MELCOR

2016

ANNUAL REPORT

MELCOR
LIVE. WORK. SHOP. PLAY.

Since 1923, our focus has been the business of real estate. While the specifics of our business have changed over the years to reflect the times, real estate – and helping people realize the dream of home ownership – is fundamental to who we are.

Today, we are a diversified real estate development and asset management company. We transform raw land into high-quality finished product in both residential and commercial built form.

We develop and manage master-planned, mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. Melcor owns a diversified portfolio of assets in Alberta, Saskatchewan, British Columbia, Arizona and Colorado.

With over 100 communities developed across western Canada since the 1950s and over 2.3 million square feet in commercial projects built, we have helped to shape much of Alberta's landscape. We manage 3.95 million square feet in commercial real estate and 612 residential rental units in the United States and Canada.

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

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

2016 Financial Highlights

($000s except as noted)	2016	2015	Change
Revenue	242,461	263,309	(7.9)%
Fair value adjustment on investment properties	15,795	9,574	65.0%
Net income	34,433	75,958	(54.7)%
Funds from operations *	42,564	54,271	(21.6)%
Shareholders' equity	994,721	977,970	1.7%
Total assets	1,891,988	1,891,969	- %

$ per share except as noted	2016	2015	Change
Basic earnings	1.04	2.29	(54.6)%
Funds from operations *	1.28	1.64	(22.0)%
Book value *	29.83	29.43	1.4%
Average share price	13.80	16.71	(17.4)%
Dividends paid	0.48	0.60	(20.0)%
Shares outstanding (December 31)	33,350,898	33,233,712	(0.4)%

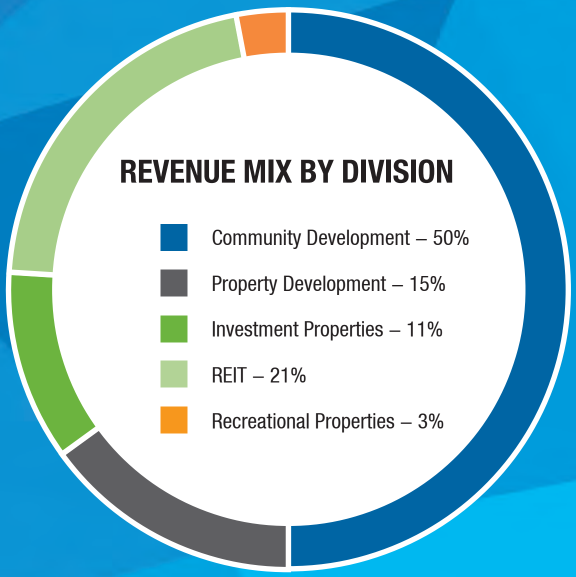
** refer to non-standard measures for definitions and calculations*

What's Inside

About the cover

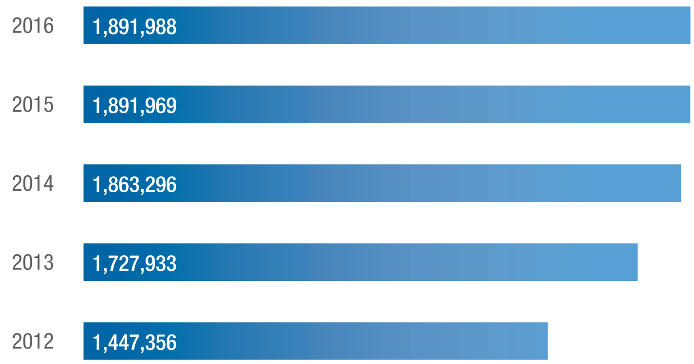
The cover of the 2016 annual report features the community garden and orchard at Larch Park. The other photos on the front cover are the NAIT Spruce Grove Campus at Campsite Industrial and Lewis Estates golf course and surrounding community. The photos on the back cover are the showhome parade at Aurora and the Clearview Market retail development.

KEY METRICS

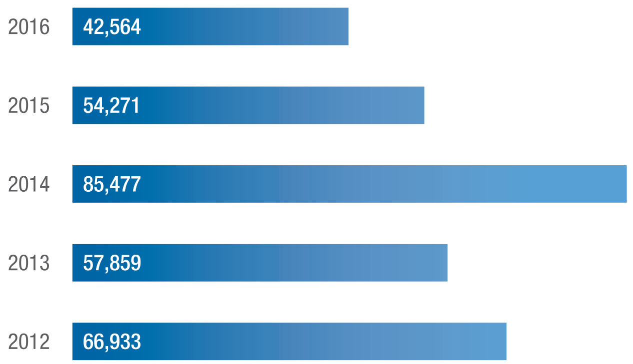


REVENUE

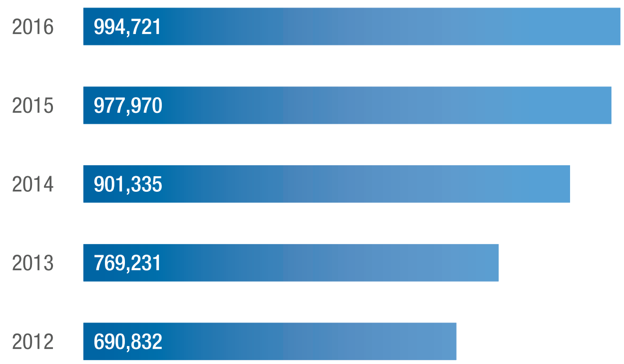
ASSETS



FUNDS FROM OPERATIONS



SHAREHOLDERS’ EQUITY



LIVE.

Living Melcor means living well. Whether you live in a home in one of our master-planned residential communities or rent a unit in one of our multi-family rental properties, we are committed to providing an exceptional experience.

Our communities and residences are a masterful blend of amenities that fit your lifestyle because our goal is to build communities where people want to do more than just live – they want to build a life.

So we integrate amenities that get people out, active, engaged and interacting with their community. Things like: community gardens and orchards, lakes, parks, multi-use trails, playgrounds and other recreational options like golf courses.

- **Over 100 communities developed**
- **40,000 lots sold**
- **612 residential rental units**

WORK.

We are redefining the workplace as an amenity-rich space that helps employers find and keep top talent. Our business parks have a special and unique sense of place with park-like settings – including trails and water features, patios and outdoor workstations – and a carefully crafted mix of retail and services for true convenience.

We plan and build state-of-the-art industrial, retail, suburban offices and business parks.

Our commitment to being the landlord of choice means that we are always improving on our environmental practices, lifestyle features and customer service excellence across our portfolio of commercial space.

- **3.95m sf owned and managed**
- **99% on time response to service requests**
- **6 BOMA BESt certified buildings**
- **7m+ sf in planned development**

SHOP.

We develop, own and manage high quality retail destinations ranging from convenient neighbourhood shopping to regional power centres in urban centres across western Canada.

We build custom commercial retail units for many high profile retailers including ATB, Bank of Montreal, Brown's Social House, Canadian Tire, Canadian Western Bank, Cara, CIBC, Home Depot, McDonald's, Pet Planet, Rexall, Royal Bank of Canada, Save-on-Foods, Shoppers Drug Mart, Starbucks, Subway, TD Canada Trust, Tim Hortons and Walmart.

Like all our assets, our retail properties are maintained to the highest standard to ensure that customers enjoy a pleasant experience while shopping in a Melcor retail centre.

- **National brands make up 54% of our retail tenants**
- **We manage 1.3m sf of retail gross leasable area**

PLAY.

Having enough quality play time is important to your overall well-being, so developing communities with playgrounds, multi-use trails, man-made lakes or surrounding one of our 4 championship golf courses is just part of our commitment to building communities where people want to live, work, shop and play.

Premier amenities in and around our communities, business parks and retail centres provide access to a richer life, all within minutes from your doorstep.

- **4 championship golf courses**
- **100,000+ rounds played annually**

LETTER FROM THE EXECUTIVE CHAIRMAN

Timothy Melton

It is my pleasure to report to you on behalf of Melcor's Board of Directors.

Melcor's 2016 results continue to reflect the market retraction that began in 2014 with the fall in the price of oil. Revenue declined 8% to $242 million compared to $263 million in 2015. Net income declined 56% to $34 million compared to $76 million in the prior year. Funds from operations (FFO), which better reflects our level of business operations, was down by 22% compared to last year. FFO excludes certain non-cash items that are included in net income including the fair value adjustments on REIT units and on investment properties (see non-standard measures in our management's discussion and analysis). Shareholders' equity increased by 2% to $994 million.

The economic downturn and lower level of business activity continued through 2016. The sustained depression of energy prices resulted in further job losses, reduced investments and a decline in migration into our primary market of Alberta. These factors had a negative effect on the demand for all types of real estate.

Melcor's geographic diversification strategies have benefited the Company and partially offset the impact of the slowdown in Alberta. The investments made by Melcor in the United States after the 2009 economic crisis have proven successful. In 2015 and 2016, the Company sold its Texas multi-family residential rental units and used part of the proceeds to purchase office buildings in the Denver and Phoenix markets.

Our income-producing real estate in both Canada and the US provides stable cash flow and earnings that help offset the decline in residential lot sales in Alberta. We continue to build income properties and develop communities with careful consideration of pre-lease/pre-sale targets and ensuring an appropriate product mix to support market demand. The Company will also focus efforts south of the border for growth opportunities both through community development and acquisition.

Given Melcor's large exposure in Alberta, we remain cautious in our approach to business and our future outlook. The positive factors described as the "Alberta Advantage" have been eroded with falling commodity prices, particularly energy, increased taxation, run away deficits and uncertainty over government policies that are not business friendly. These factors unfortunately will negatively affect business investment, confidence, job creation and provincial growth prospects. If, and when, these fundamentals change, the Company is well positioned to respond to market opportunities.

Building Caring Communities

Contributing to the broader community by sharing our time and resources to make them stronger is an important part of who we are as a company. Our charitable giving focuses on organizations that support and enrich the communities where we operate. In 2016, your Company continued to give to many worthwhile initiatives, supporting organizations focused on family and children, healthcare and wellness, science and arts and culture. We also continued to support secondary education through bursaries, scholarships and endowments.

LETTER FROM THE EXECUTIVE CHAIRMAN

Rewarding Shareholder Commitment

Melcor remains committed to protecting our shareholders' investment and were pleased to continue our quarterly dividend to reward shareholders for their support. The Company paid $0.12 per share per quarter for a total dividend of $0.48 in 2016. We are dedicated to providing shareholders with a return on their investment while at the same time ensuring the company maintains adequate financial resources for operating purposes and to fund potential investment opportunities.

Appreciation for Our Team

On behalf of the board and all shareholders, we thank Melcor's staff and leadership team for delivering good results in a challenging year. In particular, we thank Brian Baker, who resigned as President & CEO, for his significant contributions to Melcor's growth and success over the past 20 years. His leadership and stewardship of our strategy as President over the past 5 years has further strengthened the company and positioned it well for the future. Prior to that, Brian played an instrumental role in developing our property development division, a key strategic business unit. On behalf of the Board and the Company, we are grateful to Brian for his loyal and dedicated service. We wish him continued success.

We also welcome Darin Rayburn as Melcor's seventh President and third CEO. Darin has proven himself an effective leader within Melcor over the past 15 years, most recently as the CEO of Melcor REIT. He has played a key role in the successful execution of our strategy and has significantly expanded our income-producing portfolio. With over 25 years in real estate, he has the experience needed to lead Melcor into the future.

As always, we thank our customers and suppliers for their business and our shareholders for your continued support and confidence.

I also thank our board of directors for their continued guidance and counsel through another challenging year.

CORPORATE GOVERNANCE

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practices lay the foundation for a sustainable company and long-term value creation for our shareholders.

As governance practices evolve, we periodically review, evaluate and enhance our governance program. Here are a few highlights of our program:

Independence

The majority of our directors are independent and our committees are comprised of a majority of independent directors. The independent directors meet in camera (without management and related directors) for a portion of each meeting held. As our executive chairman is related to Melcor, we have appointed a lead director, Allan Scott, who is independent of the company. Mr. Scott chairs the in camera sessions and ensures that the board conducts itself in accordance with good governance practices.

Integrity: the Heart of our Business

The highest standard of ethical conduct has always been at the heart of Melcor's operating philosophy. All employees, directors and officers follow our Code of Business Conduct and Ethics, which governs Melcor's work environment, regulatory compliance and the protection of our assets and reputation. The Code can be found on our website at www.melcor.ca.

Strategic Planning Process

The board ensures that Melcor establishes a solid strategy designed to optimize shareholder value. This process includes active consultation with management on the issues, business environment, assumptions, goals and financial budgets that underpin the strategy and ensures that risk levels are appropriate. To ensure that the board is fully informed and engaged in the strategic issues and critical risks of our business, one meeting each year is dedicated to the review and approval of our strategic plan to manage risk, protect shareholder value and build a sustainable business.

Alignment with Shareholder Interests

Our compensation philosophy is to pay for superior performance. Thus a significant portion of executive compensation is "at risk": tied directly to results and thus linked to Melcor's success. This ensures alignment with shareholder interests and a focus on long-term value creation.

Gordon J. Clanachan FCA, ICD.D

Edmonton, Alberta, Canada

Independent

Corporate Director & Consultant

Director Since	2009
2016 Attendance	100%
2016 Director Compensation	$50,000
Common Shareholdings	8,000
Committees	Audit (Chair)

Ralph B. Young

Edmonton, Alberta, Canada

Independent

Corporate Director

Director Since	1976
2016 Attendance	100%
2016 Director Compensation	$33,500
2016 REIT Trustee Compensation[1]	$28,500
Common Shareholdings	1,427,633
Committees	Compensation & Governance

1 As the Melcor nominee to the Melcor REIT Board of Trustees, Melcor pays Mr. Young's Trustee fees.

Ross A. Grieve

Edmonton, Alberta, Canada

Independent

Chairman, PCL Construction Holdings Ltd.

Director Since	2003
2016 Attendance	86%
2016 Director Compensation	$32,000
Common Shareholdings	78,000
Committees	Compensation & Governance

CORPORATE GOVERNANCE

Andrew J. Melton
Calgary, Alberta, Canada
Related
Chairman, Melcor REIT

Director Since	1985
2016 Attendance	100%
2016 Director Compensation	$nil
Common Shareholdings	161,267
Committees	none

Catherine M. Roozen
Edmonton, Alberta, Canada
Independent
Director & Secretary,
Cathton Investments Ltd.

Director Since	2007
2016 Attendance	80%
2016 Director Compensation	$35,000
Common Shareholdings	125,600
Committees	Audit

Eric P. Newell
Edmonton, Alberta, Canada
Independent
Corporate Director

Director Since	2014
2016 Attendance	100%
2016 Director Compensation	$38,000
Common Shareholdings	10,000
Committees	Audit

Allan E. Scott
Edmonton, Alberta, Canada
Independent (Lead Director)
Corporate Director

Director Since	2007
2016 Attendance	100%
2016 Director Compensation	$42,500
Common Shareholdings	3,000
Committees	Compensation & Governance (Chair)

Timothy C. Melton
Edmonton, Alberta, Canada
Related
Executive Chairman, Melcor

Director Since	1973
2016 Attendance	100%
2016 Director Compensation	$nil
Common Shareholdings	1,925,709
Committees	none

Kathleen M. Melton
Calgary, Alberta, Canada
Related
Real Estate Development Manager,
Chute Lake Road

Director Since	2016
2016 Attendance	100%
2016 Director Compensation	$22,267
Common Shareholdings	36,950
Committees	none

Additional information on our governance practices can be found in our 2016 Information Circular.

Melcor employees do not receive additional director compensation.

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March 15, 2017

The following discussion of Melcor's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2016.

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.

The statement of financial position is presented without reference to current assets or current liabilities. The operating cycle of an entity involved in real estate investment and development is normally considered to be longer than one year. Thus, the concept of current assets and current liabilities is not considered relevant and there is no need to segregate the balance sheet to disclose assets or liabilities that are expected to be settled within the immediately following year.

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on March 15, 2017.

Non-standard Measures

We refer to terms that are not specifically defined in the CPA Canada 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, please refer to the section "Non-standard Measures".

Caution Regarding 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. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2017 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

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

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.

Other Information

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

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.

The section titled Our Business contains forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Please refer to the Caution Regarding Forward-looking Statements on page 9.

For 94 years, our focus has been the business of real estate. We've built over 100 communities across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage over 3.95 million square feet (sf) in commercial real estate assets and 612 residential rental units.

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

We have been a public company since 1968 (TSX:MRD). On May 1, 2013, we formed Melcor Real Estate Investment Trust (the REIT) through an initial public offering (the IPO). We retain a controlling 56.7% 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.

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 office, retail, industrial and residential sites (the REIT)

In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreation Properties. Melcor has over $1.89 billion in assets.

