of $2.61 million. On May 9, 2014 the REIT used partial proceeds to purchase two investment properties from Melcor at a purchase price of approximately $13.50 million. The purchase price was satisfied through cash consideration of $6.10 million and the issuance of 694,836 Class B LP Units of the REIT at $10.65 per unit, with a fair value of approximately $7.40 million.

As at November 5, 2014, Melcor, through an affiliate, holds an approximate 47.6% effective interest in the REIT through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party.

Adjusted Earnings Attributable to Melcor's Shareholders

The following analysis adjusts the consolidated net income attributable to Melcor's shareholders for the three and nine months ended September 30, 2014 to reflect our proportionate interest in the earnings of the REIT. As detailed below, we have adjusted consolidated net income attributable to Melcor's shareholders for amounts recorded as a result of the non-controlling interest ("NCI") being recorded as a financial liability. The adjustments are summarized as follows:

- adjustments related to REIT units in Q3-2014 were comprised of distributions to unitholders of $1.90 million and a fair value gain of $4.51 million; year-to-date distributions to unitholders were $5.23 million, transaction costs on REIT units were $1.74 million and a fair value gain of $6.29 million was recognized on REIT units;
- management fees earned by Melcor under the asset management and property management agreements, which are eliminated upon consolidation; and
- the unitholders' interest in the REIT's post-formation earnings.

We consider adjusted earnings attributable to Melcor's shareholders ("adjusted earnings") to be more representative of the operational activities, financial results and earnings attributable to Melcor's shareholders. The most comparable IFRS metric is net income.

	Three months ended		Nine months ended	
	30-Sep-14	30-Sep-13	30-Sep-14	30-Sep-13
Net income attributable to Melcor's shareholders	**26,193**	21,882	**50,642**	44,714
Adjustments related to REIT Units	**(2,608)**	685	**680**	13,033
Management fees earned from the REIT	**549**	486	**1,518**	734
Unitholders' portion of earnings of the REIT	**(1,413)**	(2,907)	**(4,581)**	(3,779)
Adjusted earnings	**22,721**	20,146	**48,259**	54,702
Adjusted basic EPS*	**0.73**	0.66	**1.54**	1.80
Adjusted diluted EPS*	**0.72**	0.61	**1.53**	1.67

**See non-standard measures for calculation.*

Divisional Results

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

- Community Development, which acquires, plans and services raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed by Community Development;
- Investment Properties, which manages and leases the commercial developments produced by the Property Development division and an externally purchased portfolio of assets, as well as assets held in the REIT;
- REIT, which owns and holds 32 income-producing properties; and
- Recreational Properties, which owns and operates four championship golf courses associated with Melcor residential communities.

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

The following tables summarize results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	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)	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Revenue	**71,053**	42,865	**267**	1,019	**10,249**	6,444	**11,074**	9,794	**4,349**	4,243
Portion of total revenue	**76%**	72%	**—%**	2%	**11%**	11%	**12%**	17%	**5%**	7%
Cost of sales	**(40,258)**	(24,949)	**—**	—	**(3,749)**	(2,969)	**(4,281)**	(3,874)	**(2,383)**	(2,325)
Gross margin	**30,795**	17,916	**267**	1,019	**6,500**	3,475	**6,793**	5,920	**1,966**	1,918
Gross margin %	**43%**	42%	**100%**	—%	**63%**	54%	**61%**	60%	**45%**	45%
Portion of total margin	**70%**	66%	**1%**	4%	**15%**	13%	**15%**	22%	**4%**	7%
General and administrative expense	**(2,682)**	(2,672)	**(455)**	(443)	**(801)**	(848)	**(470)**	(458)	**(662)**	(558)
Fair value adjustment on investment properties	**—**	—	**(1,910)**	10,206	**152**	(1,045)	**(3,840)**	3,079	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**116**	—
Interest income	**805**	555	**—**	3	**8**	24	**15**	23	**—**	—
Divisional income before tax	**28,918**	15,799	**(2,098)**	10,785	**5,859**	1,606	**2,498**	8,564	**1,420**	1,360

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

	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)	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Revenue	127,975	101,780	826	2,415	27,718	16,567	32,840	29,255	8,224	7,751
Portion of total revenue	67%	67%	—%	2%	14%	11%	17%	19%	4%	5%
Cost of sales	(72,469)	(59,334)	—	—	(10,688)	(7,624)	(13,032)	(11,556)	(4,822)	(4,698)
Gross margin	55,506	42,446	826	2,415	17,030	8,943	19,808	17,699	3,402	3,053
Gross margin %	43%	42%	100%	—%	61%	54%	60%	60%	41%	39%
Portion of total margin	60%	61%	1%	3%	18%	13%	21%	25%	4%	4%
General and administrative expense	(7,036)	(7,679)	(1,512)	(1,272)	(2,068)	(1,417)	(1,492)	(1,269)	(1,782)	(1,531)
Fair value adjustment on investment properties	—	—	3,133	13,813	2,209	3,470	(3,103)	7,465	—	—
Gain on sale of assets	—		—		—		—		167	9
Interest income	1,984	1,587	—	5	22	38	54	46	—	—
Divisional income before tax	50,454	36,354	2,447	14,961	17,193	11,034	15,267	23,941	1,787	1,531

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

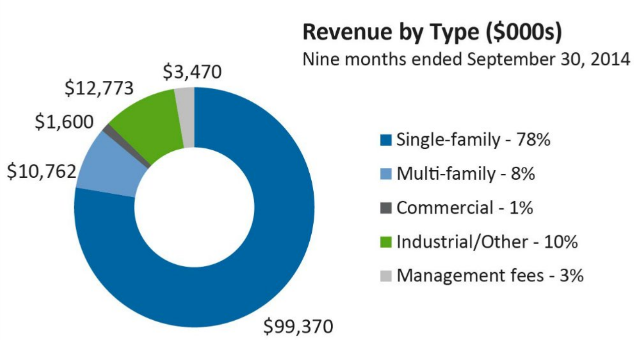
Community Development

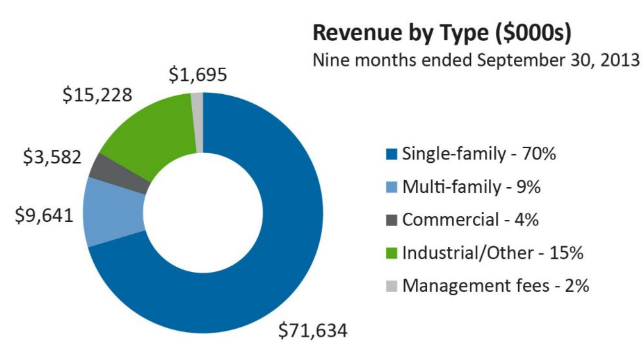
Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning, 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 the land into commercial developments.

We earn management fees on joint venture projects for our efforts to develop the projects. Management fees fluctuate based on the level of joint venture activity each period.

Sales Activity

Income can fluctuate significantly from period to period due to the timing of plan registrations, the cyclical nature of real estate markets, the mix of land sold, and the mix of joint arrangement sales activity.





Consolidated	Three months ended		Nine months ended	
	30-Sep-14	30-Sep-13	30-Sep-14	30-Sep-13
Sales data: (including joint ventures at 100%)				
Single family sales (number of lots)	**549**	289	**918**	682
Gross average revenue per single-family lot ($)	**154,600**	169,400	**161,700**	145,500
Multi-family sales (acres)	**4.57**	6.56	**14.66**	16.77
Gross average revenue per multi-family acre ($)	**1,272,200**	854,400	**1,087,000**	892,200
Commercial sales (acres)	**—**	—	**1.23**	5.50
Gross average revenue per commercial land acre ($)	**—**	—	**1,300,800**	753,900
Industrial sales (acres)	**12.15**	11.85	**21.18**	28.27
Gross average revenue per industrial land acre ($)	**413,300**	551,600	**383,000**	486,000
Other land sales - Raw, Other (acres)	**1.75**	69.42	**14.35**	87.74
Gross average revenue per other land acre ($)	**71,900**	34,800	**301,400**	37,600
Financial results: (including joint arrangements at Melcor's interest)				
Revenue ($000s)	**71,053**	42,865	**127,975**	101,780
Earnings ($000s)	**28,918**	15,799	**50,454**	36,354

Revenue growth in the Community Development division was driven by solid single-family lot Q3-2014. Revenue increased by 66% and earnings were up 83% compared to Q3-2013. Single-family lot sales were up 90% compared to Q3-2013. The Calgary and Red Deer regions both had strong sales activity in the quarter. Our primary market is Alberta, where overall market conditions remain stable.

Regional Sales Analysis

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

Regional Sales Analysis	Three months ended 30-Sep-14			Three months ended 30-Sep-13		
(including joint arrangements at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	**115**	**4.57**	**12.15**	152	6.05	8.35
Red Deer	**147**	**—**	**—**	—	0.51	1.50
Calgary Region	**265**	**—**	**—**	127	—	2.00
Lethbridge	**18**	**—**	**—**	8	—	—
Kelowna	**4**	**—**	**—**	2	—	—
United States	**—**	**—**	**—**	—	—	—
	549	**4.57**	**12.15**	289	6.56	11.85

Regional Sales Analysis	Nine months ended 30-Sep-14			Nine months ended 30-Sep-13		
(including joint arrangements at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	**342**	**6.84**	**16.62**	328	12.65	9.30
Red Deer	**197**	**—**	**2.67**	20	0.51	12.48
Calgary Region	**345**	**7.82**	**3.12**	204	3.61	11.99
Lethbridge	**29**	**—**	**—**	41	—	—
Kelowna	**5**	**—**	**—**	6	—	—
United States	**—**	**—**	**—**	83	—	—
	918	**14.66**	**22.41**	682	16.77	33.77

The Calgary Region had a strong third quarter, with 265 (Q3-2013 - 127) single family lots sold bringing year-to-date lot sales to 345 (Q3-2013 - 204) for the region. Sales in Sunset Ridge (Cochrane) and Kings Heights (Airdrie) contributed 244 of the 265 lot sales in the Calgary region, and $20.25 million in revenue to the division in Q3-2014. Lot sales in the Edmonton Region were driven by strong sales in West and South Edmonton projects, including Aurora, Larch Park, Windermere and Jagare Ridge, where a combined 64 lots were sold in the quarter. Our Laredo project in Red Deer sold 131 lots in Q3-2014. Multi-family sales (acres) and Industrial sales (acres) in the Edmonton Region contributed an additional $7.89 million in revenue.

Inventory

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

Developed Inventory	**Nine months ended 30-Sep-14**			Nine months ended 30-Sep-13		
(including joint arrangements at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	**1,498**	**70.93**	**181.15**	1,180	93.05	237.63
Purchases	**—**	**—**	**—**	—	—	—
New developments	**571**	**9.15**	**(4.58)**	702	13.72	9.20
Internal sales	**—**	**—**	**—**	—	—	—
Sales	**(918)**	**(14.66)**	**(22.41)**	(682)	(16.77)	(33.77)
	1,151	**65.42**	**154.16**	1,200	90.00	213.06

Raw land inventory

To support future growth, we acquire land in strategic growth corridors and maintain an inventory of land for future development in our primary markets. During the quarter, we purchased 147.27 acres of raw land in the Edmonton region for $17.32 million and 122.85 acres in the United States for $7.10 million (US$6.51 million). 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 leases high-quality retail, office and industrial revenue-producing properties on prime commercial sites purchased primarily from our Community Development division. The division currently operates solely in Alberta.

Revenue in the division is comprised of management fees paid by joint arrangement partners and is a percentage of the total development costs incurred, which fluctuate period to period depending on the development stage of active projects. During Q3-2014, the division recognized $0.27 million in management fees, a decrease of $0.75 million compared to Q3-2013.

The Property Development division realizes fair value gains resulting from development and leasing activities. Built and leased properties are transferred at fair market value to the Investment Properties division for long-term property management. The Property Development division's income is impacted by the construction season. We generally expect to see the majority of fair value increases in the third and fourth quarters as construction and leasing are completed.

In Q3-2014, the division recognized fair value losses of $1.91 million due to budget revisions and changes in valuations on two commercial properties. Year-to-date gains in the property development division were $3.13 million compared to $13.81 million in 2013. These gains relate to commercial and industrial development in the Edmonton area and in Fort McMurray.

Property Development has had an active year, with 12 buildings (279,115 sq. ft.) completed and transfered to Investment Properties. A further 346,600 sq. ft. remain under development.

The following table is a summary of current and future development projects:

Current Projects					
Project	Location	Type	Total Sq. Ft. *	Sq. Ft. Under Development	Sq. Ft. Transferred (year to date)
The Village at Blackmud Creek	South Edmonton	*Regional business park*	666,000	-	57,365
Telford Industrial	Leduc	*Industrial Park*	511,000	54,000	88,699
West Henday Promenade	West Edmonton	*Regional mixed use centre*	305,000	10,500	47,191
Kingsview Market	Airdrie	*Regional shopping centre*	234,000	12,000	—
Stoneycreek Shopping Centre	Fort McMurray	*Regional mixed use centre*	210,000	210,000	—
McKenzie Industrial	Red Deer	*Industrial Park*	67,274	—	67,274
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	58,000	10,100	12,079
Clearview Market	Red Deer	*Neighbourhood shopping centre*	36,000	25,000	—
Leduc Common	Leduc	*Regional shopping centre*	25,000	25,000	6,507

Expected Future Projects					
Project	Location	Type	Total Sq. Ft. *	Ownership Interest	Expected Start
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	2,250,000	100%	2014
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	100%	2015
The Shops at Jagare Ridge	South Edmonton	*Neighbourhood shopping centre*	86,000	50%	2015
Campsite Business Park	Spruce Grove	*Industrial Park*	36,000	100%	2015
Greenwich	West Calgary	*Regional mixed use centre*	419,000	100%	2016
Keystone Common	North Calgary	*Regional power centre*	775,000	100%	2016
West Pointe Marketplace	Lethbridge	*Regional power centre*	750,000	100%	2016
West Calgary Marketplace	West Calgary	*Regional power centre*	800,000	100%	2017

** Size represents the estimated total square footage remaining to be developed in the project. 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 residential, office, retail and industrial properties, which are located across Western Canada and the US (including the properties owned by the REIT). The division manages 2.76 million square feet of income-producing commercial GLA and 1,285 residential units. Our portfolio has high occupancy rates with long-term tenancies representing a diverse range of industries.