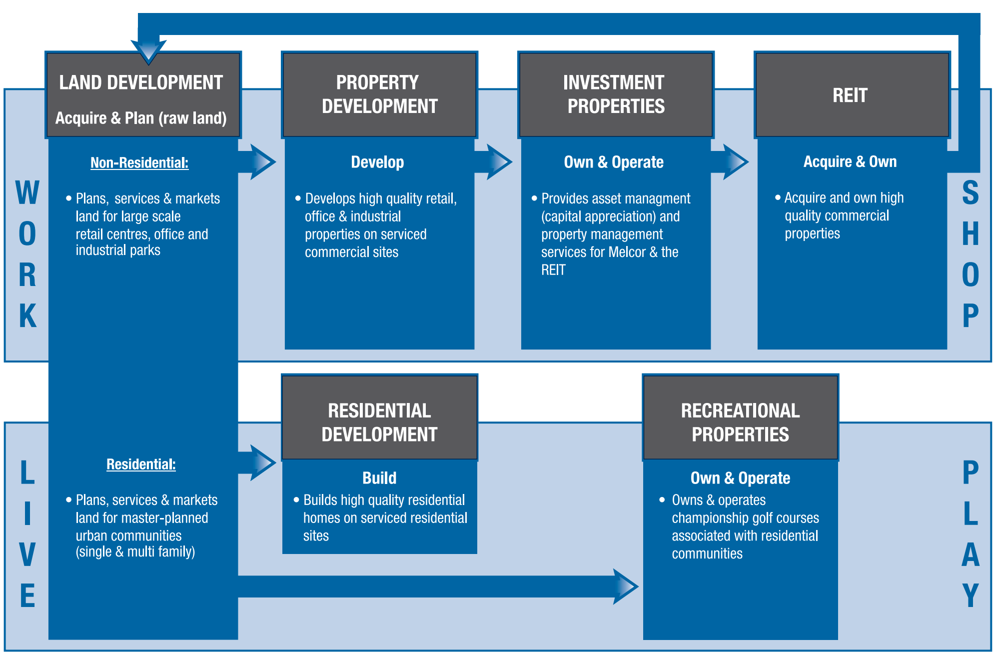
The diagram below illustrates how each of our operating divisions complements one another to create and enhance value from our real estate assets.

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

While building a sustainable business, we also focus on building sustainable communities by sharing our time and resources to make them stronger. We are proud to support a number of worthy causes and charities that enrich the communities where we operate.

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

Our history and our culture form our strong foundation: the traditional values of a family-run organization, the golden rule, and building deep relationships with our clients, our business partners and our employees.



Strategy

Our fundamental goals are to:

- protect shareholder investment through prudent risk management and careful stewardship of company assets
- grow shareholder value by achieving strong operating performance and return on invested capital
- distribute profit to shareholders through a reliable dividend
- promote a strong and healthy corporate culture by taking care of our exceptional team
- build strong and positive relationships with our stakeholders

Our operating focus is to deliver high quality products and industry-leading value in each of our divisions: developing master-planned communities, constructing and leasing business parks, managing our income-producing portfolio and operating championship golf courses.

We balance our capacity to take advantage of strategic opportunities with sustaining and improving our existing business.

Throughout 2016, the economic environment in Alberta remained challenged by the sustained decline in the price of oil. We continued to approach development with caution and focused on selling lots early in the year and reducing overall inventory on the residential community side and delaying commercial development until pre-leasing thresholds were met.

We have 90+ years of experience in Alberta's cyclical economy. Throughout this time, we have managed through many downturns and have learned to not only weather the cycle, but to make our business stronger by recognizing and taking advantage of opportunities while balancing our risk and exposure.

Sustain & Improve

We execute our proven business model for sustainable results by:

- continuing to develop and manage real estate assets for revenue, earnings and cash flow growth
- continuing to drive key performance measures

Grow & Diversify

We build for future growth by:

- acquiring strategic land and property assets
- exploring strategic opportunities to increase capital resources while maintaining a strong balance sheet

Assets

Our raw and developed assets and conservative approach to debt place Melcor in a strong position to achieve our growth strategy. We will continue to develop our real estate assets to support current and future revenue, earnings and cash flow growth.

Property Development completed and transferred 6 buildings (90,694 sf) to Investment Properties during 2016. A further 31,108 sf remain under development. We expect to begin construction on 2 new regional shopping centres and build new phases in existing developments in 2017.

Division	Assets	Strategy
Community Development	9,901 acres of raw land inventory in strategic growth corridors	Maintain right mix of inventory, available at the right time Increase market share
Property Development	Prospects for over 7 million sf of new development based on existing plans Completed and transferred 90,694 sf in 2016	Develop strong relationships with regional/national/ multinational tenants Ongoing development of high quality retail, business and industrial centres
Investment Properties & REIT	Over 3.95 million sf of commercial property and 612 residential units under management, diversified across 4 asset classes in 3 provinces and 2 states New buildings coming online as Property Development completes projects	Improve existing assets with value-added investments and enhanced quality to achieve higher occupancy rates and increase rent / square foot Be the landlord of choice by providing consistent, high-quality service
Recreational Properties	4 championship golf courses	Maintain strong reputation through consistent course quality and player experience Grow total revenue from food and beverage operations

Diversification

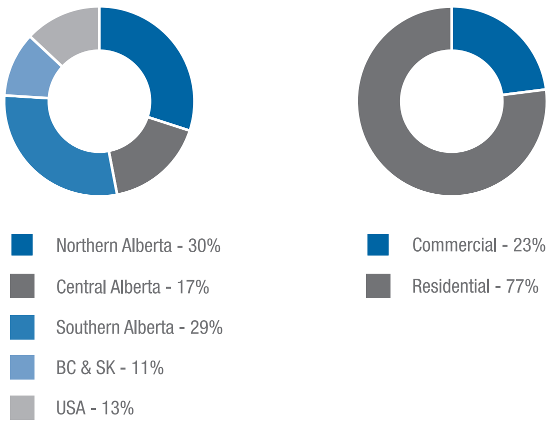
Our operating divisions diversify our revenue streams in a number of ways:

- The mix of land and property types held (residential, office, retail, industrial)
- The regional profile of our assets (Alberta, Saskatchewan, BC & southwestern US)
- The type of revenue each asset generates (a mix of steady revenue from income-producing properties and revenue that fluctuates based on the season and market demand)

Community Development is one of our most geographically diversified divisions and invests in Canada and the US to build inventory for future development. This division holds a variety of land types for future residential or commercial development in strategic growth corridors. It is also diversified through the life cycle phase of different land parcels: a balance is struck between lands that are immediately developable ('shovel ready'), those that will be ready for development in 3 to 5 years, and those with a development horizon of 5+ years.

Melcor has been planning and developing innovative communities since the 1950s. We have developed over 40,000 lots in over 100 communities across Alberta, BC and the Southwest United States.

Land Inventory



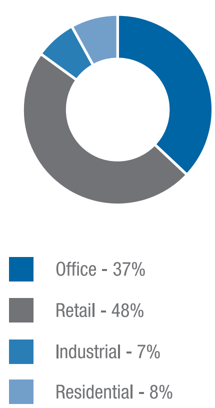
Property Development adds value to raw land by developing retail, office and industrial properties in Alberta.

The Property Development division supports Melcor's strategic objectives of asset diversification, income growth and value creation by constructing income-producing developments, primarily on land acquired from the Community Development division. On completion, the properties are transferred to Investment Properties, thus completing a value chain from raw land to annuity income. The properties may also be sold to the REIT, pursuant to a right of first offer, which enables Melcor to monetize the value created while retaining a long-term controlling interest in the asset.

Melcor has been developing commercial properties since the 1970s and has built over 2 million sf. Our future development pipeline is over 7 million sf based on approved development plans.

GLA Under Development

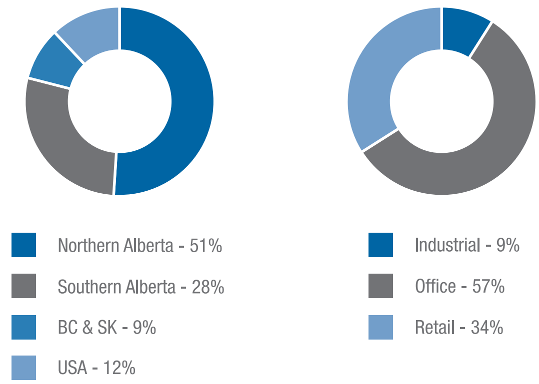
GLA For Future Development



Investment Properties manages our geographically diversified income-producing properties - including those owned by the REIT - to provide consistent annuity income and cash flow. Our total portfolio under management is well diversified across asset class, property mix and region. The regional asset mix is primarily commercial in western Canada, with the majority of these assets owned by the REIT. With a number of commercial acquisitions and residential dispositions completed since 2014, our US portfolio is a blend of residential and commercial properties.

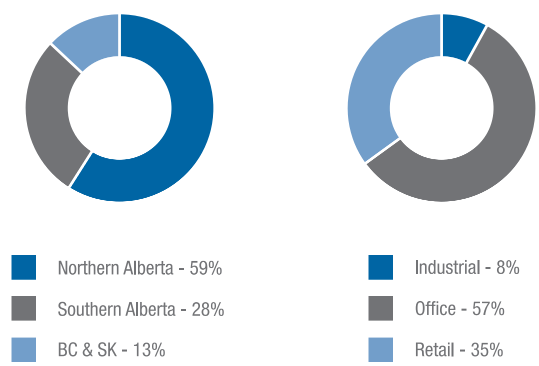
The goals of the Investment Properties division are to be the landlord of choice by providing exceptional customer care and to continually enhance and improve existing properties through capital investment to maximize occupancy, rental rates and tenant retention and prepare properties for vend-in to the REIT.

Total Gross Leasable Area Managed



The REIT owns 2.78 million sf of income-producing assets that are managed by Investment Properties. The REIT is a vehicle for realizing the value created throughout the Melcor value chain as raw land is developed for commercial use (Community Development) and commercial properties are built (Property Development) or redeveloped (Investment Properties) and sold to the REIT. The REIT will continue to seek and execute acquisitions to grow the portfolio, both through the Property Development pipeline and third party acquisitions.

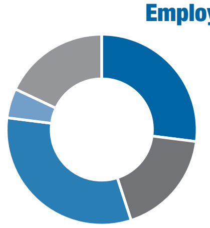
Total GLA Owned by the REIT



Key Performance Drivers

A High Performance Team

A strong and engaged workforce is a key component of achieving our growth objectives. Our team fuels our success by profitably managing residential and commercial developments, continually moving future projects through the municipal approval process, managing our assets and ensuring tenant satisfaction, and developing strong relationships with our suppliers, contractors, builders, tenants and other stakeholders. The average tenure of our team is 8.5 years and we have 21 team members (13 active) on Melcor's Quarter Century Club.



This team, with its complementary combination of seasoned experience and new talent, contributed to stable company results over the past several years through both record years and economic uncertainty. We continue to build our management team depth and emphasize succession planning and training and development to ensure today's young talent is ready to lead our company in the future.

Our culture is based on over nine decades of strong corporate values. We offer rewarding career and development opportunities, competitive compensation and benefits, and employer-matched RRSP and employee share purchase (ESPP) programs.

Real Estate Inventory

Our existing real estate inventory puts us in a good position to continue to grow our business. We have:

- 9,901 acres of developable land
- 3,953,196 sf of leasable commercial property and 612 residential units under management in 3 provinces and 2 states
- Potential to develop over 7 million sf of new leasable property (based on existing planned development)

We create shareholder value out of our land assets by developing them into revenue and income earning properties.

Inventory management is a critical component of our future success. Land development is a capital-intensive process requiring long time horizons to obtain permits and development agreements. As such, we closely monitor the fundamentals of the regions where we operate to ensure that we have the correct land mix to meet market demands and that the land is ready for sale when demand dictates.

Developed lot inventory

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

	December 31, 2016		
(including joint arrangements at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)
Open	1,433	63.1	144.4
New developments	507	22.8	32.1
Internal sales	—	—	(18.8)
Sales	(958)	(21.3)	(15.4)
	982	64.6	142.3

	December 31, 2015		
(including joint arrangements at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)
Open	1,144	67.6	139.6
New developments	1,665	29.7	28.0
Internal sales	—	—	(3.8)
Sales	(1,376)	(34.2)	(19.4)
	1,433	63.1	144.4

Single-family lot inventory was 31% lower at the end of 2016 as we scaled back production to maintain no more than one year inventory. Maintaining a maximum of one year of serviced lot inventory is one of our key disciplines for conservative management of our business.

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. Land inventory acquisitions are based on management's anticipation of market demand and development potential. The markets we operate in require significant infrastructure development and heavy capital investment, creating a barrier to entry. We continually investigate high potential new lands that complement our existing land holdings or provide attractive projects that are consistent with our overall strategy and management expertise. We acquire land when we find a good fit within these criteria.

Following is a summary of land acquisitions during the year (figures include land acquired though equity transactions and swap agreements):

Land purchases (in acres, net of joint arrangement interests)	2016	2015	Total Land Holdings
Edmonton & Region	39.91	—	2,947
Central Alberta	8.08	146.97	1,653
Calgary & Region	—	—	2,325
Lethbridge	54.35	—	550
British Columbia	—	—	525
Saskatchewan	—	—	616
United States	42.24	—	1,285
	144.58	146.97	9,901

We acquired 144.58 acres of land in strategic growth corridors in 2016 and continue to seek investment opportunities.

Financial Resources

Given the capital-intensive nature of our business, we require access to sufficient capital in order to continue to grow, develop land and take advantage of opportunities to acquire land or property that fit our growth strategy.

We have developed strong relationships with our major lenders, which, combined with our capital structure and liquidity, provides the company access to financing on attractive terms in spite of fluctuating credit markets and ongoing changes in the economic environment.

We also use fixed rate, long-term mortgage financing on our revenue producing assets to raise capital for acquisitions, development activities, and other business expenditures. As such, most of our borrowings are in the form of long-term, property specific financings such as mortgages or project financings secured by specific assets. In addition, at the end of 2016, Melcor had project specific financings on three residential community projects totaling $5.21 million.

The REIT is expected to be an important financial resource going forward as it exercises its option to purchase assets developed by our Property Development division, thus monetizing the value of our Investment Property assets. In 2016, the REIT did not acquire any assets from Melcor. As at December 31, 2016, we retained an effective 56.7% ownership of the REIT.

Our operations are supported by a syndicated operating line of credit with total availability of $205.65 million, which margins our land development assets (raw land inventory, land under development and agreements receivable). With a strong focus on collecting on receivables and reducing overall leverage throughout 2016, Melcor is well positioned to take advantage of acquisition and growth opportunities.

For additional information on our financial resources, please refer to the Financing and Liquidity & Capital Resources sections.

2016 Highlights

($000s except as noted)	2016	2015	Change
Revenue	**242,461**	263,309	(7.9)%
Gross margin (%) *	**44.7%**	45.8%	(2.4)%
Fair value adjustment on investment properties	**15,795**	9,574	65.0%
Net income	**34,433**	75,958	(54.7)%
Net margin (%) *	**14.2%**	28.8%	(50.7)%
Funds from operations *	**42,564**	54,271	(21.6)%
Shareholders' equity	**994,721**	977,970	1.7%
Total assets	**1,891,988**	1,891,969	—%
Per Share Data			
Basic earnings	**1.04**	2.29	(54.6)%
Diluted earnings	**1.04**	2.29	(54.6)%
Funds from operations *	**1.28**	1.64	(22.0)%
Book value *	**29.83**	29.43	1.4%

* See non-standard measures for definitions and calculations.

While the economic environment remained challenging in many of our Alberta markets in 2016, we achieved solid results and advanced several strategies that position Melcor for future growth and success.

Community Development focused on diversifying residential product types to respond to demand in the more price-sensitive Alberta markets. In addition, we worked closely with our builders to implement promotions to move inventory and create activity.

Property Development completed and transferred 6 buildings (90,694 sf) in 2016 with a further 31,108 sf near completion. Revenue from the Property Development division is eliminated on consolidation. Pre-elimination, total revenue increased 2% over 2015. This activity will positively impact results in future years as we continue to grow our income-producing assets for long-term holding or for sale to the REIT. We continued to progress commercial land through the development, approvals and lease-up process and have 2 new developments and a new 53,000 sf office building at an existing development breaking ground in spring 2017.

Investment Properties maintained stable occupancy rates and healthy renewals in a challenging market and now manages 3.95 million sf (growth of 12% over 2015).

Our long-term strategy of creating a pipeline of stable, income-producing assets to reduce volatility in our operating results continues to generate results and helped to offset the revenue contraction seen in our Community Development division. Revenue from our income-producing portfolio (including REIT properties) grew by 4% to partially offset the 8% decline in revenue from Community Development due to regional softness in residential real estate. Diversity in the Community Development division's product types (from multi-family to estate) contributed to steady activity in under-served asset classes.

Throughout the year, we maintained our conservative and disciplined approach to investment and development activities and the management of our assets and liabilities. We reduced our inventory of single-family lots in some markets. Lower sales and a focused effort on collections across divisions contributed to a 9.7% reduction in receivables over 2015. Over the past few years, we have focused on operating more efficiently and have reduced our general and administrative spending by $4.01 million or 16.2% since 2014.

We continued to invest in income-producing commercial properties and grew our portfolio of managed properties by 12%:

- We acquired 3 income-producing office buildings in the Greater Denver, Colorado area:
  - a 128,383 sf office for $20.07 million (US$17.03 million).
  - a 95,127 sf office for $13.07 million (US$9.75 million).
  - a 82,659 sf office for $13.22 million (US$10.19 million).
- We disposed of a 240 unit multi-family apartment in the Greater Dallas, Texas area for $38.42 million (US$29.19 million). This disposition completes our exit from the Texas market to better hedge our exposure to resource economies.
- We also acquired Northridge Place, a 72 unit, 65,474 sf apartment on 1.63 acres in St. Albert, Alberta for $14.83 million.