Operating results

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

($000s except as noted)	Three months ended		Nine months ended	
	30-Sep-14	30-Sep-13	30-Sep-14	30-Sep-13
Rental revenue	**8,873**	5,450	**24,413**	15,065
Management fees	**1,376**	994	**3,305**	1,502
Net operating income (NOI) *	**6,648**	3,604	**17,766**	8,758
Same asset NOI * (see calculation following)	**2,521**	2,219	**7,141**	6,790
Fair value gains (losses)	**152**	(1,045)	**2,209**	3,470
Gross leasable area (sq.ft.)	**919,279**	401,611	**919,279**	401,611
Occupancy	**89.0%**	95.7%	**89.0%**	95.7%
Fair value of portfolio	**312,411**	195,198	**312,411**	195,198
Funds from operations *	**6,141**	2,976	**16,725**	8,347
Funds from operations per share *	**0.20**	0.10	**0.54**	0.28

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

Rental revenues increased $3.42 million or 63% over Q3-2013 and $9.35 million or 62% year-to-date, primarily due to the 129% increase in GLA since Q3-2013. Increased 2014 revenue was comprised of:

- the July 31, 2013 acquisition of our joint arrangement partner's 50% interest in LethCentre, which added 223,116 sq. ft.
- the transfer of 12 buildings from Property Development year-to-date, which added 279,115 sq. ft. to the portfolio; 4 buildings (30,264 sq. ft.) were also transferred in Q3-2013
- the Q2-2014 acquisition of two commercial properties (59,220 sq. ft. on 3.05 acres) in the Greater Phoenix area

These new properties contributed additional revenue of $2.97 million to Q3-2014 ($8.05 million year-to-date). These additions were offset by the sale of two commercial properties (Market Mall and Kingsview Phase Three - 54,141 sq. ft.) to the REIT during Q2-2014, which reduced revenue by 0.40 million during the nine-month periods respectively.

Foreign currency translation gains and improved occupancy on our US residential units, contributed an $0.35 million to Q3-2014 revenues ($1.71 million year-to-date) over Q3-2013.

Investment Properties occupancy will fluctuate from period to period as the division continues to acquire completed properties from Property Development. The occupancy decrease over Q3-2013 reflects lower average occupancy on recently transferred properties, which are in the process of being fully leased up. Same asset occupancy was steady compared to 2013.

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

($000s except as noted)	Three months ended		Nine months ended	
	30-Sep-14	30-Sep-13	30-Sep-14	30-Sep-13
Same asset NOI *	**2,521**	2,219	**7,141**	6,790
Acquisitions / transfers from Property Development division	**2,463**	71	**5,896**	147
Transfer to REIT	**(8)**	141	**259**	410
NOI before adjustments	**4,976**	2,431	**13,296**	7,347
Foreign currency translation	**148**	50	**429**	94
Management fees from Melcor REIT	**1,376**	994	**3,305**	1,502
Amortization of operating lease incentives	**434**	325	**1,741**	783
Straight-line rent adjustment	**(286)**	(196)	**(1,005)**	(968)
NOI *	**6,648**	3,604	**17,766**	8,758

** See non-standard measures for definition.*

Divisional NOI is defined as rental revenue less property operating costs plus amortization of tenant incentives and straight-line rent adjustments. NOI increased $3.04 million or 84% over Q3-2013, and $9.01 million or 103% year-to-date as a result of portfolio growth as detailed above coupled with foreign currency translation gains and increases to the management fees earned. On a same asset basis, NOI increased by 14% and 5% over the comparative three and nine-month periods as a result of higher average occupancy at LethCentre and increased occupancy and rental rates on US residential assets.

Divisional revenue includes fees earned from the REIT under the asset management and property management agreements and under other joint venture agreements where Melcor acts as the manager. Management fees increased by $0.38 million and $1.80 million during the three and nine months ended September 30, 2014 as a result of REIT portfolio growth and strong leasing activity during the period. During the three and nine months ended September 30, 2014, total management fees earned under these agreements were $1.38 million and $3.31 million respectively (2013 - $0.99 million and $1.50 million).

Funds from operations increased by $3.17 million over Q3-2013 and $8.38 million year-to-date. The increase was the result of higher NOI.

G&A growth during the nine-month period is the result of increased costs associated with managing additional properties for both Melcor and the REIT. Analysis of G&A period over period is impacted by the formation of the REIT.

Fair value of investment properties will fluctuate based on changes in capitalization rates, capital and tenant lease incentives spending, and non-cash adjustments related to amortization of tenant lease incentives and straight-line rent adjustments.

In Q3-2014, we completed the redevelopment of LethCentre (446,272 sq. ft.). This project started in 2011 to convert an under-performing shopping mall into an office complex.

REIT

At the end of Q3-2014, the REIT owned 32 income-producing office, retail and industrial properties, comprising 1.84 million square feet of GLA and a land lease community. 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 47.6% effective interest in the REIT through ownership of all Class B LP Units. As Melcor controls the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities. The following tables include financial information for the pre-acquisition period, as included in the comparative period, based on financial information previously reported by the Investment Properties division, at 100% interest.

Operating results

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

($000s except as noted)	Three months ended		Nine months ended	
	30-Sep-14	30-Sep-13	30-Sep-14	30-Sep-13
Rental revenue	**11,074**	9,794	**32,840**	29,255
Net operating income (NOI) *	**7,164**	6,343	**21,101**	19,064
Same asset NOI * *(see calculation following)*	**5,853**	5,857	**17,525**	17,636
Fair value gains (losses)	**(3,840)**	3,079	**(3,103)**	7,465
Gross leasable area (sq.ft.)	**1,837,439**	1,628,603	**1,837,439**	1,628,603
Occupancy	**91.4%**	91.6%	**91.4%**	91.6%
Fair value of portfolio	**468,216**	416,514	**468,216**	416,514
Funds from operations *	**6,937**	6,039	**20,129**	18,157
Funds from operations per share *	**0.23**	0.20	**0.65**	0.60

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

Rental revenue in Q3-2014 increased by $1.28 million or 13% over 2013 as a result of GLA growth of 13% over Q3-2013. Same-asset rental revenue was steady over Q3-2013. Year-to-date rental revenue increased by $3.59 million or 12% over 2013, of which $2.99 million was related to properties acquired over the past 12 months. The remainder of the increase was driven by higher recoveries for direct operating expenses incurred during the period. Occupancy remained steady at91.4% from 91.6% at Q3-2013.

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

($000s except as noted)	Three months ended		Nine months ended	
	30-Sep-14	30-Sep-13	30-Sep-14	30-Sep-13
Same asset NOI *	**5,853**	5,857	**17,525**	17,636
Acquisitions	**940**	63	**2,283**	63
NOI before adjustments	**6,793**	5,920	**19,808**	17,699
Amortization of operating lease incentives	**599**	554	**1,759**	1,681
Straight-line rent adjustment	**(228)**	(131)	**(466)**	(316)
Divisional NOI	**7,164**	6,343	**21,101**	19,064

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

Divisional NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustment. Property acquisitions completed since IPO drove the increase in NOI with 13% and 11% growth over the three and nine months ended 2013, respectively. On a same asset basis, NOI was steady over 2013 with differences in the timing of recoverable operating expenses and allocations in Q3-2013 negatively affecting the year-to-date figures.

Funds from operations (FFO) increased by $0.90 million or 15% over Q3-2013 with a year-to-date increase of $1.97 million or 11%. The increase reflects higher NOI, which was partially offset by higher general and administrative expenses during the period.

The REIT recognized fair value losses of $3.84 million in Q3-2014 and $3.10 million year-to-date. Fair value losses across the portfolio were partially driven by timing differences on planned capital expenditures and payments of lease inducements and appraisals during the period. Tenant turnover at one property in Northern Alberta contributed to fair value losses during the period; offsetting gains recorded in the previous quarters as a result of decreased capitalization rates on recently acquired buildings. Decreased fair value adjustments over 2013 reflect capitalization rate stabilization and continued capital investment across the portfolio.