We continued to invest in land inventory and increased our land holdings by 144.58 acres in strategic growth corridors. The acquired land is primarily allocated to residential development and includes 42.24 acres acquired in the US. We continue to move land use designations through the municipal approval process to increase our supply of shovel ready assets so that we are ready to capitalize when market demand improves.

Occupancy in our income-producing properties owned by Melcor and the REIT remained steady at 92%.

Return to Shareholders

We continue to distribute profits to our investors. During 2016, we paid annual dividends of $0.48 per share. The dividend paid out in 2016 was reduced over the prior year to ensure the appropriate balance between returning profit to shareholders and conserving cash for investment opportunities and our capital allocation strategy.

We declared a $0.13 per share dividend on March 15, 2017 payable on April 5, 2017 to shareholders of record on March 27, 2017. The dividend is an eligible dividend for Canadian tax purposes.

We have been paying dividends since 1969.

Revenue & Margins

We earned revenue of $242.46 million in 2016 compared to $263.31 million in 2015 for a decrease of 8%. Our long-term strategy of creating a pipeline of stable, income-producing assets to reduce volatility in our operating results continues to generate results and helped to partially offset the revenue contraction seen in our Community Development division. Revenue from our income-producing portfolio (including REIT properties) grew by 4% to partially offset the 8% decline in revenue from Community Development due to regional softness in residential real estate. Transfers from Property Development to Investment Properties, in conjunction with third party acquisitions, contributed to 12% growth in GLA under management. Property Development revenue (up 52%) is eliminated on consolidation.

Gross margin decreased 1% to 45% in 2016. Community Development gross margin was 34% in 2016 compared to 40% in 2015. This decrease was driven by sales promotions designed to proactively drive sales activity and gain market share, primarily in the Edmonton region. Community Development gross margin is affected by a number of factors, including the lot type sold, development costs, the timing of the original land purchase and the relative real-estate market strength at the time of sale. Land that has been in inventory for many years typically generates higher margin on sale. The overall growth in revenue from income properties, with 61% gross margin (Income Properties and REIT combined), serves to neutralize the drag on Community Development margin.

Net margin declined over 2015 at 14%, primarily as a result of fair value adjustments on REIT units. Net income was $34.43 million.

Fair value gains of $15.80 million were recorded in 2016 (2015: $9.57 million) as a result of:

- the transfer of land inventory (measured at cost) to Property Development where it is classified as investment properties on the balance sheet (measured at fair value), resulting in fair value gains of $1.79 million (2015: $1.82 million);
- leasing activity and completion of construction on Property Development projects resulting in fair value gains of $6.13 million (2015: $7.72 million); and
- increased fair value adjustments in our Investment Properties and REIT divisions, compared to 2015, due to gains in our US residential assets, including the sale of Lakeside 121 where the sale price exceeded the carrying value.

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 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.

Below is a reconciliation of net income to FFO:

Year ended December 31 ($000s)	2016	2015
Net income for the year	**34,433**	75,958
Amortization of operating lease incentives	**6,344**	6,045
Fair value adjustment on investment properties	**(15,795)**	(9,574)
Depreciation on property and equipment	**1,571**	1,705
Stock based compensation expense	**302**	339
Non-cash financing costs	**1,179**	1,627
Gain on sale of asset	**(37)**	(58)
Deferred income taxes	**628**	3,490
Fair value adjustment on REIT units	**13,939**	(25,261)
FFO *	**42,564**	54,271
Per Share Data		
FFO per share *	**1.28**	1.64

* See non-standard measures for definitions and calculations.

FFO during the year declined to $42.56 million compared to $54.27 million in 2015. FFO was impacted by lower sales in certain regions. Income, excluding fair value adjustments, from income-producing assets (Investment Properties and REIT divisions) grew by 7% compared to 2015 which has helped stabilize overall income. Cost management strategies led to a $2.93 million reduction in G&A, while reductions in our overall leverage resulted in finance cost savings over 2015.

Divisional Results

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

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

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

The following tables summarize results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31	
($000s except as noted)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenue	**154,201**	167,281	**45,729**	30,068	**35,774**	32,103	**66,042**	65,482	**9,176**	9,665
Portion of total revenue	**50%**	55%	**15%**	10%	**12%**	11%	**21%**	21%	**3%**	3%
Cost of sales	**(102,508)**	(100,193)	**(45,650)**	(29,743)	**(13,994)**	(12,678)	**(25,770)**	(25,613)	**(6,180)**	(6,400)
Gross profit	**51,693**	67,088	**79**	325	**21,780**	19,425	**40,272**	39,869	**2,996**	3,265
Gross margin (%)	**34%**	40%	**—%**	1%	**61%**	61%	**61%**	61%	**33%**	34%
Portion of total gross profit	**44%**	52%	**—%**	—%	**19%**	15%	**34%**	31%	**3%**	3%
General and administrative expense	**(8,537)**	(9,649)	**(1,858)**	(1,621)	**(2,620)**	(3,636)	**(2,653)**	(2,529)	**(2,275)**	(2,294)
Fair value adjustment on investment properties	**—**	—	**6,130**	7,717	**11,449**	2,122	**(6,546)**	(5,418)	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**37**	58
Interest income	**1,119**	2,356	**4**	—	**6**	14	**35**	56	**—**	—
Segment Earnings	**44,275**	59,795	**4,355**	6,421	**30,615**	17,925	**31,108**	31,978	**758**	1,029

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 parcels are sold to homebuilders 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.

As at December 31, 2016 we held 9,901 acres of raw land for future development which positions the division well for future growth. Our developed land inventory at December 31, 2016 includes 982 single-family lots, 65 acres for multi-family unit development, and 142 non-residential acres.

Sales Activity

Income can fluctuate significantly from quarter to quarter due to the timing of plan registrations, the cyclical nature of real estate markets and the mix of land sold. The seasonality caused by the timing of plan registrations and the real estate construction cycle typically evens out over the course of the year.

The majority of our operations are in Alberta where overall market conditions remained soft in 2016.

The following table summarizes our activity in 2016 and 2015:

Consolidated	2016	2015
Sales data:		
Single-family sales (number of lots)	**958**	1,376
Gross average revenue per single family lot ($)	**142,800**	139,000
Multi-family sales (acres)	**21.32**	34.21
Gross average revenue per multi-family acre ($)	**1,274,600**	1,019,400
Commercial sales (acres)	**18.81**	2.90
Gross average revenue per commercial land acre ($)	**781,600**	793,100
Other land sales - Industrial, Other (acres)	**107.22**	142.71
Gross average revenue per other land acre ($)	**174,700**	109,145
Financial results:		
Revenue ($000s)	**154,201**	167,281
Earnings ($000s)	**44,275**	59,795

Regional Highlights

Edmonton & Region	2016	2015
Sales data:		
Single-family sales (number of lots)	**499**	867
Multi-family sales (acres)	**15.86**	16.81
Commercial sales (acres)	**16.70**	—
Other land sales - Industrial & Other (acres)	**2.75**	141.24
Financial results:		
Revenue ($000s)	**72,503**	100,732
Earnings ($000s)	**17,713**	34,612

The Edmonton region developed at a slower pace in 2016 with a focus on certain segments that remain under-supplied. The significant trend throughout the year was lower price products including duplexes, townhomes and detached garage homes, which made up the bulk of sales. The communities of Rosenthal and Webber Greens in west Edmonton and all communities in Spruce Grove remained fairly active.

We sold 16.70 acres to Property Development for $13.11 million for the development of Jensen Lakes Crossing, a neighbourhood shopping centre in St. Albert. We also sold two multi-family sites in Jensen Lakes.

The Edmonton region established promotions early in 2016 to move builder inventory and generate activity. These promotions were successful at moving certain product type and have carried over to early 2017. We expect interest in entry level product types to remain strong in 2017 with increasing interest in traditional single-family lots.

Red Deer & Region	2016	2015
Sales data:		
Single-family sales (number of lots)	**67**	113
Multi-family sales (acres)	**—**	3.2
Other land sales - Industrial & Other (acres)	**90.06**	—
Financial results:		
Revenue ($000s)	**14,322**	15,550
Earnings ($000s)	**4,846**	8,110

The Red Deer market remained soft in 2016 with a 28% reduction in building permits issued for single-family and semi-detached homes over 2015. In 2015, the number of building permits issued was down 40% over 2014. We increased our share of this market to 65% of the permits issued in 2016. In 2017, we will introduce the new community of Evergreen in northwest Red Deer, opening up a new development quadrant for the city.

Calgary & Region	2016	2015
Sales data:		
Single-family sales (number of lots)	**138**	280
Multi-family sales (acres)	**5.46**	8.53
Commercial sales (acres)	**2.11**	2.90
Other land sales - Industrial & Other (acres)	**14.41**	1.47
Financial results:		
Revenue ($000s)	**36,521**	34,786
Earnings ($000s)	**13,381**	13,681

The Calgary housing market remained soft in 2016, resulting in a 51% decline in single-family lots sold as builders carried inventory from prior years. This decline was offset by an increase in acres sold for development, including 2.11 acres sold to Property Development, 5.46 acres sold for 2 multi-family sites in the new Greenwich development, 8.73 acres sold in The District for the construction of single-tenant office building and 5.68 acres sold to an industrial developer.

Efforts to diversify product mix and concentrate on lower priced housing segments paid off in our Cochrane and Airdrie communities. Duplex lots led single-family sales in the current price-sensitive market. We are focused on maintaining an adequate supply of diverse housing options to meet market demand.

We expect similar market conditions in 2017 and continue to focus on lower priced housing options as well as managing inventory levels. We remain focused on planning and approvals for new developments.

In 2016, we received plan approval for Cobblestone, a new community in Airdrie which is scheduled for development in 2018. We also continue to secure approval on phase 2 of Lanark Lake and expect to begin marketing phase 1 in 2018.

Lethbridge	2016	2015
Sales data:		
Single-family sales (number of lots)	**90**	81
Financial results:		
Revenue ($000s)	**9,340**	8,146
Earnings ($000s)	**2,315**	1,935

The Lethbridge market remains insulated from the impact that the price of oil has on some of our Alberta regions. Revenue grew by 15% to $9.34 million compared to $8.15 million in 2015. We sold lots in all three active developments in 2016. We also registered a new phase in The Canyons and held the grand opening of a new phase in Garry Station.

Kelowna	2016	2015
Sales data:		
Single-family sales (number of lots)	**39**	10
Multi-family sales (acres)	**—**	5.67
Financial results:		
Revenue ($000s)	**13,175**	4,570
Earnings/(loss) ($000s)	**2,248**	(614)

The Kelowna market remained strong in 2016. Revenue in Kelowna grew by 188% over 2015 as the BlueSky subdivision and a multi-family project (Dunbar Villas) continued to build momentum. A new phase of BlueSky will commence in the spring of 2017, and we have purchased adjacent land to expand the development potential of BlueSky by 135 lots. Construction on the first phase of a new development, North Clifton Estates, will also commence this spring. We also continue to move a third development, Thomson Flats, through the planning process.

United States	2016	2015
Sales data:		
Single-family sales (number of lots)	**125**	25
Financial results:		
Revenue ($000s)	**8,340**	3,497
Earnings ($000s)	**3,772**	2,071

The US region sold the remainder of our serviced lot inventory in Arizona and acquired 42 acres of commercial land adjacent to our existing land holding in Aurora, CO. We also advanced approvals on our 1,100 acre development in Aurora, CO. The region continues to actively seek land acquisition opportunities and to advance planning and approvals on existing land assets.

Property Development

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

The Property Development division supports our strategic objectives of asset diversification, income growth and value creation by constructing income-producing commercial developments.

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 and at JV%, except as noted)	2016	2015
Total revenue	**45,729**	30,068
Revenue from property transfers	**45,650**	26,550
3rd Party property sales	**—**	3,311
Management fees	**79**	207
Margin (%) on property transfers	**27%**	25%
Square footage transferred (sf, at 100%)	**90,694**	51,298
Number of buildings transferred	**6**	5
Fair value gains on investment properties	**6,130**	7,717

Property Development completed and transferred 6 buildings (90,694 sf) to Investment Properties during 2016. A further 31,108 sf remain under development. We plan to begin construction on a further 154,500 sf in the 2017 construction season.

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

Regional Highlights

A breakdown of our fair value gains by region is as follows:

($000s)	2016	2015
Northern Alberta	**2,822**	2,931
Southern Alberta	**3,308**	4,786
	6,130	7,717

Northern Alberta transferred 70,548 sf (3 buildings) to Investment Properties. Notable activity during 2016 includes:

- Campsite Industrial: We completed and transferred the 15-acre site for the Northern Alberta Institute of Technology (NAIT) in Spruce Grove, Alberta. We recognized $16.25 million in revenue and $4.02 million in margin on transfer (25%) to Investment Properties.
- Telford Industrial: We completed and transferred a multi-tenant building and recognized transfer revenue of $16.60 million and a margin on transfer of $4.33 million (26%). We have now completed three buildings in this industrial park.
- Jensen Lakes Crossing: We announced that Landmark Cinemas Canada will be an anchor tenant at our new 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.

Southern Alberta: This region transferred 20,146 sf to Investment Properties (3 buildings) in 2016, including:

- Kingsview Market: We completed and transferred two CRUs (18,506 sf) at Kingsview Market Square, bringing the total sf developed to date on the property to 181,927 sf.
- The District at North Deerfoot: We completed and transferred a free standing automotive building (1,640 sf) at The District at North Deerfoot. This development is expected to yield 2,250,000 sf on completion.
- Chestermere Station: We commenced construction on 2 buildings (a free standing restaurant and a CRU) in the development. Construction is expected to be completed in 2017.

Transfers occur upon completion of the buildings, while the fair value gains are recorded over the course of construction.

Future development opportunities

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

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

Current Projects

Project	Location	Type	Total SF *	Developed to Date*	SF Under Development
The Village at Blackmud Creek	South Edmonton	Regional business park	725,000	57,381	53,000
Telford Industrial	Leduc	Industrial Park	500,000	142,790	—
West Henday Promenade	West Edmonton	Regional mixed use centre	726,000	109,711	6,500
Kingsview Market	Airdrie	Regional shopping centre	331,000	181,927	—
Chestermere Station	Chestermere	Neighbourhood shopping centre	297,416	220,576	20,585
Clearview Market	Red Deer	Neighbourhood shopping centre	150,090	139,567	10,523
The District at North Deerfoot	North Calgary	Regional business / industrial park	2,250,000	494,359	—
Campsite Industrial	Spruce Grove	Industrial Park	170,000	13,654	—
The Shoppes at Jagare Ridge	South Edmonton	Neighbourhood shopping centre	105,000	—	28,000
Jensen Lakes Crossing	St. Albert	Neighbourhood shopping centre	173,000	—	67,000

Expected Future Projects

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

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

Investment Properties

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

Our Investment Properties division oversees 3.95 million sf of income-producing commercial GLA and 612 residential units.

Our commercial property portfolio is primarily comprised of properties developed and transferred from our Property Development division. Our goal is to improve the operating efficiency of each property for stable and growing cash flows making them attractive assets for the REIT to purchase under its Right of First Offer (ROFO) option. In our management capacity, we are committed to efficient property management for optimized operating costs, occupancy and rental rates, providing the REIT and our joint venture partners with best in class management services. We focus on client retention through continuous customer contact and ongoing service evaluations. We also enhance our portfolio by upgrading the appearance, functionality and desirability of our properties, thereby increasing their rental potential.

Our US properties provide the division with a stable income stream that diversifies our exposure to the western Canadian resource sector. We also own 7 parking lots and other assets which are held for the long-term, providing current stable income and future re-development opportunities.

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

Operating Results

($000s except as noted)	2016	2015
Commercial properties GLA under management (sf, total)	**3,953,196**	3,521,063
Properties owned and managed (sf)	**823,466**	418,279
Properties managed (sf)	**3,129,730**	3,102,784
Revenue (total)	**35,774**	32,103
Commercial properties	**12,439**	9,514
US properties	**17,022**	16,649
Management fees	**4,892**	4,515
Parking lots and other assets	**1,421**	1,425
Net operating income (NOI) *	**20,934**	19,232
Funds from operations *	**19,759**	16,247
Funds from operations per share *	**0.59**	0.49

* See non-standard measures for calculation.

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

Canadian commercial properties

We continued to grow via property development and third-party acquisition in 2016. The pace of growth has slowed over the past two years due to softer economic conditions in most of our operating regions. Over the past twelve months, Property Development transferred six buildings, adding 90,694 sf to owned and managed GLA which generated a significant increase in commercial property revenue and NOI over 2015. In 2015, five buildings were transferred from Property Development, adding 51,298 sf of GLA. Approximately 31,629 sf of 2015 building transfers were subsequently sold to the REIT as part of a property sale completed in November 2015. With 154,500 sf of GLA under active development in the Property Development division, we expect continued growth. In October 2016, we acquired Northridge Place Apartments (72 units with a total of 65,474 sf on 1.63 acres) in St. Albert, Alberta for a purchase price of $14.83 million.

Revenue generated on assets acquired from Property Development and held through the period was $4.44 million in 2016 (2015 - $0.58 million). Our newly acquired residential property contributed $0.22 million in revenue in 2016. During 2015 we recognized revenue of $0.63 million related to assets sold to the REIT. Same asset revenue increased by 2% over 2015.