Recreational Properties

Our Recreational Properties division owns and manages championship golf courses built to add value to Melcor residential communities. The quarterly financial performance of our golf courses is greatly influenced by the weather conditions during the golf season.

	Ownership interest	Nine months ended September 30, 2014		Nine months ended September 30, 2013	
		Season opened 2014	Rounds of Golf	Season opened 2013	Rounds of Golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	**April 20**	**29,570**	May 1	27,785
The Links (Spruce Grove)	100%	**April 19**	**25,383**	May 1	24,880
Black Mountain (Kelowna)	100%	**March 28**	**27,837**	March 22	26,866
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	**April 30**	**21,945**	May 8	20,767

Revenues were up 2% in Q3-2014 due to the 4% increase in rounds played to September 30, 2014 and the continued focus on increasing food and beverage and other ancillary revenues.

General and administrative expense

General and administrative expense (G&A) decreased by 15% compared to Q3-2013. Cost savings have been realized from the retirements of senior executives in 2013 and 2014, which offsets growth in all operating divisions. During Q3-2013, the Corporate Governance and Compensation Committee approved a one-time increase to the performance incentive program as a result of the sale of the Initial Properties to the REIT.

Liquidity & Capital Resources

The following table represents selected information as at September 30, 2014, compared to December 31, 2013.

As at ($000s except as noted)	30-Sep-14	31-Dec-13
Cash & cash equivalents	**28,692**	28,973
Restricted cash	**3,396**	5,969
Accounts receivable	**20,340**	21,542
Agreements receivable	**151,524**	177,961
Revolving credit facilities	**120,610**	104,618
Accounts payable and accrued liabilities	**59,980**	65,256
Total assets	**1,811,021**	1,727,933
Total liabilities	**953,040**	958,702
Debt to equity ratio	**1.11**	1.25

We employ a range of financing strategies to fund 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 property development; and
- Fund investing activities such as the discretionary and strategic purchases 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 and 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, 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 continuously assess our capital needs. If capital needs arise we may consider our options to raise additional capital through the issuance of common shares, trust units, preferred shares, convertible debentures. Under certain circumstances, we would also consider these means to facilitate growth through acquisition or to reduce the utilized level on our credit facility.

Financing

As at September 30, 2014, our total general debt outstanding was $588.67 million. This compares to $574.33 million at December 31, 2013. A summary of our debt is as follows:

As at ($000s)	**30-Sep-14**	31-Dec-13
Melcor - revolving credit facility	**115,685**	80,870
REIT - revolving credit facility	**4,925**	23,748
Project specific financing	**69,369**	64,383
Secured vendor take back debt on land inventory	**76,834**	77,194
Debt on investment properties and golf course assets	**321,854**	288,801
Convertible debenture	**—**	39,336
	588,667	574,332

We are subject to financial covenants on Melcor's revolving credit facility. The covenants include a maximum debt to total capital ratio of 1.25, a minimum interest coverage ratio of 3.00, and a minimum net book value of shareholder’s equity of $300.00 million. As at September 30, 2014, and throughout the period, we were in compliance with our financial covenants with a debt to total capital ratio of 0.83, an interest coverage ratio of 8.39 and net book value of shareholder's equity of $857.98 million.

In addition, we are also subject to financial covenants on the REIT's revolving credit facility. We have an available credit facility based on the minimum of the carrying value and adjusted NOI of specific investment properties to a maximum of $25.00 million. The covenants include a maximum debt to total capital ratio of 0.60, a minimum interest coverage ratio of 1.50, and a minimum net book value of unitholders’ equity of $140.00 million. As at September 30, 2014, and throughout the period, the REIT was in compliance with its financial covenants with a debt to total capital ratio of 0.47, interest coverage ratio of 1.69, and a net book value of unitholders' equity of $247.34 million. We also have financial covenants on certain mortgages for investment properties. At September 30, 2014, and throughout the period, we were in compliance with our financial covenants on our mortgages. We prepare financial forecasts to monitor the changes in our debt and capital levels and our ability to meet our financial covenants.

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.

On August 6 and 7, 2014 Melcor issued of 2,160,993 shares following the redemption of the $40.00 million 6.25% convertible debenture (the "debentures") due February 8, 2017.

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**	
	30-Sep-14	30-Sep-13	30-Sep-14	30-Sep-13
Cash flows from operating activities	**13,452**	23,829	**46,991**	61,117
Cash flows used in investing activities	**(34,825)**	(68,780)	**(93,747)**	(110,664)
Cash flows from financing activities	**25,755**	47,569	**46,413**	64,022

Cash flows from operating activities was $13.45 million in the current quarter, a decrease of $10.38 million over Q3-2013. An increase in agreements receivable over Q2-2013 negatively impacted cash from operations by $18.68 million during the quarter. Year-to-date, cash from operations remains high at $46.99 million largely resulting from an increase in gross margin. Spending on development activities during the quarter is consistent with the seasonal nature of our business as the majority of plan registrations occur in the fourth quarter.

Cash flows used in investing activities were $34.83 million in the current quarter, a decrease of $33.96 million over Q3-2013. During Q3-2014, the Community Development division purchased 270.12 acres of land for net cash of $21.34 million. Strong leasing on investment properties throughout 2014 led to a year-to-date increase of $4.24 million in payments of tenant lease incentives.

Cash flows from financing activities were $25.76 million a decrease of $21.81 million over Q3-2013. During Q3-2013, proceeds from general debt contributed $37.59 million compared to $16.39 million in Q3-2014. Year-to-date, we paid out the semi-annual dividend of $0.28 per share resulting in a cash outflow of $8.64 million. In the comparative period, the semi-annual dividend was $0.25 per share and we also paid a special dividend of $0.50 per share, resulting in a cash outflow of $22.99 million.

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, 2014 there were 33,054,324 common shares issued and outstanding and 773,033 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, 2014 in comparison to the December 31, 2013 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

Quarterly Results

The following table presents a summary of our unaudited operating results for the past eight quarters. This information should be read in conjunction with the related financial statements, notes to the financial statements and management's discussion and analysis.

	Three Months Ended							
($000s)	**30-Sept-14**	30-Jun-14	31-Mar-14	31-Dec-13	30-Sep-13	30-Jun-13	31-Mar-13	31-Dec-12
Revenue	**93,484**	66,062	32,011	152,193	59,195	50,737	41,617	141,962
Net income	**26,193**	17,585	6,864	53,909	21,882	10,209	12,623	55,468
Per Share								
Basic earnings	**0.83**	0.57	0.22	1.76	0.72	0.34	0.41	1.84
Diluted earnings	**0.83**	0.55	0.22	1.64	0.68	0.33	0.40	1.72
Book value	**25.96**	25.49	25.35	25.03	23.52	22.87	23.36	22.89

We have historically experienced variability in our results of operations 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 occurs during the spring and summer months.

Related Party Transactions

Please refer to note 9 of the condensed interim consolidated financial statements for information pertaining to transactions with related parties.

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, 2014 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 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.

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.

Adjusted earnings attributable to Melcor's shareholders ("adjusted earnings"): this measure is calculated as earnings adjusted for the following: adjustments related to REIT units; management fees earned from the REIT; and unitholders' portion of earnings of the REIT.

Adjusted EPS and Adjusted diluted EPS: this measure is calculated as adjusted earnings attributable to Melcor's shareholders per basic and diluted weighted average shares outstanding.