Occupancy on properties owned by Investment Properties was 94% at December 31, 2016 (2015 - 90%) at year end. Stability in occupancy reflects the slower pace of development over the past two years and a larger proportion of the portfolio being comprised of mature properties. Weighted average base rental rates were $26.26 (2015 - $20.14). Higher rates reflect the commencement of our lease with NAIT at our Campsite Business Park which includes a 15 acre site which is not included in GLA.

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

($000s except as noted)	2016	2015
Same asset NOI *	**6,014**	6,003
Third party acquisition	**144**	—
Properties transferred from PD	**3,296**	439
Properties transferred to REIT	**(24)**	464
NOI before adjustments	**9,430**	6,906
Amortization of operating lease incentives	**370**	419
Straight-line rent adjustment	**(873)**	(596)
NOI	**8,927**	6,729

* 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 gross margin decreased over 2015 due to re-classification of certain costs related to management of the REIT assets from G&A to operating costs in the current year. Same asset operating expenses were further impacted by an uptick in bad debt expense, primarily in our secondary retail markets. Higher straight-line rent adjustments and lower amortization of operating lease incentives offset higher operating expenses, resulting in stable same asset NOI over 2015.

US properties

We completed three commercial property acquisitions and disposed of a residential property in 2016. We completed two commercial property acquisitions and two residential property dispositions in 2015. 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. Details of acquisitions and disposals completed through 2016 and 2015 are as follows:

	Date	Type	Area	Price (millions $)
Acquisitions				
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)
Evans Business Center, Greater Phoenix Area, Arizona	Sept 2015	Office	47,385 sf / 4.55 ac	$8.47 (US$6.43)
Centennial Airport Plaza, Denver, Colorado	Apr 2015	Office	63,112 sf / 4.59 ac	$6.14 (US$4.88)
Dispositions				
Lakeside 121, Greater Dallas Area, Texas	Dec 2016	multi-residential	240 units / 11.01 ac	$38.42 (US$29.19)
Augusta Meadows, Greater Houston Area, Texas	Dec 2015	multi-residential	264 units / 13.19 ac	$37.52 (US$26.86)
Artesia, Greater Phoenix Area, Arizona	Oct 2015	single residential	1 unit	$0.90 (US$0.70)
Pebble Creek, Greater Houston Area, Texas	July 2015	multi-residential	240 units / 11.47 ac	$42.73 (US$32.38)

Revenue increased 2% over 2015, primarily due to the stronger US dollar contributing to foreign currency translation gains. 2016 revenue growth was tempered by the timing lag between the sale of residential assets in 2015 and the reinvestment of funds in 2016. Revenues from residential assets sold over the past two years was $3.51 million (US$2.65 million) (2015 - $10.23 million (US$8.03 million)). Comparatively, revenue from newly acquired commercial assets in 2016 was $8.00 million (US$6.05 million) (2015 - $1.08 million (US$0.85 million)). Same asset revenue was steady over 2015.

Occupancy on commercial US properties was 89% (2015 - 93%). This decrease is due to a tenant rollover at one of our Phoenix area properties which was acquired in 2014. Rental rates on commercial US properties were $17.83 (2015 - $18.46). The decrease in rental rates is due to acquisitions of properties which operate in a lower rental rate markets.

A reconciliation of US properties same asset NOI is as follows:

($000s except as noted)	2016	2015
Same asset NOI *	**1,769**	1,809
Third party acquisitions	**3,041**	388
Third party disposals	**1,265**	3,952
NOI before adjustments	**6,075**	6,149
Foreign currency translation	**1,835**	1,684
Amortization of operating lease incentives	**223**	24
Straight-line rent adjustment	**(566)**	(40)
NOI	**7,567**	7,817

* 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 declined 2% over 2015 due to lower occupancy on our commercial assets in conjunction with the timing of maintenance projects undertaken on our residential assets.

Management fees

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the asset manager. Management fees increased by $0.38 million or 8% compared to 2015. Growth in management fees is due to additional fees negotiated with our partners on two of our JV agreements in order to align the fee structure with other management agreements and fairly compensate Melcor for administration of the assets. The agreements were amended retroactively, resulting in higher than normal income. The increase in GLA under management and higher fees on account of increased property revenues offset a decline in leasing fees, which fluctuate based on the timing of leasing activity by the REIT.

During 2016 we recognized $1.42 million in revenues on our 516 parking stalls and other assets, which is consistent with 2015. These revenues fluctuate from period to period.

Funds from Operations

Funds from operations (FFO) increased by $3.51 million or 22% over 2015 as a result of higher NOI and lower G&A. G&A costs were lower than 2015 due to the re-classification of certain costs related to management of the REIT assets from G&A to operating costs in the current year. G&A was further reduced by lower expense related to payments made to the REIT under Head and Bridge Lease Agreements entered into for property acquisitions from Investment Properties completed during December 2014. These amounts are eliminated on consolidation.

Fair Value of Investment Portfolio

	2016	2015
Fair value of portfolio ($000s)	**317,790**	233,844
Weighted average capitalization rate	**6.37%**	6.38%
Weighted average terminal cap rate	**6.71%**	6.72%
Weighted average discount rate	**7.44%**	7.25%

The fair value of our portfolio increased by $83.95 million over 2015 as a result of four asset acquisitions valued at $64.19 million in third party property acquisitions and $44.97 million in buildings transferred from Property Development. Portfolio growth was offset by US residential asset disposals valued at $38.96 million.

For the year ended December 31, 2016, Melcor's internal valuation team performed the valuation assessment. Of 35 legal phases assessed, 23 investment properties with a fair value of $143.31 million were valued by qualified independent external valuation professionals during the year. In 2015, 10 investment properties of 29 legal phases with a fair value of $142.55 million were valued by qualified independent external valuation professionals during the year.

A breakdown of our fair value adjustment on investment properties by geographic region and significant asset type are as follows:

($000s except as noted)	2016	2015
Alberta - all assets	**(5,030)**	(9,945)
US - residential	**20,269**	12,892
US - commercial	**(3,790)**	(825)
	11,449	2,122

We recognized fair value losses on our commercial portfolio as a result of the decrease in stabilized NOI on certain assets in conjunction with capital and tenant spending which did not result in a significant increase in fair value. Losses were offset by gains in our US residential assets, which were the result of a decline in capitalization rates on our Phoenix area assets as well as the sale of Lakeside 121 where the sale price exceeded the carrying value. Fair value gains in 2015 were driven from asset dispositions completed during the year where the sale price exceeded carrying value. These gains were offset by fair value losses on our commercial assets as a result of the decrease in stabilized NOI, increase in capitalization rates and capital and tenant spending which did not result in a significant increase in fair value. Refer to note 28 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

REIT

The REIT owned 38 income-producing office, retail and industrial properties, comprising 2,775,782 sf GLA and a land lease community at December 31, 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 hold a controlling 56.7% effective interest in the REIT through ownership of all Class B LP Units (December 31, 2015 - 56.7%). As we have concluded that Melcor retains control of 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)	2016	2015
Rental revenue	**66,042**	65,482
Net operating income (NOI) *	**42,329**	41,313
Same asset NOI *(see calculation following)*	**38,980**	39,696
Fair value adjustments	**(6,546)**	(5,418)
Occupancy	**92%**	94%
Funds from operations *	**26,668**	26,345
Funds from operations per share *	**0.80**	0.79

* See non-standard measures for definition and calculation.

Rental revenue for the year ended December 31, 2016 increased $0.56 million or 1% over 2015 as a result of portfolio growth of 39,464 sf. We acquired additional phases at two existing properties in late 2015 and densified existing retail properties with two newly constructed CRUs. Rental revenue from the newly acquired/constructed GLA was $1.58 million in 2016 (2015 - $0.23 million). On a same-asset basis, base rent was stable with an increase in average base rent as rent-steps on escalating leases kicked in and there were fewer tenants on rent-free periods, which offset the slight decline in occupancy.

We continue to be proactive and strategic in our leasing programs to meet the demands of an evolving market while retaining and attracting new tenants. In 2016 we retained and renewed 66 of 88 of expiring tenancies representing 168,407 sf of GLA. Our 71% retention rate is healthy in light of challenging market conditions in many of our markets; however fell short of our target of 75%. We took back an additional 53,795 sf of GLA due to early terminations (both tenant and landlord initiated) during the year which further impacted occupancy. Additional vacancy from lease rollovers was partially mitigated with 88,538 sf in new leasing completed during the year.

Direct operating expenses increased by $0.16 million or 1% over 2015. Excluding the impact of the newly acquired/constructed GLA, direct operating expenses were steady over 2015. On a same-asset basis, property taxes increased 4% over 2015 as a result of recently constructed suburban retail properties converting from land based valuation to income based taxation. These increases were offset by a 9% reduction in utility costs as a result of lower energy consumption combined with cost savings on utility contracts and several 'green' initiatives'. Mill rates and appraised values across the rest of the portfolio remained relatively stable over 2015. On a same-asset basis, operating expenses were stable over 2015 and reflect inflationary growth in the cost of goods and services, offset by various initiatives to reduce costs so as to improve our competitiveness within the market.

($000s except as noted)	2016	2015
Same asset NOI *	**38,980**	39,696
Acquisitions	**1,292**	173
NOI before adjustments	**40,272**	39,869
Amortization of operating lease incentives	**3,216**	3,057
Straight-line rent adjustment	**(1,159)**	(1,613)
Divisional NOI	**42,329**	41,313

* See non-standard measures for definition.

NOI and same asset NOI are non-standard metrics used in the real estate industry to measure the performance of investment properties. The IFRS measurement most directly comparable to NOI and same asset NOI is net income.

GLA added in the property acquisition completed in November 2015 and new construction in 2015 and 2016 led to a 2% increase in NOI over 2015. The slight decline in occupancy was offset by rent steps-ups and fewer tenants on rent-free periods over the comparative period. On a same-asset basis, NOI declined by 2% as a result of negative movement in non-cash adjustments with lower straight-line rent adjustments and higher tenant incentive amortization.

Funds from Operations

FFO increased by $0.32 million or 1% over 2015. The increase reflects higher NOI, which was partially offset by higher general and administrative expenses during the period.

Fair Value of REIT Portfolio

	2016	2015
Number of properties	**38**	38
Total GLA (sf)	**2,895,306**	2,888,246
GLA (REIT owned %) (sf)	**2,775,782**	2,768,750
Fair value of portfolio ($000s)	**659,611**	660,935
Weighted average capitalization rate	**6.63%**	6.57%
Weighted average terminal cap rate	**6.83%**	6.81%
Weighted average discount rate	**7.70%**	7.71%

For the year ended December 31, 2016, Melcor's internal valuation team performed the valuation assessment. Of 47 legal phases assessed, 22 investment properties with a fair value of $287.00 million were valued by qualified independent external valuation professionals during the year, resulting in a fair value loss of $6.55 million recorded on investment properties in the statements of income and comprehensive income. In 2015, 27 properties of 47 legal phases with a fair value of $443.75 million were valued by external valuation professionals, resulting in a fair value loss of $5.42 million. Refer to note 28 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

A breakdown of our fair value adjustment on investment properties by geographic region are as follows:

($000s)	2016	2015
Northern Alberta	**(3,773)**	(8,253)
Southern Alberta	**(3,322)**	1,833
Saskatchewan & British Columbia	**549**	1,002
	(6,546)	(5,418)

Fair value losses in Northern Alberta were primarily driven by capital and tenant incentive spending that did not result in a significant change in the fair value of the related property. This was partially offset by fair value gains realized upon completion of construction of a 7,732 sf CRU at a regional shopping centre. Capitalization rates and stabilized NOI remained stable over 2015 within our Northern Alberta portfolio. Fair value losses in our Southern Alberta portfolio was the result of a decrease in stabilized NOI on one of our suburban office properties in the greater Calgary area. Fair value adjustments represent a change of approximately 1% in the fair value of our portfolio.

Recreational Properties

Our Recreational Properties division owns and manages championship golf courses built to add value to Melcor residential communities.

The division's goal is to provide a high standard of service to our customers so as to maximize their enjoyment at our golf courses and to enhance divisional performance through revenue growth and cost savings.

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 course fees, number of rounds played and customer satisfaction and enjoyment.

Operating Results

($000s except as noted)	2016	2015
Revenue	9,176	9,665
Gross profit	2,996	3,265
Gross margin (%)	32.7%	33.8%
Earnings	758	1,029

The financial performance of our golf courses is greatly influenced by the weather conditions during the golf season. Unfavourable weather conditions in Alberta throughout much of the season contributed to a 5% decrease in revenue and 26% decrease in earnings in 2016. The number of rounds played at Melcor managed courses decreased by 1% over 2015, with Black Mountain in Kelowna offsetting a 7% reduction in rounds played at the Alberta courses. Total rounds at all four courses decreased 3% to 116,681 rounds.

We continue to focus on food and beverage initiatives as part of our strategy for attracting tournaments and growing revenue. Food and beverage revenue was $2.98 million, unchanged from 2015.

	2016			
	Ownership interest	Season opened	Season closed	Rounds of golf *
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	March 31	November 14	33,442
The Links (Spruce Grove)	100%	April 1	November 14	26,727
Black Mountain (Kelowna)	100%	March 11	November 15	33,002
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	April 8	October 6	23,510
	2015			
	Ownership interest	Season opened	Season closed	Rounds of golf *
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 20	October 31	35,131
The Links (Spruce Grove)	100%	April 19	October 31	29,032
Black Mountain (Kelowna)	100%	March 28	November 8	30,042
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	April 30	October 18	25,715

* Rounds of golf indicated at 100%.

General and Administrative Expense

Cost management strategies implemented across Melcor contributed to a $2.93 million decrease in general and administrative expenses over 2015.

Income Tax Expense

The statutory tax rate for the year ended December 31, 2016 is 27% compared to 26% for the year ended December 31, 2015. Significant adjustments that impacted the 2016 effective tax rate includes permanent difference related to revaluation adjustments on investment properties and REIT units and a higher tax rate for income earned in our US subsidiary. The adjustments are offset by the non-taxable portion of REIT income. In 2015, significant adjustments included a 3% increase in the statutory tax rate that affected our deferred tax liability, permanent differences related to revaluation adjustments on investment properties and REIT units, a higher tax rate for income earned in our US subsidiary and the non-taxable portion of REIT income.

Financing

As at December 31, 2016, our total general debt outstanding was $608.61 million compared to $631.01 million in 2015. The financing function is managed by our corporate division and decisions on how to deploy operating and acquisitions funds is a centrally managed corporate decision. We use various forms of financing to fund our development and acquisition activities. We are often able to leverage the assets in one division to fund development opportunities in others.

A summary of our debt is as follows:

As at ($000s)		2016	2015
Melcor - revolving credit facilities	a	32,728	84,813
REIT - revolving credit facility	b	17,324	19,258
Project specific financing	c	5,213	25,280
Secured vendor take back debt on land inventory	d	65,408	76,092
Debt on investment properties and golf course assets	e	455,189	393,319
REIT - convertible debenture	f	32,749	32,246
		608,611	631,008

a) Melcor - revolving credit facilities

One of our primary sources of funding for development projects is an operating line of credit with a syndicate of major chartered banks. This line of credit margins the community development assets of the company.

We benefit by being able to borrow at rates fluctuating with prime. Our current cost of borrowing on a floating basis is low when compared to historical cost of funds.

Under the terms of the facilities, Melcor pledges specific agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral. The facilities mature on July 31, 2018, are renewable one year in advance of expiry and may be modified.

A summary of the credit facilities is as follows:

As at ($000s)		2016	2015
Credit limit approved	i)	**205,649**	213,949
Supportable credit limit	ii)	**163,892**	188,825
Credit used		**(32,728)**	(84,813)
Credit available		**131,164**	104,012

i) The portion of these loan limits that relate solely to Melcor Developments Ltd. is $120.00 million (2015 - $120.00 million) with the remaining balance pertaining to specific joint arrangements.

ii) Our supportable credit limit is calculated based on a formula and tests as required by the bank. The supportable credit limit is calculated based on agreements receivable balances and land inventory. As such, the supportable limit fluctuates in response to increases or decreases in these balance sheet accounts. Management monitors the supportable credit limit and keeps the bank informed at all times of its current collections and inventory production plans.

In the normal course of development operations, we are required to issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. The credit facility described above also includes a letter of credit facility. Melcor's letter of credit balances, net of joint arrangement interests are:

As at ($000s)	2016	2015
Total letter of credit facility	**72,358**	75,185
Letters of credit issued	**(39,425)**	(47,347)
Available for issue	**32,933**	27,838

b) REIT - revolving credit facility

The REIT has an available credit limit based upon the carrying values of specific investment properties up to a maximum of $35,000 for general purposes, including a $5,000 swingline sub-facility. The agreement also provides the REIT with $5,000 in available letters of credit which bear interest at 2.25%. The facility matures on May 1, 2018, with an extension option of up to three years at the discretion of the lenders.

As at December 31, 2016 we had $17,324 drawn from the facility, and posted letters of credit of $nil, which is presented net of unamortized transaction costs and discounts on outstanding bankers acceptance.

c) Project specific financing

We use project financing to supplement our line of credit, or when certain projects allow us to access a lower cost of capital typically provided by project financing. This type of loan usually has floating rates of interest tied to prime.