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

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

Investment Properties

($000s)	Three months ended		Nine months ended	
	30-Sep-14	30-Sep-13	**30-Sep-14**	30-Sep-13
Divisional income for the period	**5,859**	1,606	**17,193**	11,034
Fair value adjustment on investment properties	**(152)**	1,045	**(2,209)**	(3,470)
General and administrative expenses	**801**	848	**2,068**	1,417
Interest income	**(8)**	(24)	**(22)**	(38)
Amortization of operating lease incentives	**434**	325	**1,741**	783
Straight-line rent adjustment	**(286)**	(196)	**(1,005)**	(968)
Divisional NOI	**6,648**	3,604	**17,766**	8,758

REIT

($000s)	Three months ended		Nine months ended	
	30-Sep-14	30-Sep-13	**30-Sep-14**	30-Sep-13
Divisional income for the period	**2,498**	8,564	**15,267**	23,941
Fair value adjustment on investment properties	**3,840**	(3,079)	**3,103**	(7,465)
General and administrative expenses	**470**	458	**1,492**	1,269
Interest income	**(15)**	(23)	**(54)**	(46)
Amortization of operating lease incentives	**599**	554	**1,759**	1,681
Straight-line rent adjustment	**(228)**	(131)	**(466)**	(316)
Divisional NOI	**7,164**	6,343	**21,101**	19,064

Consolidated

($000s)	Three months ended		Nine months ended	
	30-Sep-14	30-Sep-13	**30-Sep-14**	30-Sep-13
Net income for the period	**26,193**	21,882	**50,642**	44,714
Amortization of operating lease incentives	**1,033**	879	**3,500**	2,464
Fair value adjustment on investment properties	**4,105**	(13,967)	**(2,116)**	(26,475)
Depreciation on property and equipment	**532**	539	**1,220**	1,178
Stock based compensation expense	**115**	163	**372**	504
Non-cash interest	**711**	28	**1,151**	396
Gain on sale of asset	**(116)**	—	**(167)**	(9)
Deferred income taxes	**(440)**	2,017	**(87)**	3,518
Fair value adjustment on REIT units	**(4,510)**	(913)	**(6,287)**	—
FFO	**27,623**	10,628	**48,228**	26,290

Investment Properties

($000s)	Three months ended		Nine months ended	
	30-Sep-14	30-Sep-13	**30-Sep-14**	30-Sep-13
Divisional income for the period	**5,859**	1,606	**17,193**	11,034
Fair value adjustment on investment properties	**(152)**	1,045	**(2,209)**	(3,470)
Amortization of operating lease incentives	**434**	325	**1,741**	783
Divisional FFO	**6,141**	2,976	**16,725**	8,347

REIT

($000s)	Three months ended		Nine months ended	
	30-Sep-14	30-Sep-13	**30-Sep-14**	30-Sep-13
Divisional income for the period	**2,498**	8,564	**15,267**	23,941
Fair value adjustment on investment properties	**3,840**	(3,079)	**3,103**	(7,465)
Amortization of operating lease incentives	**599**	554	**1,759**	1,681
Divisional FFO	**6,937**	6,039	**20,129**	18,157

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

	For the three months ended		For the nine months ended	
Unaudited ($000s)	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Revenue	**93,484**	59,195	**191,557**	151,549
Cost of sales	**(49,338)**	(32,236)	**(98,871)**	(81,525)
Gross profit	**44,146**	26,959	**92,686**	70,024
General and administrative expense	**(6,739)**	(10,215)	**(18,173)**	(21,476)
Fair value adjustment on investment properties (note 5 and 12)	**(4,105)**	13,967	**2,116**	26,475
Adjustments related to REIT units (note 11)	**2,608**	(685)	**(680)**	(13,033)
Gain on sale of asset	**116**	—	**167**	9
Operating earnings	**36,026**	30,026	**76,116**	61,999
Interest income	**831**	613	**2,083**	1,690
Interest expense	**(4,812)**	(3,964)	**(13,614)**	(11,886)
Net finance costs	**(3,981)**	(3,351)	**(11,531)**	(10,196)
Income before income taxes	**32,045**	26,675	**64,585**	51,803
Income tax expense (note 8)	**(5,852)**	(4,793)	**(13,943)**	(7,089)
Net income for the period	**26,193**	21,882	**50,642**	44,714
Net income (loss) attributable to:				
Melcor's shareholders	**26,193**	21,882	**50,642**	44,719
Non-controlling interest (NCI)	**—**	—	**—**	(5)
Net income for the period	**26,193**	21,882	**50,642**	44,714
Earnings per share attributable to Melcor's shareholders:				
Basic earnings per share	**0.83**	0.72	**1.62**	1.47
Diluted earnings per share	**0.83**	0.68	**1.60**	1.41

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, 2014	September 30, 2013	For the nine months ended September 30, 2014	September 30, 2013
Net income for the period	**26,193**	21,882	**50,642**	44,714
Other comprehensive income				
Items that may be reclassified subsequently to net income:				
Currency translation differences	**4,857**	(1,945)	**4,235**	3,066
Comprehensive income	**31,050**	19,937	**54,877**	47,780
Comprehensive income attributable to:				
Melcor's shareholders	**31,050**	19,976	**54,877**	47,560
Non-controlling interest (NCI)	**—**	(39)	**—**	220
Comprehensive income	**31,050**	19,937	**54,877**	47,780

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	September 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	28,692	28,973
Restricted cash	3,396	5,969
Accounts receivable	20,340	21,542
Agreements receivable	151,524	177,961
Land inventory (note 4)	697,965	658,590
Investment properties (note 5 and 12)	844,205	784,510
Property and equipment	16,703	15,892
Other assets	48,196	34,496
	1,811,021	1,727,933
LIABILITIES		
Accounts payable and accrued liabilities	59,980	65,256
Income taxes payable	1,374	6,612
Provision for land development costs	128,809	154,909
General debt (note 6 and 12)	588,667	574,332
Deferred income tax liabilities	62,700	62,641
REIT units (note 11 and 12)	111,510	94,952
	953,040	958,702
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 7)	66,856	23,405
Contributed surplus	3,056	3,357
Convertible debenture	—	639
Accumulated other comprehensive income (AOCI)	7,615	3,380
Retained earnings	780,454	738,450
	857,981	769,231
	1,811,021	1,727,933

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited ($000s)	Share capital	Contributed surplus	Convertible debenture	AOCI	Retained earnings	NCI	Total equity
	Equity attributable to Melcor's shareholders						
Balance at January 1, 2014	**23,405**	**3,357**	**639**	**3,380**	**738,450**	**—**	**769,231**
Net income for the period	—	—	—	—	50,642	—	50,642
Cumulative translation adjustment	—	—	—	4,235	—	—	4,235
Transactions with equity holders							
Dividends	—	—	—	—	(8,638)	—	(8,638)
Redemption of Debenture	40,639	—	(639)	—	—	—	40,000
Employee share options							
Value of services recognized	—	372	—	—	—	—	372
Share issuance	2,812	(673)	—	—	—	—	2,139
Balance at September 30, 2014	**66,856**	**3,056**	**—**	**7,615**	**780,454**	**—**	**857,981**

Unaudited ($000s)	Share capital	Contributed surplus	Convertible debenture	AOCI	Retained earnings	NCI	Total equity
	Equity attributable to Melcor's shareholders						
Balance at January 1, 2013	15,580	4,460	639	(2,130)	672,283	3,925	694,757
Net income (loss) for the period	—	—	—	—	44,719	(5)	44,714
Contributions from non-controlling interest	—	—	—	—	—	324	324
Cumulative translation adjustment	—	—	—	2,841	—	225	3,066
Transactions with equity holders							
Dividends	—	—	—	—	(22,994)	—	(22,994)
Employee share options							—
Value of services recognized	—	504	—	—	—	—	504
Share issuance	7,025	(1,567)	—	—	—	—	5,458
Balance at September 30, 2013	22,605	3,397	639	711	694,008	4,469	725,829