The composition of our project specific financing is as follows:

As at ($000s)	2016	2015
Project specific debt on investment properties under development, with interest rates at nil (2015 - 3.20%)	**—**	11,850
Project specific debt on land, with interest rates between 3.20% and 4.08% (2015 - 3.20% to 4.20%)	**5,213**	13,430
	5,213	25,280
Weighted average effective interest rate	**3.63%**	3.24%

d) Secured vendor take back debt on land inventory

This debt is primarily comprised of loans on the acquisition of land that are held by the land vendor (fixed and variable rate financing with repayments over 3 to 5 years) or from financial institutions (variable rate financing with repayments over 3 to 5 years). Current debts mature from 2017 to 2021.

As at ($000s)	2016	2015
Agreements payable with interest at the following contractual rates:		
Fixed rates of 3.00% - 6.00% (2015 - 3.85% to 6.00%)	**65,408**	76,092
Weighted average effective interest rate	**4.56%**	4.68%

As at December 31, 2016 $13.50 million of debt was payable in US dollars (2015 - $15.64 million) of debt was payable in US dollars.

e) Debt on investment properties and golf course assets

We use fixed rate, long-term mortgage financing on our investment property assets to raise capital. We are able to finance increased loan amounts from our existing portfolio of buildings as old mortgages renew and there is increased equity in our investment properties.

Debt on investment properties and golf course assets in the amount of $455.19 million reflects financing placed on investment properties that have a carrying value of $870.86 million.

Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. New mortgage rates from Canadian lending institutions ranged from 2.48% to 3.60% in 2016.

The composition of our debt on investment properties and golf course assets is as follows:

As at ($000s)	2016	2015
Canadian mortgages at fixed rates	348,021	305,836
Canadian mortgages at variable rates	52,033	41,964
US mortgages at fixed rates	48,763	17,552
US mortgages at variable rates	8,660	29,550
	457,477	394,902
Interest rate ranges	(2.48% - 6.16%)	(2.48% - 6.16%)
Weighted average effective interest rate	3.54%	3.76%

Loan maturity dates are spread out so as to reduce associated loan renewal risks. The following table represents cumulative loan amounts due for renewal over the next ten years:

Year	Loan renewal amount ($000s)	Weighted average interest rate	Number of loans
2017	15,037	3.42%	6
2018	65,520	4.04%	11
2019	77,179	3.44%	10
2020	51,617	3.38%	8
2021	56,333	2.94%	8
2022	—	—%	—
2023	15,936	4.00%	2
2024	34,359	3.73%	4
2025	27,155	3.64%	6
2026	34,096	3.61%	5

As at December 31, 2016, $57.42 million of debt was payable in US dollars (2015: $47.10 million).

f) REIT - convertible debenture

On December 3, 2014, the REIT issued a 5.50% extendible convertible unsecured subordinated debenture ("REIT debenture") to the public for gross proceeds of $34.50 million, including $4.50 million issued pursuant to the exercise of an over-allotment option. The REIT debenture bears interest at an annual rate of 5.50% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2015. The maturity date of the REIT debenture is December 31, 2019.

The REIT debenture was a source of financing and the funds were used to complete property acquisitions.

Liquidity & Capital Resources

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

As at ($000s except as noted)	2016	2015
Cash & cash equivalents	39,892	48,674
Restricted cash	—	2,288
Accounts receivable	16,918	18,744
Agreements receivable	116,244	152,183
Revolving credit facilities	50,052	104,071
Accounts payable and accrued liabilities	35,274	40,534
Total assets	1,891,988	1,891,969
Total liabilities	897,267	913,999
Debt to equity ratio *	0.90	0.93

*See non-standard measures for definition

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.

On November 12, 2015, we sold the REIT a multi-tenant CRU (held within a 50% joint venture) and a single-tenant industrial property for a purchase price of $15.25 million. The purchase price was satisfied through the REIT's line of credit and available cash.

We do not currently have any other 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.

Cash requirements

The following information about our contractual obligations and other commitments summarizes certain of our liquidity and capital resource requirements. The information presented includes legally committed capital expenditures.

Contractual obligations include:

		Payments due by period			
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt on investment properties and golf course assets	457,477	29,729	169,843	127,641	130,264
Revolving credit facilities	50,052	50,052	—	—	—
Secured vendor take back debt on land inventory	65,408	15,627	31,927	17,854	—
Project specific financing	5,213	5,213	—	—	—
REIT debenture	32,749	—	32,749	—	—
Interest expense	82,219	23,107	33,526	13,066	12,520
Operating leases	271	271	—	—	—
Total contractual obligations	693,389	123,999	268,045	158,561	142,784

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:

	2016	2015
Cash flows from operating activities	**68,997**	30,536
Cash flows used in investing activities	**(15,299)**	33,299
Cash flows from financing activities	**(61,363)**	(34,619)

Cash from operations was $38.46 million higher in 2016 due primarily to the collection of agreements receivable in the Community Development division. The impact of lower sales is offset by cash inflows of $15.01 million arising from net development activities and a reduction of cash outflows from operating assets and liabilities to $4.93 million. We also invested $9.75 million in land purchases and $6.36 million in tenant incentives and direct leasing costs to support our tenant base.

In 2015, land purchases was $2.50 million and our investment in tenant incentives and direct leasing costs was $6.80 million. Net outflows from development activities was $4.79 million and operating assets and liabilities was $23.35 million.

Cash used in investing activities was $15.30 million. We acquired three suburban properties in the US and one multi-family residential property in Alberta for cash payments of $38.72 million and sold a residential property and residential units in the US for net proceeds of $38.96 million. Investment properties purchased was $18.62 million and proceeds from properties sold was $84.24 million in 2015.

We continue to invest in improving our asset base through value enhancing projects. Additions to investment properties include development activities in Property Development and enhancements to properties held in the Investment Properties and REIT operating divisions. In 2016 we invested $14.77 million in properties under development, property improvements and capitalized borrowing costs, compared with $31.25 million in 2015.

Cash from financing activities decreased by $26.74 million over 2015 due primarily to repayments made on borrowings. In 2016, the revolving credit facilities made net repayments of $54.02 million compared to a net draw of $17.56 million in 2015. General debt contributed to a net cash inflow of $5,608 million through financings received and repayments made, compared to a net cash outflow of $33,429 million in 2015. We also recognized $1.25 million in cash inflows related to the expiration of our restricted cash covenant in the REIT with the underwriters, thus allowing us to use the remaining balance for general purposes.

In 2016, we paid dividends of $0.48 per share, for a total cash outflow of $15.97 million. This compares to dividends of $0.60 per share in 2015, for a cash outflow of $19.91 million.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at December 31, 2016 there were 33,350,898 common shares issued and outstanding and 795,700 options, each convertible to one common share upon exercise or exchange. There is only one class of shares issued.

Please refer to note 16 to the consolidated financial statements for information pertaining to our outstanding shares and options.

Off Balance Sheet Arrangements

In the normal course of operations, Melcor engages in transactions that, under IFRS, are either not recorded on our consolidated statements of financial position or are in amounts that differ from the full contract amounts. The main off-balance sheet arrangements we make include the issuance of guarantees and letters of credit.

A discussion of our letter of credit facility arrangement can be found in the Financing section. Refer to note 19 to the consolidated financial statements for information pertaining to our guarantees and letters of credit.

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 applicable year-end financial statements, notes to the financial statements and management's discussion and analysis.

	2016			
($000s)	Q4	Q3	Q2	Q1
Revenue	**106,391**	**63,432**	**42,084**	**30,554**
Net income	**24,109**	**16,260**	**1,778**	**(7,714)**
Per Share				
Basic earnings	**0.73**	**0.49**	**0.05**	**(0.23)**
Diluted earnings	**0.73**	**0.49**	**0.05**	**(0.23)**
Book value *	**29.83**	**29.19**	**28.80**	**28.86**

	2015			
($000s)	Q4	Q3	Q2	Q1
Revenue	91,721	87,921	46,113	37,554
Net income	32,658	24,823	3,917	14,560
Per Share				
Basic earnings	0.98	0.75	0.12	0.44
Diluted earnings	0.99	0.74	0.12	0.44
Book value *	29.43	28.47	27.67	27.76

*See non-standard measures for definition

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.

Fourth Quarter

Three months ended December 31 ($000s)	2016	2015
Revenue	**106,391**	91,721
Cost of sales	**(63,333)**	(45,936)
Gross profit	**43,058**	45,785
General and administrative expense	**(6,083)**	(7,136)
Fair value adjustment on investment properties	**208**	2,767
Adjustments related to REIT units	**461**	6,369
Gain on sale of assets	**(1)**	—
Operating earnings	**37,643**	47,785
Interest income	**340**	344
Foreign exchange gain (loss)	**(412)**	1,008
Finance costs	**(3,375)**	(9,084)
Net finance costs	**(3,447)**	(7,732)
Income before income taxes	**34,196**	40,053
Income tax expense	**(10,087)**	(7,395)
Net income for the period	**24,109**	32,658
Earnings per share attributable to Melcor's shareholders:		
Basic earnings per share	**0.73**	0.98
Diluted earnings per share	**0.73**	0.99

Highlights of the fourth quarter include:

- Our Property Development division completed and transferred 1 building (44,000 sf) to Investment Properties.
- Our Community Development division registered 9 plans in 6 communities, which added 381 lots to inventory with 616 lots sold in Q4-2016. This compares to 18 plan registrations in 10 communities adding 582 lots to inventory with 517 lots sold in Q4-2015.
- Our Investment Properties division sold Lakeside 121, a 240 unit residential rental property in the Greater Dallas area (Texas) for $38.42 million (US $29.19 million). This sale completes our strategic exit from the Texas market as we focus on markets that hedge our exposure to resource economies.
- Our Investment Properties division also acquired Northridge Place Apartments (72 units with a total of 65,474 sf on 1.63 acres) in St. Albert, Alberta for a purchase price of $14.83 million. This acquisition is consistent with our strategy of diversifying our assets.

Segmented information for the fourth quarter is as follows:

Three months ended December 31, 2016	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	95,213	16,656	9,443	16,170	750	—	138,232	(31,841)	106,391
Cost of sales	(64,392)	(16,600)	(3,943)	(6,490)	(1,022)	(118)	(92,565)	29,232	(63,333)
Gross profit	30,821	56	5,500	9,680	(272)	(118)	45,667	(2,609)	43,058
General and administrative expense	(2,235)	(599)	(728)	(631)	(344)	(2,300)	(6,837)	754	(6,083)
Fair value adjustment on investment properties	—	50	1,903	(3,600)	—	—	(1,647)	1,855	208
Gain on sale of assets	—	—	—	—	(1)	—	(1)	—	(1)
Interest income	312	1	3	11	—	13	340	—	340
Segment Earnings	28,898	(492)	6,678	5,460	(617)	(2,405)	37,522	—	37,522
Foreign exchange gains									(412)
Finance costs									(3,375)
Adjustments related to REIT units									461
Income before income taxes									34,196
Income tax expense									(10,087)
Net income for the period									24,109

Three months ended December 31, 2015	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	72,887	5,367	7,869	16,963	835	—	103,921	(12,200)	91,721
Cost of sales	(37,794)	(5,385)	(3,879)	(6,824)	(1,168)	(148)	(55,198)	9,262	(45,936)
Gross profit	35,093	(18)	3,990	10,139	(333)	(148)	48,723	(2,938)	45,785
General and administrative expense	(2,750)	(518)	(971)	(697)	(429)	(2,488)	(7,853)	717	(7,136)
Fair value adjustment on investment properties	—	(1,485)	127	1,904	—	—	546	2,221	2,767
Gain on sale of assets	—	—	—	—	—	—	—	—	—
Interest income	331	—	3	10	—	—	344	—	344
Segment Earnings	32,674	(2,021)	3,149	11,356	(762)	(2,636)	41,760	—	41,760
Foreign exchange gains									1,008
Finance costs									(9,084)
Adjustments related to REIT units									6,369
Income before income taxes									40,053
Income tax expense									(7,395)
Net income for the period									32,658

Outlook

We own a high quality portfolio of assets, including raw land, developed land inventory (including residential lots and acres for multi-family and commercial development), income-producing properties and championship golf courses. Alberta, our largest market, has undergone dramatic changes in economic outlook over the past few years as a result of lower oil prices. Despite these clear economic headwinds, we continue to execute on our strategic plan and achieved solid results in 2016. Diversification of both asset class and geography continues to ease the challenges of the Alberta economy.

We expect variations in market demand based on region and asset class to continue in 2017. On the residential side, we expect starter homes and lower priced options including duplexes and townhomes to continue to lead the market. We also expect Kelowna and Lethbridge to remain unaffected by the pressures of our other markets. On the commercial side, retail activity remains steady and we expect that trend to continue. Our US assets continue to deliver positive returns and we again expanded our commercial asset base via opportunistic buys in economies that are growing and that are counter cyclical to our resource dependence in Alberta.

Our business model has adapted to changing times for over 90 years. We will continue to take advantage of opportunities to diversify our asset base both geographically and by product type. We will maintain our disciplined, conservative approach to operations to ensure that we remain profitable while achieving our fundamental goals of protecting shareholder investment and sharing corporate profit with our shareholders.

With appropriate levels of serviced land inventory, high occupancy rates and large capacity on our operating facility, Melcor remains in an excellent position to take advantage of opportunities that may arise in a challenging real estate market.

The section titled Outlook contains forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Please refer to the Caution Regarding Forward-looking Statements on page 9.

Interest in the REIT

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.

The REIT began operations on May 1, 2013 when trust units were issued for cash pursuant to the initial public offering (Offering or 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 pursuant to the property management and asset management agreements entered into in conjunction with the IPO.

As of March 15, 2017, Melcor holds an approximate 56.7% (December 31, 2015 - 56.7%) effective interest in the REIT through ownership of all Class B LP units of the partnership through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

As we retain control over the REIT, we consolidate the REIT and record 100% of its revenues, expenses, assets and liabilities. We reflect the public's 43.3% (December 31, 2015 - 43.3%) interest in the REIT as a financial liability.

Arrangements between Melcor and the REIT

Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. The following summarizes services to be provided to the REIT and the compensation to be paid to Melcor.

Asset management agreement - we receive a quarterly management fee which is comprised of the following:

a. a base annual management fee calculated and payable on a quarterly basis, equal to 0.25% of the REIT's gross book value;

b. a capital expenditures fee equal to 5.0% of all hard construction costs incurred on capital projects in excess of $0.10 million;

c. an acquisition fee equal to 0.5% - 1.0% of the purchase price;

d. a financing fee equal to 0.25% of the debt and equity of all financing transactions completed for the REIT to a maximum of actual expenses incurred by Melcor.

Property management agreement - we receive a monthly fee which is comprised of the following:

a. a base fee of 3.0% of gross property revenue;

b. a leasing fee equal to 5.0% of aggregate base rent for new leases for the first 5 years and 2.5% thereafter, and 2.5% of aggregate base rent for lease renewals and expansions for the first 5 years.

Capital project funding - as part of the transaction, we agreed to pay approximately $1.40 million in costs associated with certain maintenance and capital projects at nine of the Initial Properties.

IPO transaction costs - Costs incurred by Melcor in relation to the REIT's IPO were reimbursed by the REIT to the extent that these costs were eligible for capitalization against the unit issuance.

Upon consolidation we eliminate Class B LP Units, Class C LP Units, distributions on Class B LP Units, distributions on Class C Units, and fees earned under the asset management agreement and property management agreement.

Business Environment & Risks

A discussion of credit risk, liquidity risk and market risk can be found in note 27 to the consolidated financial statements.

The following is an overview of certain risk factors that could adversely impact our financial condition, results of operations, and the value of our common shares.

General Risks

We are exposed to the micro- and macro-economic conditions that affect the markets in which we operate and own assets. In general, a decline in economic conditions will result in downward pressure on Melcor's margins and asset values as a result of lower demand for the services and products we offer. Specifically, general inflation and interest rate fluctuations; population growth and migration; job creation and employment patterns; consumer confidence; government policies, regulations and taxation; and availability of credit and financing could pose a threat to our ongoing business operations.

International economic forces and conditions will impact our business as our investment into the US grows. We adapt our business plan to reflect current conditions and we believe that we have sufficient resources to carry our operations through uncertain times.

We participate in joint arrangements under the normal course of business that may have an effect on certain assets and businesses. These joint arrangements may involve risks that would not otherwise be present if the third parties were not involved, including the possibility that the partners have different economic or business interests or goals. Also, within these arrangements, Melcor may not have sole control of major decisions relating to these assets and businesses, such as: decisions relating to the sale of the assets and businesses; timing and amount of distributions of cash from such entities to Melcor and its joint arrangement partners; and capital expenditures.

Industry Risk

Real estate investments are generally subject to varying levels of risk. These risks include changes to general economic conditions, government and environmental regulations, local supply/demand, and competition from other real estate companies. Real estate assets are relatively illiquid in down markets, particularly raw land. As a result, Melcor may not be able to quickly rebalance its portfolio in response to changing economic or investment conditions.

Concentration of Assets Risk

The majority of our assets are located in Alberta. Adverse changes in economic conditions in Alberta may have a material adverse effect on our business, cash flows, financial condition and results of operations and ability to pay dividends. The Alberta economy is sensitive to the price of oil and gas. To mitigate against this risk, we endeavor to diversify our revenue mix by product and location.

Financing Risk

We use debt and other forms of leverage in the ordinary course of business to enhance returns to shareholders. Most leveraged debt within the business has recourse only to the assets being financed or margined and has no recourse to Melcor.

We are subject to general risks associated with debt financing. The following risks may adversely affect our financial condition and results of operations:

- Cash flow may be insufficient to meet required payments of principal and interest;
- Payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses;
- We may not be able to refinance indebtedness on our assets at maturity due to company and market factors;
- The fair market value of our assets;
- Liquidity in the debt markets;
- Financial, competitive, business and other factors, including factors beyond our control;
- Refinancing terms that are not as favourable as the original terms of the related financing.

We attempt to mitigate these risks through the use of long-term debt and diversifying terms and maturity dates.

The terms of various credit agreements and other financing documents require that we comply with a number of financial and other covenants, such as maintaining debt service coverage and leverage ratios, and minimum insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations.

If we are unable to refinance assets/indebtedness on acceptable terms, or at all, we may need to utilize available liquidity, which would reduce our ability to pursue new investment opportunities, or require that we dispose of one or more of our assets on disadvantageous terms. In addition, unfavourable interest rates or other factors at the time of refinancing could increase interest expense.

A large proportion of our capital is invested in physical, long-lived assets, which can be difficult to liquidate, especially if local market conditions are poor. This circumstance could limit our ability to diversify our portfolio of assets promptly in response to changing economic or investment conditions.

We may enter into financing commitments in the normal course of business and, as a result, may be required to fund these, particularly through joint arrangements. If we are unable to fulfill any of these commitments, damages could be pursued against Melcor.

Community Development

The Community Development division is subject to risks influenced by the demand for new housing in the regions where we operate. Demand is primarily impacted by interest rates, growth in employment, migration, general economic conditions, new family formations and the size of these families. The division's ability to bring new communities to the market is impacted by municipal regulatory requirements and environmental considerations that affect the planning, subdivision and use of land. The planning and approval process can take up to eighteen months. During this period, the market conditions in general and/or the market for lots in the size and price range in our developments may change dramatically.

The division manages our assets to ensure that we have adequate future land assets to develop by ensuring appropriate approvals are in place and by balancing our inventory of land between long, medium and short-term development horizons against the cost of acquiring and holding these lands.

Property Development

The Property Development division is subject to risks that would normally be associated with the construction industry (such as fluctuating labour, material and consulting costs), combined with the normal leasing risks that the Investment Property division faces (see below).

The division manages the overall costs of projects, project financing requirements, construction quality, and the suitability of projects in relation to the needs of the tenants who will occupy the completed building. The division is also subject to additional holding costs if an asset is not leased out on a timely basis.

Investment Properties and REIT

The Investment Properties and REIT divisions are subject to the market conditions in the geographic areas where we own and manage properties. Where strong market conditions prevail, we are able to achieve higher occupancy rates. Market conditions are influenced by outside factors such as government policies, demographics and employment patterns, the affordability of rental properties, competitive leasing rates and long-term interest and inflation rates. Refer to Business Environment & Risks section of the REIT's annual MD&A filed on SEDAR and incorporated by reference.

Recreational Properties

The results of golf course operations may be adversely affected by weather, which limits the number of playing days; competition from other courses; the level of disposable income available to customers to spend on recreational activities; the popularity of the sport; and the cost of providing desirable playing conditions on the course.

While weather is outside our control, we manage our golf courses to provide consistent playing conditions to support the popularity of our courses.

Other Financial Information

Normal Course Issuer Bid

We announced a Normal Course Issuer Bid on March 27, 2015 which expired March 30, 2016. Under this bid, we were allowed to purchase up to 1,653,451 common shares (5% of issued and outstanding) with a daily repurchase restriction of 3,057 common shares.

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.

During 2016, we repurchased 12,231 shares which were canceled and returned to treasury (2015 - 16,428 common shares were purchased, canceled and returned to treasury).

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with IFRS. In applying IFRS, we make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. We have discussed the development, selection and application of our key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee and the Board of Directors.

Our significant accounting policies and accounting estimates are contained in the consolidated financial statements. Please refer to note 3 to the consolidated financial statements for a description of our accounting policies and note 5 and 6 for a discussion of accounting estimates and judgments.

Changes in Accounting Policies and Adoption of IFRS

Refer to note 4 to the consolidated financial statements for information pertaining to accounting pronouncements that will be effective in future years.

Subsequent Events

Please refer to note 29 to the consolidated financial statements for information pertaining to subsequent events.

Joint Arrangement Activity

We record only our proportionate share of the assets, liabilities, revenue and expenses of our joint arrangements. Refer to note 23 to the consolidated financial statements for a listing of our current joint arrangements. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to Melcor.

Joint arrangement activity at 100% ($000s)	2016	2015
Revenue	**139,282**	226,230
Earnings	**39,771**	16,923
Assets	**859,830**	997,312
Liabilities	**310,568**	404,090

*Joint arrangement activity at Melcor's ownership % ($000s) **	2016	2015
Revenue	**62,224**	103,466
Earnings	**18,881**	17,478
Assets	**401,410**	437,059
Liabilities	**140,399**	169,731

* Ownership in joint arrangements varies from 7% - 60%.

Internal Control over Financial Reporting and Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant and material information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely manner. Under the supervision of the CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Canada by National Instrument 52-109 as of December 31, 2016. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures related to Melcor and its subsidiaries and joint arrangements were effective.

Internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management designed these controls based on the criteria set out in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). The CEO and CFO have certified that the internal controls over financial reporting were properly designed and effective for the year ended December 31, 2016.

There has been no change to Melcor's disclosure controls and procedures or internal control over financial reporting during the year ended December 31, 2016, that materially affected, or is reasonably likely to materially affect, Melcor's internal control over financial reporting.

Notwithstanding the foregoing, no assurance can be made that the Melcor's controls over disclosure and financial reporting and related procedures will detect or prevent all failures of people to disclose material information otherwise required to be set forth in the Melcor's reports.

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 year, excluding management fees earned on inter-divisional services and the effects of foreign currency translation.

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) / (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		REIT	
($000s)	2016	2015	2016	2015
Segment earnings	**30,615**	17,925	**31,108**	31,978
Fair value adjustment on investment properties	**(11,449)**	(2,122)	**6,546**	5,418
General and administrative expenses	**2,620**	3,636	**2,653**	2,529
Interest income	**(6)**	(14)	**(35)**	(56)
Amortization of operating lease incentives	**593**	444	**3,216**	3,057
Straight-line rent adjustments	**(1,439)**	(637)	**(1,159)**	(1,613)
Divisional NOI	**20,934**	19,232	**42,329**	41,313

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

	Consolidated	
($000s)	2016	2015
Net income for the year	**34,433**	75,958
Amortization of operating lease incentives	**6,344**	6,045
Fair value adjustment on investment properties	**(15,795)**	(9,574)
Depreciation on property and equipment	**1,571**	1,705
Stock based compensation expense	**302**	339
Non-cash financing costs	**1,179**	1,627
Gain on sale of asset	**(37)**	(58)
Deferred income taxes	**628**	3,490
Fair value adjustment on REIT units	**13,939**	(25,261)
FFO *	**42,564**	54,271

	Investment Properties		REIT	
($000s)	2016	2015	2016	2015
Divisional income for the year	**30,615**	17,925	**31,108**	31,978
Fair value adjustment on investment properties	**(11,449)**	(2,122)	**6,546**	5,418
Amortization of operating lease incentives	**593**	444	**3,216**	3,057
Divisional FFO	**19,759**	16,247	**40,870**	40,273

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

Management's Responsibility for Financial Reporting

The consolidated financial statements, management's discussion and analysis (MD&A) and all financial information contained in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, have incorporated estimates based on the best judgment of management.

To discharge its responsibility for financial reporting, management is responsible for implementing and maintaining adequate internal controls to provide reasonable assurance that the Company's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis.

The consolidated financial statements have been examined by PricewaterhouseCoopers LLP, the Company's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditor's report outlines the scope of their audit examination and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee is comprised of three financially literate and independent directors. This committee meets regularly with management and the external auditors to review significant accounting, financial reporting and internal control matters. PricewaterhouseCoopers LLP have unrestricted access to the Audit Committee with and without the presence of management. The Audit Committee reviews the financial statements, the auditor's report, and MD&A and submits its report to the Board of Directors for formal approval. The Audit Committee is also responsible for reviewing and recommending the annual appointment of external auditors and approving the external audit plan. These consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors for inclusion in the Annual Report based on the review and recommendation of the Audit Committee.

Brian Baker
President & Chief Executive Officer

Naomi Stefura, CA
Chief Financial Officer

Edmonton, Alberta | March 15, 2017

Auditors' Report to Shareholders

We have audited the accompanying consolidated financial statements of Melcor Developments Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Melcor Developments Ltd. and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta | March 15, 2017

Consolidated Statement of Income

For the years ended December 31 ($000s)	2016	2015
Revenue (note 21)	**242,461**	263,309
Cost of sales (note 21)	**(134,047)**	(142,662)
Gross profit	**108,414**	120,647
General and administrative expense (note 21)	**(20,757)**	(23,691)
Fair value adjustment on investment properties (note 10, 21 and 28)	**15,795**	9,574
Adjustments related to REIT units (note 25)	**(21,466)**	17,679
Gain on sale of assets	**37**	58
Operating earnings	**82,023**	124,267
Interest income	**1,178**	2,427
Foreign exchange gains	**(412)**	1,008
Finance costs (note 20)	**(25,814)**	(27,178)
Net finance costs	**(25,048)**	(23,743)
Income before income taxes	**56,975**	100,524
Income tax expense (note 22)	**(22,542)**	(24,566)
Net income for the year	**34,433**	75,958
Earnings per share attributable to Melcor's shareholders (note 17):		
Basic earnings per share	**1.04**	2.29
Diluted earnings per share	**1.04**	2.29

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the years ended December 31 ($000s)	2016	2015
Net income for the year	**34,433**	75,958
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences (note 18)	**(3,515)**	18,682
Comprehensive income	**30,918**	94,640

See accompanying notes to the consolidated financial statements.

On behalf of Melcor's Board of Directors:

Gordon J. Clanachan, FCA
Audit Committee Chair

Timothy C. Melton
Executive Chairman

Consolidated Statement of Financial Position

($000s)	2016	2015
ASSETS		
Cash and cash equivalents	**39,892**	48,674
Restricted cash (note 3b)	**—**	2,288
Accounts receivable	**16,918**	18,744
Income taxes recoverable	**1,909**	2,455
Agreements receivable (note 8)	**116,244**	152,183
Land inventory (note 9)	**680,260**	696,802
Investment properties (note 10 and 28)	**970,693**	904,348
Property and equipment (note 11)	**15,507**	16,269
Other assets (note 12)	**50,565**	50,206
	1,891,988	1,891,969
LIABILITIES		
Accounts payable and accrued liabilities (note 13)	**35,274**	40,534
Income taxes payable	**—**	1,342
Provision for land development costs (note 14)	**91,584**	93,839
General debt (note 15)	**608,611**	631,008
Deferred income tax liabilities (note 22)	**67,458**	66,875
REIT units (note 25 and 28)	**94,340**	80,401
	897,267	913,999
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 16a)	**72,137**	70,061
Contributed surplus	**2,594**	2,743
Accumulated other comprehensive income (AOCI) (note 18)	**25,190**	28,705
Retained earnings	**894,800**	876,461
	994,721	977,970
	1,891,988	1,891,969

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Equity

($000s)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2016	**70,061**	**2,743**	**28,705**	**876,461**	**977,970**
Net income for the year	**—**	**—**	**—**	**34,433**	**34,433**
Cumulative translation adjustment (note 18)	**—**	**—**	**(3,515)**	**—**	**(3,515)**
Transactions with equity holders					
Dividends	**—**	**—**	**—**	**(15,967)**	**(15,967)**
Share repurchase (note 16a)	**(26)**	**—**	**—**	**(127)**	**(153)**
Employee share options					
Value of services recognized	**—**	**302**	**—**	**—**	**302**
Share issuance	**2,102**	**(451)**	**—**	**—**	**1,651**
Balance at December 31, 2016	**72,137**	**2,594**	**25,190**	**894,800**	**994,721**

($000s)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2015	67,767	2,947	10,023	820,598	901,335
Net income for the year	—	—	—	75,958	75,958
Cumulative translation adjustment (note 18)	—	—	18,682	—	18,682
Transactions with equity holders					
Dividends	—	—	—	(19,914)	(19,914)
Share repurchase (note 16a)	(34)	—	—	(181)	(215)
Employee share options					
Value of services recognized	—	339	—	—	339
Share issuance	2,328	(543)	—	—	1,785
Balance at December 31, 2015	70,061	2,743	28,705	876,461	977,970

See accompanying notes to the consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the years ended December 31 ($000s)	2016	2015
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	**34,433**	75,958
Non cash items:		
Amortization of tenant incentives (note 12)	**6,344**	6,045
Depreciation of property and equipment (note 11)	**1,571**	1,705
Stock based compensation expense (note 16f)	**302**	339
Non cash financing costs	**1,179**	1,627
Straight-line rent adjustment	**(2,302)**	(1,949)
Fair value adjustment on investment properties (note 10, 21 and 28)	**(15,795)**	(9,574)
Fair value adjustment on REIT units (note 25 and 28)	**13,939**	(25,261)
Gain on sale of assets	**(37)**	(58)
Deferred income taxes (note 22)	**628**	3,490
Cash provided by operating activities before changes in non-cash working capital	**40,262**	52,322
Agreements receivable	**33,729**	15,590
Development activities (note 3u)	**15,010**	(4,794)
Payment of tenant incentives and direct leasing costs	**(6,362)**	(6,797)
Change in restricted cash (note 3d)	**1,041**	64
Purchase of raw land (note 9)	**(9,754)**	(2,500)
Operating assets and liabilities (note 3u)	**(4,929)**	(23,349)
	68,997	30,536
INVESTING ACTIVITIES		
Purchase of investment properties	**(38,720)**	(18,620)
Additions to investment properties (note 10)	**(14,768)**	(31,254)
Net proceeds from disposal of investment properties (note 10)	**38,961**	84,241
Purchase of property and equipment (note 11)	**(829)**	(1,139)
Proceeds from disposal of asset	**57**	71
	(15,299)	33,299
FINANCING ACTIVITIES		
Revolving credit facilities	**(54,019)**	17,561
Proceeds from general debt	**86,467**	91,371
Repayment of general debt	**(80,589)**	(124,800)
Change in restricted cash (note 3d)	**1,247**	593
Repurchase of REIT units	**—**	(1,000)
Dividends paid	**(15,967)**	(19,914)
Common shares repurchased (note 16a)	**(153)**	(215)
Share capital issued	**1,651**	1,785
	(61,363)	(34,619)
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	**(1,117)**	447
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**(8,782)**	29,663
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**48,674**	19,011
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**39,892**	48,674

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

($000s except unit and per unit amounts)

1. DESCRIPTION OF THE BUSINESS

We are a real estate development company with community development, property development, investment property, 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.

Melcor Developments Ltd. ("Melcor" or "we") 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 December 31, 2016 Melton Holdings Ltd. holds approximately 47.2% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at March 15, 2017, Melcor, through an affiliate, holds an approximate 56.7% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

2. BASIS OF PRESENTATION

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as set out in Part I of the Chartered Professional Accountants ("CPA") Handbook.

Our consolidated financial statements have been prepared in accordance with IFRS. These consolidated financial statements were authorized for issue by the Board of Directors on March 15, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

A. BASIS OF MEASUREMENT

Our consolidated financial statements have been prepared under the historical cost convention, except for investment properties, derivatives and REIT units which are measured at fair value.

We prepare our financial statements in conformity with IFRS which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions change. We believe that the underlying assumptions are appropriate. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in notes 6 and 5 respectively.

B. BASIS OF CONSOLIDATION

These consolidated financial statements include:

i. The accounts of Melcor Developments Ltd. and its wholly-owned subsidiaries:
    - Melcor Developments Arizona, Inc.
    - Melcor Lakeside Inc.
    - Stanley Investments Inc.
    - Melcor REIT Holdings GP Inc.
    - Melcor REIT Holdings Limited Partnership
    - Melcor Homes Ltd.
    - Lethcentre Inc.

ii. The accounts of Melcor REIT Limited Partnership (the Partnership) (56.7% owned by Melcor Developments Ltd). The remaining 43.3% publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to notes 7 and 25 for details related to our interest in the REIT.

iii. Investments in 28 joint arrangements (2015 – 29) with interests ranging from 7% to 60%. These arrangements are undivided interests in the assets, liabilities, revenue and expenses and we record our proportionate share in accordance with the agreements. Refer to note 23 for details on joint arrangements.

All intercompany transactions and balances are eliminated on consolidation.

C. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of cash and short-term deposits with maturity dates of less than three months from the date they were acquired.

D. RESTRICTED CASH

Restricted cash can only be used for specified purposes. Our restricted cash represents subsidies funded by Melcor as part of the formation of the REIT to subsidize finance costs on assumed debt and Class C LP Units, and to fund capital expenditures, environmental expenditures, tenant incentives and lease costs. 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.