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, 2014	September 30, 2013	For the nine months ended September 30, 2014	September 30, 2013
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	26,193	21,882	50,642	44,714
Non cash items:				
Amortization of tenant incentives	1,033	879	3,500	2,464
Depreciation of property and equipment	532	539	1,220	1,178
Stock based compensation expense	115	163	372	504
Non cash interest	711	28	1,151	396
Straight-line rent adjustment	(514)	(327)	(1,471)	(1,284)
Fair value adjustment on investment properties (note 5 and 12)	4,105	(13,967)	(2,116)	(26,475)
Fair value adjustment on REIT Units (note 11)	(4,510)	(913)	(6,287)	—
Gain on sale of asset	(116)	—	(167)	(9)
Deferred income taxes	(440)	2,017	(87)	3,518
	27,109	10,301	46,757	25,006
Agreements receivable	(18,682)	15,740	26,437	59,231
Development activities	(3,511)	(23,043)	(11,784)	(27,662)
Operating assets and liabilities	8,536	20,831	(14,419)	4,542
	13,452	23,829	46,991	61,117
INVESTING ACTIVITIES				
Purchase of land inventory (note 4)	(21,336)	(3,575)	(32,481)	(8,380)
Payment of tenant incentives	(736)	(2,891)	(10,328)	(6,092)
Purchase of investment properties	—	(38,471)	(24,135)	(40,949)
Additions to investment properties	(12,278)	(23,844)	(26,758)	(49,823)
Purchase of property and equipment	(1,304)	(687)	(2,149)	(1,741)
Proceeds on disposal of property and equipment	202	—	285	—
Change in restricted cash	627	688	1,819	(3,679)
	(34,825)	(68,780)	(93,747)	(110,664)
FINANCING ACTIVITIES				
Proceeds from issuance of trust units	—	—	22,845	91,300
Revolving credit facilities	20,865	21,386	15,996	(22,749)
Proceeds from general debt	16,393	37,586	62,322	104,608
Repayment of general debt	(12,316)	(11,837)	(49,005)	(88,824)
Change in restricted cash	249	274	754	(3,101)
Contributions from non-controlling interest	—	—	—	324
Dividends paid	—	—	(8,638)	(22,994)
Share capital issued	564	160	2,139	5,458
	25,755	47,569	46,413	64,022
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	58	86	62	105
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	4,440	2,704	(281)	14,580
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	24,252	23,504	28,973	11,628
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	28,692	26,208	28,692	26,208
Total income taxes paid	1,887	2,032	19,188	11,032
Total interest paid	5,124	4,672	16,491	14,936

See accompanying notes to these condensed interim consolidated financial statements.

1. CORPORATE INFORMATION

We are a real estate development company with community development, property development, investment property and recreational property divisions. We develop, manage, and own mixed-use residential communities, business and industrial parks, office buildings, retail commercial centers, 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, 2014 Melton Holdings Ltd. holds approximately 49% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling party of Melcor.

As at November 5, 2014, Melcor, through an affiliate, holds an approximate 47.6% effective interest in Melcor REIT ("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. We reflect the public's 52.4% interest in the REIT as a liability in our financial statements. 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.

The REIT is accounted for as a reorganization and recapitalization using the continuity of interests method, with Melcor consolidating the REIT and recording 100% of its revenues, expenses, assets and liabilities. The remaining 52.4% publicly held interest in the REIT is presented as a liability in our consolidated financial statements.

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim financial statements were approved for issue by the Board of Directors on November 5, 2014.

3. ACCOUNTING POLICIES

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

Changes in accounting policies

We have adopted the following new and revised interpretation effective January 1, 2014.

a) ***IFRIC 21, Levies,*** is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is required to be applied for accounting periods beginning on or after January 1, 2014, with earlier adoption permitted.

The adoption of IFRIC 21 did not result in a change in the recognition or timing of recognition of levies imposed on Melcor.

New standard not yet adopted

b) ***IFRS 15, Revenue from Contracts with Customers,*** was issued in May 2014 by the IASB and supersedes IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied retrospectively or through the recognition of the cumulative effect to opening retained earnings and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. We are currently in the process of evaluating the impact that IFRS 15 may have on our consolidated financial statements.

4. LAND INVENTORY

($000s)	September 30, 2014	December 31, 2013
Raw land held	328,772	286,504
Land under development	169,374	136,317
Developed land	199,819	235,769
	697,965	658,590

During the nine-month period ended September 30, 2014, we purchased 495 acres of land in Canada at a cost of $35,326 and received vendor financing of $14,665, and 123 acres of land in the United States at a cost of $7,100 ($6,511USD) and received vendor financing of $3,080 ($2,825USD). In addition, we entered into a joint arrangement by purchasing a 50% interest in 148 acres of land in Canada at a cost of $10,490 and financing of $2,690 and also amended a current joint arrangement with the purchase of an additional 10% interest in 162 acres of land at a cost of $1,718.

During the comparative nine-month period ended September 30, 2013 we purchased 212 acres of land in Canada at a cost of $20,633 and received vendor financing of $14,208. In addition, we amended one of our joint arrangement agreements in the third quarter which resulted in Melcor acquiring and contributing an additional 3 acres of land at a cost of $630. We also entered into a land swap by purchasing 29 acres of land at a cost of $1,325 in exchange for 16 acres of land and $506 in cash. Exchange amounts approximate fair market value.

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

($000s)	September 30, 2014	December 31, 2013
Investment properties	754,943	642,275
Properties under development	89,262	142,235
Total	844,205	784,510

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

			Nine months ended September 30, 2014
($000s)	Investment Properties	Property under Development	Total
Balance - beginning of period	642,275	142,235	784,510
Additions			
Direct acquisition	11,863	—	11,863
Acquisition through business combination	12,272	—	12,272
Transfer from land inventory	—	1,033	1,033
Direct leasing costs	524	—	524
Property improvements	5,192	—	5,192
Development costs	131	20,342	20,473
Capitalized borrowing costs	—	569	569
Transfers	79,167	(79,167)	—
Net fair value adjustment on investment properties	(2,134)	4,250	2,116
Change in provision	199	—	199
Foreign currency translation (included in OCI)	5,454	—	5,454
Balance - end of period	754,943	89,262	844,205

5. INVESTMENT PROPERTIES (continued)

	Year ended December 31, 2013		
	Investment Properties	Property under Development	Total
Balance - beginning of year	537,358	61,870	599,228
Additions			
Direct acquisition	49,047	11,466	60,513
Transfer from land inventory	—	7,522	7,522
Direct leasing costs	1,480	—	1,480
Property improvements	4,763	—	4,763
Development costs	—	55,973	55,973
Capitalized borrowing costs	—	1,030	1,030
Transfers	26,142	(26,142)	—
Net fair value adjustment on investment properties	17,055	30,516	47,571
Change in provision	109	—	109
Foreign currency translation (included in OCI)	6,321	—	6,321
Balance - end of year	642,275	142,235	784,510

Direct acquisitions:

On January 10, 2014 the REIT completed the acquisition of an industrial warehouse, LC Industrial, located in Lethbridge, Alberta for $5,968 (including transaction costs).