E. LAND INVENTORY

Land inventory is recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less costs to complete the development and selling costs. Cost includes all costs incurred to purchase development land, capitalized carrying costs related to holding the land under development, and development costs to build infrastructure. The estimated unexpended portion of costs to complete building the infrastructure, which are classified as "provision for land development costs" (refer to note 3j), are recorded as a liability upon the approval of the development plan with the municipality.

The cost of land and carrying costs are allocated to each phase of development based on a prorated acreage of the total land parcel at the time a plan is registered with a municipality. The cost of sale of a lot is allocated on the basis of the estimated total cost of the project prorated by the anticipated selling price of the lot over the anticipated selling price of the entire project at the date of plan registration.

Where we acquire land subject to deferred payments greater than one year, it is initially recognized at the fair value of the future estimated contractual obligations.

F. INVESTMENT PROPERTIES

Investment properties include commercial, industrial, and residential properties, and a manufactured home community held for the long term to earn rental income or for capital appreciation, or both. It also includes properties under development for future use as investment properties.

Acquired investment properties are measured initially at cost, including related transaction costs associated with the acquisition when the acquisition is accounted for as an asset purchase. Costs capitalized to properties under development include direct development and construction costs, borrowing costs, and property taxes.

After initial recognition, investment properties are recorded at fair value, determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows.

Melcor Developments Ltd. has an internal valuation team consisting of individuals who are knowledgeable and have experience in the fair value techniques applied in valuing investment property. At least once every two years, the valuations are performed by qualified external valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. Changes in fair value are recognized in the consolidated statements of income and comprehensive income in the period in which they arise.

Fair value measurement of an investment property under development is only applied if the fair value is considered to be reliably measurable. In rare circumstances, investment property under development is carried at cost until its fair value becomes reliably measurable. It may sometimes be difficult to determine reliably the fair value of an investment property under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers the following factors, among others:

- the provisions of the construction contract;
- the stage of completion;
- whether the project or property is standard (typical for the market) or non-standard;
- the level of reliability of cash inflows after completion;
- the development risk specific to the property;
- past experience with similar construction; and
- status of construction permits.

Subsequent expenditures are capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to Melcor and the cost of the item can be measured reliably. All repairs and maintenance costs are expensed when incurred.

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties. All direct leasing costs are external expenditures and no amounts for internal allocations are capitalized with respect to the negotiation or arranging of tenant leases.

G. PROPERTY AND EQUIPMENT

Property and equipment is initially measured at cost, which includes expenditures that are directly attributable to the acquisition of the asset. Subsequent to its initial recognition, property and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses.

The major categories of property and equipment are depreciated using the declining balance method of depreciation as follows:

Buildings	4%
Golf course greens and tees	6%
Golf course equipment	20-30%
Corporate assets	20-50%

Property and equipment is tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of an asset's fair value less costs to sell and the discounted expected future cash flows of the relevant asset or group of assets. An impairment loss is recognized for the amount by which the asset or group of assets' carrying amount exceeds its recoverable amount.

We evaluate impairment losses for potential reversals when events or circumstances warrant such consideration.

H. OTHER ASSETS

Other assets include prepaid expenses, inventory, deposits, straight-line rent adjustments and tenant incentives incurred in respect of new or renewed leases. Tenant incentives are amortized on a straight-line basis over the lease term and are recorded as a reduction of revenue.

I. BORROWING COSTS

General and specific borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets. Borrowing costs are capitalized while acquisition or construction is actively underway and ceases once the asset is substantially complete, or suspended if the development of the asset is suspended. The amount of borrowing cost capitalized is determined by applying a weighted average cost of borrowings to qualifying assets. Qualifying assets include our land under development and investment properties under development assets. All other borrowing costs are recognized as finance costs in the consolidated statement of income in the period in which they are incurred.

J. PROVISION FOR LAND DEVELOPMENT COSTS

We recognize a provision for land development related to the construction, installation and servicing of municipal improvements related to subdivisions under development once we have an approved development agreement with the municipality, as this is the point in time when an obligation arises. The provision is recognized as a liability with an equal amount capitalized to land inventory. Provisions for land development are measured at management's best estimate of the expenditure required to complete the approved development plan at the end of the reporting period. Adjustments are made to the liability with a corresponding adjustment to cost of sales as actual costs are incurred. Provisions are discounted, where material, by discounting the expected future cash flows at a rate that reflects risk specific to the provision and the time value of money.

K. PROVISION FOR DECOMMISSIONING OBLIGATIONS

Decommissioning obligations are measured at the present value of the expected cost to settle the obligation. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows as well as any changes in the discount rate. Increases or decreases in the provision are recognized as an expense or income. Actual costs incurred upon settlement of the decommissioning obligation are recorded against the provision.

L. RECOGNITION OF REVENUE

Revenue is generated from the sale of developed land, rental of investment properties, management fees, and the operation of golf courses.

Revenue from the sale of developed land is recognized when a minimum of 15% of the sale price has been received, the sale is unconditional and possession has been granted.

Management fee revenue is comprised of fees paid by our joint arrangement partners based on development and/or sales activities, which fluctuates period to period depending on the stage of various projects.

Revenue from rental of investment properties includes base rents, recoveries of operating expenses including property taxes, parking revenue and incidental income. Tenant leases are accounted for as operating leases given that we have retained substantially all of the risks and benefits of the ownership of our investment properties. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in other assets, is recorded for the difference between the rental revenue recognized and the contractual amount received. When incentives are provided to our tenants, the cost of these incentives is recognized over the lease term, on a straight-line basis, as a reduction to rental revenue. Recoveries from tenants are recognized as revenues in the period in which the corresponding costs are incurred.

Revenue from golf courses is recognized in the accounting period in which the services are provided.

M. INCOME TAXES

Current income tax is the expected amount of tax payable to the taxation authorities, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the liability method based on the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are the result of recognizing the benefit associated with deductible temporary differences, unused tax credits, and tax loss carryforwards. The carrying amount of the deferred tax liabilities and assets is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the reporting period date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

We presume that investment property measured at fair value will be recovered entirely through sale. Measurement of the related deferred taxes reflects the tax consequences of recovering the carrying amount through sale.

The REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) (“Tax Act”) and as a real estate investment trust eligible for the ‘REIT Exception’, as defined in the rules applicable to Specified Investment Flow-Through (“SIFT”) trusts and partnerships in the Tax Act. We expect to allocate all of the REIT’s taxable income and to continue to qualify for the REIT Exception. As the REIT is a flow-through entity, we record current and deferred taxes on our 56.7% interest in the REIT.

N. STOCK BASED COMPENSATION

We use the Black-Scholes option pricing model to fair value stock options granted to our employees. The estimated fair value of options on the date of grant is recognized as compensation expense on a graded vesting basis over the period in which the employee services are rendered. We estimate the number of expected forfeitures at the grant date and make adjustments for actual forfeitures as they occur.

O. EARNINGS PER SHARE

Basic earnings per share (“EPS”) is calculated by dividing our net income for the period by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants, and similar instruments is computed using the treasury stock method. Our potentially dilutive common shares comprise stock options granted to employees.

P. FOREIGN CURRENCY

The consolidated financial statements are presented in Canadian dollars, which is the functional currency for our Canadian operations and our presentation currency.

Assets and liabilities of our US operations, for which the functional currency is the US dollar, are translated into our presentation currency at the exchange rates in effect at the reporting period end date and revenues and expenses are translated at average exchange rates for the period. Gains or losses on translation of foreign operations are recognized as other comprehensive income or loss.

Gains or losses on the settlement of debt or on foreign exchange cash balances are recognized in income in the period realized.

Q. FINANCIAL INSTRUMENTS

At initial recognition, we classify our financial instruments in the following categories depending on the purpose for which the instruments were acquired:

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to third parties and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if necessary. Loans and receivables are comprised of accounts receivable, agreements receivable, restricted cash and cash and cash equivalents.

At each reporting date, we assess whether there is objective evidence that a financial asset is impaired, considering delinquencies in payments and financial difficulty of the debtor. The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of any losses is recognized in income.

FINANCIAL LIABILITIES

Other liabilities are initially recognized at fair value, net of any transaction costs incurred. Other liabilities include accounts payable and accrued liabilities, and general debt. REIT Units are classified as fair value through profit or loss (“FVTPL”).

We record our financial liabilities at fair value on initial recognition. Subsequently, “other liabilities” are measured at amortized cost using the effective interest rate method and financial liabilities designated as FVTPL are remeasured at fair value with changes in their fair value recorded through income.

R. NON-CONTROLLING INTEREST IN MELCOR REIT

We hold an effective 56.7% interest in the REIT through ownership of all Class B LP Units. A non-controlling interest, REIT units, has been recognized on the statement of financial position to reflect the 43.3% interest held by the public through ownership of all trust units. The trust units are redeemable at the option of the holder and, therefore, are considered a puttable instrument in accordance with International Accounting Standard (“IAS”) 32, Financial Instruments – Presentation (“IAS 32”). Certain conditions under IAS 32 allow the REIT to present the trust units as equity; however, on consolidation we do not meet these conditions and therefore must present the non-controlling interest as a financial liability.

As a financial liability designated as fair value through profit or loss (“FVTPL”) we recorded the REIT units at fair value on initial recognition. Subsequent to initial recognition we remeasure the liability each period at fair value based upon the trust unit’s closing trading price. Fair value gains and losses are recorded through income in the period they are incurred.

Distributions on trust units are recognized in the period in which they are approved and are recorded as an expense in income. For presentation purposes we aggregate the distribution expense with the fair value adjustment on the trust units under the caption ‘adjustments related to REIT units’.

S. FINANCIAL DERIVATIVES

Our financial derivatives include interest rate swaps and the conversion feature on the REIT convertible debenture. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair value. The host instrument financial liability is recognized initially at the fair value of a similar liability that does not have conversion feature. The conversion feature is separated from the host instrument and recognized at fair value. The fair value of the host instrument is recorded net of any related transaction costs. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Derivative instruments are recorded in the consolidated statement of financial position at their fair value. Changes in fair value of derivative instruments that are not designated as hedges for accounting purposes are recognized in the income statement.

Melcor has not designated any derivatives as hedges for accounting purposes.

T. OPERATING SEGMENTS

Our operating segments are strategic business units that offer different products and services, and are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

U. STATEMENT OF CASH FLOWS

Development activities is defined as the net change of land inventory and the provision for land development costs and excludes the purchase of raw land. Purchase of raw land is the cost of land net of vendor financing received (see note 9 – land inventory).

Operating assets and liabilities is defined as the net change of accounts receivable, deposits, prepaids and inventory, income taxes payable, accounts payable and accrued liabilities and deferred finance costs capitalized during the year. Excluded from operating assets and liabilities are investment property additions that are unpaid and included in accounts payable and accrued liabilities at year end.

4. ACCOUNTING STANDARD CHANGES

A. NEW AND AMENDED STANDARDS ADOPTED

We have adopted the following new standard interpretation effective January 1, 2016.

i. ***IAS 1, Presentation of Financial Statements***, was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

   Adoption of this amended standard did not require any changes to the financial statements or disclosure of accounting policies.

ii. ***IFRS 11, Accounting for Acquisitions of Interests in Joint Operations***, was amended to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business.

   Adoption of this amended standard did not require any adjustment to the method of accounting for the joint operations in the financial statements.

Other standards, amendments and interpretations that were effective for the year beginning January 1, 2016 are not material to Melcor.

B. NEW STANDARDS NOT YET ADOPTED

i. ***IAS 7, Statement of Cash Flows*** was amended to require disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

   This amendment is effective for years beginning on or after January 1, 2017.

ii. ***IAS 12, Income Taxes*** was amended to clarify (i) the requirements for recognizing deferred tax asset on unrealized losses, (ii) deferred tax where an asset is measured at fair value below the asset's tax base and (iii) certain other aspects of accounting for deferred tax assets.

   This amendment is effective for years beginning on or after January 1, 2017.

iii. ***IFRS 2, Share-Based Payments*** was amended to address (i) certain issues related to the accounting for cash settled awards and (ii) the accounting for equity settled awards that include a "net settlement" feature in respect of employee withholding taxes.

   This amendment is effective for years beginning on or after January 1, 2018.

iv. ***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 to each prior reporting period presented retrospectively or through the recognition of the cumulative effect to opening retained earnings.

   An amendment was issued in September 2015 to defer the effective date of IFRS 15 to the first interim period within years beginning on or after January 1, 2018.

   An amendment to IFRS 15 was issued in April 2016 to clarify the guidance on identifying performance obligations, licenses of intellectual property and principal versus agent, and to provide additional practical expedients on transition. Amendments are effective for annual reporting periods beginning on or after January 1, 2018.

v. ***IFRS 9, Financial Instruments*** was issued in its finalized version in July 2014 to replace IAS 39. The IASB has previously published versions of IFRS 9 that introduced a new classification and measurement model with only two classification categories, 'amortized cost' and 'fair value' (in 2009 and 2010), and a new hedge accounting model in 2013.

   This final version introduces a third measurement category, 'fair value through other comprehensive income', for financial assets, as well as an expected loss impairment model that requires more timely recognition of expected credit losses. Additional disclosures on transition from IAS 39 to IFRS 9 will be required under IFRS 7, the application of which is effective on adoption of IFRS 9.

   IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted.

vi. ***IFRS 16, Leases*** was issued in January 2016 by the IASB to replace IAS 17. IFRS 16 includes several changes in the method of accounting for operating leases, including:

   a. All leases will be on the balance sheet of lessees, except those that meet the limited exception criteria;

b. Rent expense for leases on the balance sheet will be recorded as depreciation and finance expenses;

c. Timing of expenses will change as the finance lease model results in an accelerated recognition of expenses compared to a straight-line operating lease model.

IFRS 16 is required to be applied for annual periods beginning on or after January 1, 2019.

We are currently assessing the impact of adopting the above standards on our consolidated financial statements.

5. CRITICAL ACCOUNTING ESTIMATES

We make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. The estimates and assumptions that are critical to the determination of the amounts reported in the financial statements relate to the following:

A. VALUATION OF AGREEMENTS RECEIVABLE

We review our agreements receivable on a regular basis to estimate the risk of default on outstanding balances. Factors such as the related builder's reputation and financial status, the geographic location of the lot, and length of time the agreement receivable has been outstanding are all considered when estimating any impairment on agreements receivable. Refer to note 27(a) for further information related to credit risk associated with agreements receivable.

B. VALUATION OF INVESTMENT PROPERTIES

The fair value of investment property is dependent on stabilized net operating income or forecasted future cash flows and property specific capitalization or discount rates. The stabilized net operating income or forecasted future cash flows involve assumptions of future rental income, including estimated market rental rates and vacancy rates, estimated direct operating costs and estimated capital expenditures. Capitalization and discount rates take into account the location, size and quality of the property, as well as market data at the valuation date.

Refer to note 28 for further information about methods and assumptions used in determining fair value.

C. DETERMINATION OF THE PROVISION FOR LAND DEVELOPMENT COSTS

We estimate the future costs of completing the development of land by preparing internal budgets of costs and reviewing these estimates regularly to determine if adjustments to increase or decrease the provision for land development costs are required. This estimate impacts the measurement of cost of sales reported given that land inventory is sold prior to all costs being committed or known as the nature of land development considers a long-term time frame to complete all municipal requirements.

D. INCOME TAXES

Significant estimates are required in determining our provision for income taxes. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provision.

The deferred tax assets recognized at December 31, 2016 are supported by future profitability assumptions over a five-year horizon. In the event of changes in these profitability assumptions the tax assets recognized may be adjusted.

6. SIGNIFICANT JUDGMENTS

In the process of applying our accounting policies, we make various judgments, apart from those involving estimations, that can significantly impact the amounts recognized in the financial statements. These include:

A. CAPITALIZATION OF BORROWING COSTS

IAS 23, Borrowing Costs, requires the capitalization of borrowing costs to qualifying assets. IAS 23 also requires the determination of whether the borrowings are specific to a project or general in calculating the capitalized borrowing costs. Judgment is involved in identifying directly attributable borrowing costs to be included in the carrying value of qualifying assets and in determining if funds borrowed are for general purposes or specifically for the construction of qualifying assets. We consider our centrally managed treasury function with assessment of the circumstances surrounding individual borrowings in making this judgment. Capitalization to land inventory occurs when the land is classified to land under development and ceases when the land is considered developed and ready for sale. Borrowing costs are capitalized to investment properties when under active development. We have determined that all of our borrowings are general, except project specific financing (note 15c), as the decision on how to deploy operating and acquisition funds is a centrally managed corporate decision.

B. TRANSFER OF LAND TO INVESTMENT PROPERTY

We typically acquire raw land with the intent of developing it in our Community Development division. When development plans are formulated, we may decide that specific land holdings will be developed into investment properties. Once appropriate evidence of a change in use is established, typically in the form of an operating lease for the investment property, the land is transferred to investment properties. At that time, the land is recognized at fair value in accordance with our accounting policy for investment properties, and any gain or loss is reflected in earnings in the period the transfer occurs.

C. CLASSIFICATION OF TENANT INCENTIVES

Payments are often made to tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with SIC 15, Operating leases – incentives.

D. INVESTMENT PROPERTIES

Our accounting policies related to investment properties are described in note 3f. In applying this policy, judgment is required in determining whether certain costs are additions to the carrying amount of an investment property and, for properties under development, identifying the point at which substantial completion of the property occurs.