On May 26, 2014 the REIT completed the acquisition of an office building, 107 Avenue Building, located in Edmonton, Alberta for $5,614 (including transaction costs).

During the nine months ended September 30, 2014 we also purchased three condo units in Arizona at a cost of $281 (US$255).

These acquisitions have been accounted for as asset purchases, in accordance with our policy, as detailed in the 2013 annual consolidated financial statements.

Business combinations:

On April 23, 2014 we completed the acquisition of two office properties in in the Greater Phoenix area for a purchase price of $12,272 (US$11,124). The purchase price was satisfied with cash on hand. These acquisitions were accounted for as business combinations.

Judgment is required in determining if an acquisition is an asset purchase or a business combination. Unlike the other acquisitions completed during the period, Melcor will not directly manage these buildings and acquired all the inputs, processes and outputs related to these buildings to meet the definition of a business under IFRS 3, Business Combinations.

The amount of revenue and net income before tax related to these properties since the acquisition date and included in the interim consolidated statement of income for the reporting period are $632 and $290 respectively (US$577 and US$265 respectively).

We are unable to present pro forma revenue and earnings as though the acquisition date had been January 1, 2014 as the information necessary to determine these amounts is not available.

In accordance with our policy we record our investment properties at fair value. Investment properties were valued by qualified independent external valuation professionals as at December 31, 2013. We obtained updated market data and considered whether changes to any valuation model variables resulted in significant changes to any of the property fair values at September 30, 2014. Fair values of investment properties were revised based on the updated data and model variables.

Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized NOI, while development activity on properties under development and leasing activity drive fair value adjustments on properties under development. Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 12.

6. GENERAL DEBT

($000s)	September 30, 2014	December 31, 2013
Melcor - revolving credit facility	115,685	80,870
REIT - revolving credit facility	4,925	23,748
Project specific financing	69,369	64,383
Secured vendor take back debt on land inventory	76,834	77,194
Debt on investment properties and golf course assets	321,854	288,801
Convertible debenture (note 7)	—	39,336
	588,667	574,332

7. SHARE CAPITAL

Issued and outstanding common shares at September 30, 2014 are 33,054,324 (December 31, 2013 – 30,729,074). During the three and nine months ended September 30, 2014, there were 42,850 and 164,257 options exercised (Q3-2013 – 13,500 and 490,150). During the quarter, we also redeemed the $40,000 6.25% Convertible Unsecured Debentures ("Debentures") for 2,160,993 common shares.

8. INCOME TAX EXPENSE

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the period is 21.6% (2013 – 13.7%).

Income tax for the nine-month period ended September 30, 2013 included adjustments resulting from the closing of the IPO. The REIT, under the Specified Investment Flow-Through (SIFT") rules in the Canadian Income Tax Act, does not expect to pay income tax. As such, upon closing of the Offering and transfer of certain properties to the REIT, Melcor is no longer subject to tax on the public's interest in the REIT.

9. RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2014, there were debenture coupon payments of $139 and $821 (Q3-2013 - $347 and $1,028) paid and 1,188,546 common shares issued to companies controlled by two members of our executive management team who are also directors of Melcor. The common shares issued were a result of the redemption of the Debentures.

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

10. 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	
(in Canadian dollars) ($000s)	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
United States	**3,523**	2,926	**10,521**	12,063
Canada	**89,961**	56,269	**181,036**	139,486
	93,484	59,195	**191,557**	151,549

Total Assets

As at (in Canadian dollars) ($000s)	**September 30, 2014**	December 31, 2013
United States	**179,885**	132,219
Canada	**1,631,136**	1,595,714
	1,811,021	1,727,933

Divisional Analysis

The following segment analysis has been amended from the prior period to include the results of the newly formed REIT. Results for the REIT's comparative nine months ended September 30, 2013 includes the pre-acquisition results previously reported under the Investment Properties division.

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

10. SEGMENTED INFORMATION (continued)

Our divisions reported the following results:

For the three months ended September 30, 2014	**Community Development**	**Property Development**	**Investment Properties**	**REIT**	**Recreational Properties**	**Corporate**	**Intersegment Elimination**	**Total**
Segment revenue	71,053	267	10,249	11,074	4,349	—	(3,508)	93,484
Cost of sales	(40,258)	—	(3,749)	(4,281)	(2,383)	(140)	1,473	(49,338)
Gross profit	30,795	267	6,500	6,793	1,966	(140)	(2,035)	44,146
General and administrative expense	(2,682)	(455)	(801)	(470)	(662)	(2,221)	552	(6,739)
Fair value adjustment on investment properties	—	(1,910)	152	(3,840)	—	—	1,493	(4,105)
Gain on sale of assets	—	—	—	—	116	—	—	116
Interest income	805	—	8	15	—	3	—	831
	28,918	(2,098)	5,859	2,498	1,420	(2,358)	10	34,249
Interest expense								(4,812)
Adjustments related to REIT units								2,608
Income before tax								32,045
Income tax expense								(5,852)
Net income								26,193

For the three months ended September 30, 2013	**Community Development**	**Property Development**	**Investment Properties**	**REIT**	**Recreational Properties**	**Corporate**	**Intersegment Elimination**	**Total**
Segment revenue	42,865	1,019	6,444	9,794	4,243	—	(5,170)	59,195
Cost of sales	(24,949)	—	(2,969)	(3,874)	(2,325)	(139)	2,020	(32,236)
Gross profit	17,916	1,019	3,475	5,920	1,918	(139)	(3,150)	26,959
General and administrative expense	(2,672)	(443)	(848)	(458)	(558)	(6,012)	776	(10,215)
Fair value adjustment on investment properties	—	10,206	(1,045)	3,079	—	—	1,727	13,967
Gain (loss) on sale of assets	—	—	—	—	—	—	—	—
Interest income	555	3	24	23	—	8	—	613
	15,799	10,785	1,606	8,564	1,360	(6,143)	(647)	31,324
Interest expense								(3,964)
Adjustments related to REIT units								(685)
Income before tax								26,675
Income tax recovery								(4,793)
Net income								21,882

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

10. SEGMENTED INFORMATION (continued)

For the nine months ended September 30, 2014	**Community Development**	**Property Development**	**Investment Properties**	**REIT**	**Recreational Properties**	**Corporate**	**Intersegment Elimination**	**Total**
Segment revenue	127,975	826	27,718	32,840	8,224	—	(6,026)	191,557
Cost of sales	(72,469)	—	(10,688)	(13,032)	(4,822)	(385)	2,525	(98,871)
	55,506	826	17,030	19,808	3,402	(385)	(3,501)	92,686
General and administrative expense	(7,036)	(1,512)	(2,068)	(1,492)	(1,782)	(6,025)	1,742	(18,173)
Fair value adjustment on investment properties	—	3,133	2,209	(3,103)	—	—	(123)	2,116
Gain on sale of assets	—	—	—	—	167	—	—	167
Interest income	1,984	—	22	54	—	23	—	2,083
	50,454	2,447	17,193	15,267	1,787	(6,387)	(1,882)	78,879
Interest expense								(13,614)
Adjustments related to REIT units								(680)
Income before tax								64,585
Income tax expense								(13,943)
Net income								50,642

For the nine months ended September 30, 2013	**Community Development**	**Property Development**	**Investment Properties**	**REIT**	**Recreational Properties**	**Corporate**	**Intersegment Elimination**	**Total**
Segment revenue	101,780	2,415	16,567	29,255	7,751	—	(6,219)	151,549
Cost of sales	(59,334)	—	(7,624)	(11,556)	(4,698)	(331)	2,018	(81,525)
	42,446	2,415	8,943	17,699	3,053	(331)	(4,201)	70,024
General and administrative expense	(7,679)	(1,272)	(1,417)	(1,269)	(1,531)	(10,134)	1,826	(21,476)
Fair value adjustment on investment properties	—	13,813	3,470	7,465	—	—	1,727	26,475
Gain (loss) on sale of assets	—	—	—	—	9	3,156	(3,156)	9
Interest income	1,587	5	38	46	—	14	—	1,690
	36,354	14,961	11,034	23,941	1,531	(7,295)	(3,804)	76,722
Interest expense								(11,886)
Adjustments related to REIT units								(13,033)
Income before tax								51,803
Income tax expense								(7,089)
Net income								44,714

11. NON-CONTROLLING INTEREST IN MELCOR REIT

On May 7, 2014 the REIT completed the issuance of 1,900,000 trust units at a price of $10.65 per unit to a syndicate of underwriters, on a bought deal basis, for gross proceeds of $20,235. Subsequently, the underwriters exercised their over-allotment option to purchase an additional 245,000 trust units at a price of $10.65 for gross proceeds of $2,609. On May 9, 2014 the REIT used partial proceeds to purchase two investment properties from Melcor at a purchase price of approximately $13,500. The purchase price was satisfied through cash consideration of $6,100 and the issuance of 694,836 Class B LP Units of the REIT at $10.65 per unit, with a fair value of approximately $7,400. As at September 30, 2014 Melcor owns a 47.6% interest in the REIT through ownership of all 10,225,634 Class B LP Units. We have assessed and concluded that Melcor continues to retain control of the REIT in accordance with IFRS 10, Consolidated Financial Statements.

In accordance with our policy, we account for the remaining 52.4% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at September 30, 2014 there were 11,275,000 REIT units outstanding at a fair value of $9.89 per unit or $111,510 (December 31, 2013 - $94,952). We recorded adjustments related to REIT units for the three and nine months ended September 30, 2014 of a $2,608 gain and a $680 loss (2013 - losses of $685 and $13,033 respectively). As illustrated in the table below, the adjustment is comprised of:

	For the three months ended		For the nine months ended	
($000s)	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Fair value adjustment on REIT units	**(4,510)**	(913)	**(6,287)**	—
Distributions to REIT unitholders	**1,902**	1,541	**5,225**	2,568
Transaction costs on REIT unit issuance				
Capitalized against REIT trust units	**—**	57	**1,594**	9,361
Expensed in Melcor	**—**	—	**148**	1,104
Adjustments related to REIT units	**(2,608)**	685	**680**	13,033

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.

($000s)	**September 30, 2014**	December 31, 2013
Assets	**477,115**	454,743
Liabilities	**220,348**	225,005
Net assets	**256,767**	229,738
Cost of NCI	**103,959**	82,709
Fair value of NCI	**111,510**	94,952

	For the three months ended		For the nine months ended	
($000s)	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Revenue	**11,074**	9,794	**32,840**	29,255
Net income and comprehensive income	**2,693**	5,945	**8,867**	14,992
Cash flows from (used in) operating activities	**2,649**	(189)	**6,751**	8,952
Cash flows used in investing activities	**(2,458)**	(13,255)	**(22,845)**	(20,632)
Cash flows from financing activities, before distributions to REIT unitholders	**3,611**	10,222	**17,287**	13,559
Cash flows from financing activities - cash distributions to REIT unitholders	**(1,902)**	(1,541)	**(5,225)**	(2,568)
Net increase (decrease) in cash and cash equivalents	**1,900**	(4,763)	**(4,032)**	(689)

12. FAIR VALUE ESTIMATION

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

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

- the carrying amounts of cash and cash equivalents, restricted cash, accounts receivables and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.
- fair values of general debt is estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).
- fair value of REIT units are estimated based on the closing trading price of the REIT's trust units (Level 1).

In addition, Melcor carries its investment properties at fair value which is determined by using unobservable inputs (Level 3).

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

			September 30, 2014		December 31, 2013	
($000s)	**Fair Value**	**Amortized Cost**	**Total Carrying Value**	**Total Fair Value**	Total Carrying Value	Total Fair Value
Non-financial assets						
Investment properties	**844,205**	**—**	**844,205**	**844,205**	784,510	784,510
Financial liabilities						
General debt	**—**	**588,667**	**588,667**	**583,471**	574,332	580,651
REIT units	**111,510**	**—**	**111,510**	**111,510**	94,952	94,952

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

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

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

($000s)	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-financial assets				
Investment properties	—	—	844,205	844,205
Financial liabilities				
REIT units	111,510	—	—	111,510

Investment properties

Investment properties are remeasured to fair value on a recurring basis and categorized as Level 3 in the fair value hierarchy. Investment properties were valued by qualified independent external valuation professionals as at December 31, 2013. We obtained updated market data at September 30, 2014 and considered whether changes to any valuation model variables resulted in significant changes to any of the investment property fair values at September 30, 2014. Fair values of investment properties were revised based on the updated data and model variables with fair value gains of $2,116 (September 30, 2013 - $26,475) recorded as fair value adjustment on investment properties in income during the year.

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

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

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

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

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

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

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

Weighted average stabilized net operating income for investment properties as at September 30, 2014 is $1,451 (December 31, 2013 - $1,364). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties			**Properties under Development**		
September 30, 2014	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**9.00%**	**6.45%**	**6.00%**	**6.00%**	**6.00%**
Terminal capitalization rate	**5.75%**	**9.25%**	**6.74%**	**6.25%**	**6.25%**	**6.25%**
Discount rate	**6.50%**	**10.00%**	**7.66%**	**7.00%**	**7.50%**	**7.39%**

	Investment Properties			Properties under Development		
December 31, 2013	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	9.00%	6.46%	6.00%	7.00%	6.07%
Terminal capitalization rate	5.75%	9.25%	6.77%	6.25%	7.25%	6.33%
Discount rate	6.50%	10.00%	7.66%	7.00%	7.75%	7.45%

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

A change in capitalization rates by a 50 basis points increase or decrease would change the carrying amount of investment properties by $51,845 or $60,622 (December 31, 2013 - $38,437 or $44,883) respectively.

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as Level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At September 30, 2014 the fair value of the REIT units was $111,510, resulting in a fair value gain of $4,510 and $6,287 (2013 - fair value loss of $913 and $nil) in the statement of income and comprehensive income during the three and nine months ended September 30, 2014.

13. SUBSEQUENT EVENTS

Distributions on REIT trust units

On October 15, 2014 Melcor REIT declared a distribution of $0.05625 per unit for the months of October, November and December 2014. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
October 2014	October 31, 2014	November 14, 2014	$0.05625 per unit
November 2014	November 28, 2014	December 15, 2014	$0.05625 per unit
December 2014	December 31, 2014	January 15, 2015	$0.05625 per unit

Dividend declared:

On November 5, 2014, our board of directors declared a semi-annual dividend of $0.30 per share, payable on December 31, 2014 to shareholders of record December 15, 2014.

14. COMPARATIVE FIGURES

We have reclassified $539 and $1,178 in depreciation expense to cost of sales in the comparative figures for the three and nine months ended September 30, 2013 in the statement of income and comprehensive income to conform to the current years presentation. We have reclassified $1,104 in expenses related to the formation of Melcor REIT from general and administrative expense to adjustments related to REIT units (note 11) in the comparative figures for the nine months ended September 30, 2013 in the statement of income and comprehensive income to conform to the current years presentation.