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

E. COMPLIANCE WITH REIT LEGISLATION

Under current tax legislation, a real estate investment trust is not liable for Canadian income taxes provided that its taxable income is fully allocated to unitholders during the year. In order for the Trust to continue to be taxed as a mutual fund trust, we need to maintain its REIT status. At inception, the Trust qualifies as a REIT under the specified investment flow-through ("SIFT") rules in the Canadian Income Tax Act. The Trust's current and continuing qualification as a REIT depends on the Trust's ability to meet the various requirements imposed under the SIFT rules, which relate to matters such as its organizational structure and the nature of its assets and revenues. We apply judgment in determining whether it continues to qualify as a REIT under the SIFT rules. Should the Trust cease to qualify, it would be subject to income tax on its earnings.

($000s except unit and per unit amounts)

7. INTEREST IN MELCOR REIT

On November 12, 2015, we sold to the REIT a multi-tenant retail property (held within a 50% joint venture) and a single-tenant industrial property for a purchase price of $15,250. The purchase price was paid with the REIT's line of credit and available cash.

As at December 31, 2016 we hold a 56.7% (2015 - 56.7%) ownership interest in the REIT through ownership of all 14,615,878 Class B LP Units of the Partnership.

The publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to note 25 for summary financial information of the REIT at December 31, 2016.

8. AGREEMENTS RECEIVABLE

Agreements receivable are due in 2017, except for $28,526 due in 2018, $9,294 due in 2019 and $1,482 due in 2020 (2015 - balance due 2016, except $25,295 due in 2017 and $1,472 due in 2018). Subsequent to the interest adjustment date, which provides an interest relief period to qualifying registered builders, these receivables earn interest at prime plus two percent (4.70% at December 31, 2016) and are collateralized by the specific real estate sold.

Management monitors agreements receivables for indications of impairment on an ongoing basis. Balances are reduced to their estimated net realizable values when there is doubt regarding collection of the full amount of principal and interest. At December 31, 2016, a provision for impairment of $810 was recorded (2015 - $1,500). This provision reflects management's best estimate and is subject to measurement uncertainty introduced by the impact of the uncertain economic environment. As a result, material revisions to this estimate may be required in future periods. Refer to note 27 for further discussion surrounding credit risk.

9. LAND INVENTORY

As at December 31	2016	2015
Raw land held	**333,854**	353,809
Land under development	**142,350**	134,200
Developed land	**204,056**	208,793
	680,260	696,802

A breakdown of our land purchases are as follows:

	2016	2015
Land purchases	**159 acres**	147 acres
Land cost	**14,098**	14,000
Vendor financing	**2,134**	11,500
Settlement of receivable	**2,210**	—
Net cash to close	**9,754**	2,500

Land purchased in the year includes 144 acres of raw land (2015 - 156 acres) and 15 acres of lot inventory (2015 - nil).

During the year, certain land inventories were reclassified to investment properties, and fair value gains of $1,789 (2015 - $1,817) were recognized in the consolidated financial statements. For the purposes of segment reporting, this is disclosed as revenue of $13,929 (2015 - $5,680) and cost of sales of $12,140 (2015 - $3,863) for the Community Development division.

The weighted average interest rate used for capitalization of borrowing costs to land under development is 4.03% for the year ended December 31, 2016 (2015 – 4.09%). Borrowing costs capitalized to land inventory during the year were $3,878 (2015 - $4,503).

Land inventory expensed to cost of sales during the year was $89,980 (2015 - $99,523).

The net realizable value exceeds the carrying cost of all land inventories at December 31, 2016 and 2015, such that no provision for impairment is required.

10. INVESTMENT PROPERTIES

Investment properties consists of the following:

As at December 31	2016	2015
Investment properties	**929,299**	847,387
Properties under development	**41,394**	56,961
Total	**970,693**	904,348

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

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

($000s except unit and per unit amounts)

	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
Property development	439	25,533	25,972
Capitalized borrowing costs	—	258	258
Disposals	(81,153)	(3,088)	(84,241)
Transfers	20,067	(20,067)	—
Net 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

ACQUISITIONS:

During the year, 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). 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).

We also acquired a multi-family residential property, Northridge Apartments, in St. Albert, Alberta on October 24, 2016 for $14,830 (including transaction costs). As part of the purchase Melcor also assumed a mortgage on the property with a carrying value of $9,848. The mortgage was re-financed on closing with the lender for additional proceeds of $652. We recorded the assumed mortgage at its fair value on initial recognition.

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

DISPOSALS:

On December 9, 2016, we disposed of a US residential rental property in the Greater Houston Area, resulting in proceeds (net of transaction costs) of $38,418 (US $29,186).

During the year we also disposed of three US single tenant residential units in the Greater Phoenix Area, resulting in proceeds (net of transaction costs) of $543 (US $502).

ACQUISITIONS & DISPOSALS IN THE COMPARITIVE YEAR:

During 2015 we completed the following acquisitions in our US portfolio:

- On April 13, 2015 we acquired Centennial Airport Plaza in Denver, Colorado for cash consideration of $6,145 (US $4,880).
- On September 1, 2015 we acquired Evans Business Center (47,358 sf), located in the Greater Phoenix area for cash consideration of $8,474 (US $6,430).

These acquisitions were accounted for as business combinations with all the consideration allocated to Investment Properties.

In 2015 we completed the following dispositions from our portfolio:

- On August 27, 2015, we disposed of a US residential rental property in the Greater Houston Area, resulting in proceeds (net of transaction costs) of $42,729 (US $32,378).
- On September 3, 2015, we disposed of a commercial development site in Alberta, resulting in proceeds of $3,088 (net of transaction costs).
- On October 14, 2015, we disposed of a US single tenant residential rental property in the Greater Phoenix Area, resulting in proceeds (net of transaction costs) of $899 (US $697).
- On December 17, 2015 we disposed of a US residential rental property in the Greater Houston Area, resulting in proceeds (net of transaction costs) of $37,525 (US $26,861).

In accordance with our policy, as detailed in note 3f, we record our investment properties at fair value. 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 28.

Properties transferred from property under development to commercial properties during the year totaled $44,967 (2015 - $20,067).

Presented separately from investment properties is $36,546 (2015 - $37,823) in tenant incentives and $8,226 (2015 -$5,924) in straight-line rent adjustments (included in note 12). The fair value of investment properties has been reduced by these amounts.

The weighted average interest rate used for capitalization of borrowing costs to investment properties under development is 3.91% for the year ended December 31, 2016 (2015 – 4.27%).

Our investment properties are leased to tenants primarily under long term operating leases. Rentals are receivable from tenants monthly. Minimum lease payments under non-cancellable operating leases of investment properties are receivable as follows:

	2016	2015
Within one year	**57,127**	49,641
Later than one year but not later than 5 years	**171,053**	153,060
Later than 5 years	**125,713**	128,839
Total	**353,893**	331,540

($000s except unit and per unit amounts)

11. PROPERTY AND EQUIPMENT

	Golf course assets					
	Land	Buildings	Equipment	Greens and tees	Corporate	Total
January 1, 2016						
Cost	**1,293**	**8,031**	**8,021**	**6,476**	**6,469**	**30,290**
Accumulated depreciation	**—**	**(2,415)**	**(5,564)**	**(2,715)**	**(3,327)**	**(14,021)**
Opening net book value	**1,293**	**5,616**	**2,457**	**3,761**	**3,142**	**16,269**
Additions	**—**	**22**	**579**	**22**	**206**	**829**
Disposals	**—**	**—**	**(20)**	**—**	**—**	**(20)**
Depreciation	**—**	**(221)**	**(605)**	**(233)**	**(512)**	**(1,571)**
Net Book Value - December 31, 2016	**1,293**	**5,417**	**2,411**	**3,550**	**2,836**	**15,507**

	Golf course assets					
	Land	Buildings	Equipment	Greens and tees	Corporate	Total
January 1, 2015						
Cost	1,293	7,968	7,835	6,444	5,855	29,395
Accumulated depreciation	—	(2,186)	(5,173)	(2,468)	(2,720)	(12,547)
Opening net book value	1,293	5,782	2,662	3,976	3,135	16,848
Additions	—	62	434	31	612	1,139
Disposals	—	—	(13)	—	—	(13)
Depreciation	—	(228)	(626)	(246)	(605)	(1,705)
Net Book Value - December 31, 2015	1,293	5,616	2,457	3,761	3,142	16,269

12. OTHER ASSETS

	2016	2015
Tenant incentives	**36,546**	37,823
Deposits and prepaids	**5,266**	5,899
Straight-line rent adjustments	**8,226**	5,924
Inventory	**527**	560
	50,565	50,206

During the year we provided tenant incentives of $5,067 (2015 - $5,786) and recorded $6,344 (2015 - $6,045) of amortization expense. In accordance with SIC 15, Operating leases - incentives, amortization of tenant incentives are recorded on a straight-line basis over the term of the lease against rental revenue.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Trade accounts payable	**16,402**	20,151
Distribution payable	**627**	627
Other payables	**16,770**	18,348
Provision for decommissioning obligation	**1,475**	1,408
	35,274	40,534

As described in note 3r distributions on trust units are recognized in the period in which they are approved and are recorded as an expense. As at December 31, 2016, distribution payable pertains to the December 2016 monthly distribution which was subsequently paid on January 16, 2017 (2015 - December 2015 monthly distribution paid on January 15, 2016).

Decommissioning obligation relates to one of our commercial properties held by the REIT. The total decommissioning obligation is estimated based on the future obligation and timing of these expenditures to be incurred. We estimate the net present value of the obligation based on an undiscounted total future provision of $2,014 (December 31, 2015 - $2,014). At December 31, 2016, a discount rate of 4.00% (December 31, 2015 - 4.00%) and an inflation rate of 2.00% (December 31, 2015 - 2.00%) were used to calculate the net present value of the obligation. Due to uncertainty surrounding the nature and timing of this obligation, amounts are subject to change.

14. PROVISION FOR LAND DEVELOPMENT

	2016	2015
Balance - beginning of year	**93,839**	108,268
New development projects	**98,737**	119,873
Changes to estimates	**(3,123)**	(5,556)
Costs incurred	**(97,869)**	(128,746)
Balance - end of year	**91,584**	93,839

15. GENERAL DEBT

General debt consists of the following:

		2016	2015
Melcor - revolving credit facilities	**a**	**32,728**	84,813
REIT - revolving credit facility	**b**	**17,324**	19,258
Project specific financing	**c**	**5,213**	25,280
Secured vendor take back debt on land inventory	**d**	**65,408**	76,092
Debt on investment properties and golf course assets	**e**	**455,189**	393,319
REIT - convertible debenture	**f**	**32,749**	32,246
		608,611	631,008

A. MELCOR - REVOLVING CREDIT FACILITIES

We have available credit facilities with approved loan limits of $205,649 (2015 - $213,949) with a syndicate of major chartered banks. The portion of these loan limits that pertain solely to Melcor is $120,000 (2015 - $120,000) with the remaining balance pertaining to specific joint arrangements.

The amount of the total credit facilities currently used is $32,728 (2015 - $84,813). We have pledged agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral for our credit facilities. The carrying value of assets pledged as collateral is $338,678 (2015 - $381,680).

($000s except unit and per unit amounts)

The facilities mature on July 31, 2018, renewable one year in advance of expiry.

Depending on the form under which the credit facilities are accessed, rates of interest will vary between prime plus 0.75% to prime plus 2.25% or banker's acceptance rate plus a 3.00% stamping fee resulting in interest rates ranging from 3.45% to 4.95% at December 31, 2016 (2015 - 3.85% to 4.95%). The agreements also bear a standby fee of 0.50% for the unused portions of the facilities. The weighted average effective interest rate on borrowings, based on year end balances, is 4.04% (December 31, 2015 - 4.19%).

B. REIT - REVOLVING CREDIT FACILITY

The REIT has an available credit limit based upon the carrying values of specific investment properties up to a maximum of $35,000 for general purposes, including a $5,000 swingline sub-facility. The agreement also provides the REIT with $5,000 in available letters of credit which bear interest at 2.25%. The new facility matures on May 1, 2018, with an extension option of up to three years at the discretion of the lenders. Depending on the form under which the new facility is accessed, rates of interest will vary between prime plus 1.15% or bankers' acceptance plus 2.25% stamping fee. Interest payments are due and payable based upon the form of the facility drawn upon, and principal is due and payable upon maturity. The agreement also bears a standby fee of 0.45% for the unused portion of the facility. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the new facility.

As at December 31, 2016, the carrying value of pledged properties was $55,647 (December 31, 2015 - $56,900). We initially capitalized $341 in transaction costs associated with the facility, of which $114 was unamortized at December 31, 2016 and is presented net of the outstanding balance (December 31, 2015 - $232). The unamortized discount on bankers acceptance of $42 (2015 - $13) and restricted cash of $nil (2015 - $202) is also included in the December 31, 2016 outstanding balance.

As at December 31, 2016 we had $17,480 (December 31, 2015 - $19,301) drawn from the facility; and posted letters of credit of $nil (December 31, 2015 - $nil). The weighted average effective interest rate on borrowings, based on year end balances, is 3.48% (December 31, 2015 - 3.24%).

C. PROJECT SPECIFIC FINANCING

	2016	2015
Project specific debt on land, with interest rates between 3.20% and 4.08% (2015 - 3.20% to 4.20%)	**5,213**	13,430
Project specific debt on investment properties under development, with interest rates at nil (2015 - 3.20%)	**—**	11,850
	5,213	25,280

Land inventory and agreements receivable with a December 31, 2016 carrying value of $18,255 (2015 - $39,500) have been pledged as collateral on project specific debt on land. The debts are due on demand by the lenders. The weighted average interest rate on the above debts, based on year end balances, is 3.63% (2015 - 3.24%). Specific investment properties under development with a December 31, 2016 carrying value of $nil (2015 - $25,205), have been pledged as collateral on project specific debt on investment properties under development.

D. SECURED VENDOR TAKE BACK DEBT ON LAND INVENTORY

	2016	2015
Agreements payable with interest at the following contractual rates:		
Fixed rates of 3.00% - 6.00% (2015 - 3.85% to 6.00%)	**65,408**	76,092
	65,408	76,092

As at December 31, 2016 $13,495 (2015 - $15,640) of debt was payable in US dollars (2016 - US$10,051 and 2015 - US$11,301). The debts mature from 2017 to 2019.

Land inventory with a December 31, 2016 carrying value of $126,973 (2015 - $203,393), has been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 4.56% (2015 – 4.68%).

The minimum contractual principal payments due within each of the next five years are as follows:

2017	15,627
2018	15,024
2019	16,903
2020	7,700
2021	10,154
	65,408

E. DEBT ON INVESTMENT PROPERTIES AND GOLF COURSE ASSETS

	2016	2015
Variable rate mortgages amortized over 10 to 30 years at variable interest rates	**60,693**	71,514
Mortgages amortized over 15 to 25 years at fixed interest rates	**396,784**	323,383
	457,477	394,897
Fair value adjustment for interest rate swaps	**88**	427
Unamortized deferred financing fees	**(2,376)**	(2,010)
	455,189	393,314
Interest rate ranges	**(2.48% -6.16%)**	(2.48% -6.16%)

As at December 31, 2016 $56,733 (2015 - $47,102) of debt was payable in US dollars (2016 - US $42,253 and 2015 - US $34,033). The debts mature from 2017 to 2026.

Specific investment properties and golf courses with a carrying value of $870,857 (2015 - $615,206) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 3.54% (2015 – 3.76%).

The minimum contractual principal payments due within each of the next five years and thereafter are as follows:

2017	29,729
2018	79,935
2019	89,908
2020	64,266
2021	63,375
Thereafter	130,264
	457,477

F. REIT - CONVERTIBLE DEBENTURE

On December 3, 2014, the REIT issued a 5.50% extendible convertible unsecured subordinated debenture ("REIT debenture") to the public for gross proceeds of $34,500, including $4,500 issued pursuant to the exercise of an over-allotment option. The REIT debenture bears interest at an annual rate of 5.50% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2015. The maturity date of the REIT debenture is December 31, 2019. The REIT debenture can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion price of $12.65 per unit (the "Conversion Price"). On and from December 31, 2017, and prior to December 31, 2018, the REIT debenture may be redeemed by the REIT, in whole at any time, or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted-average trading price of the trust units for a specified period (the "Current Market Price") preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from December 31, 2018, and prior to the maturity date, the REIT debenture may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest. Subject to regulatory approval and other conditions, the REIT may, at its option, elect to satisfy its obligation to pay the principal amount of the REIT debenture on redemption or at maturity, in whole or in part, by delivering that number of freely tradeable trust units obtained by dividing the principal amount of the REIT debenture being repaid by 95% of the Current Market Price on the date of redemption or maturity. The issuance was qualified under a short form prospectus dated November 25, 2014.

The fair value of the host instrument component was calculated using a market interest rate for an equivalent non-convertible, non-extendible bond. The conversion feature component is separated and recognized at its fair value and presented as a liability.

A reconciliation of the convertible debenture is as follows:

($000s)	Host Instrument	Conversion Feature	Total
Balance at December 31, 2014	31,780	185	31,965
Amortization of discount and transaction costs	466	—	466
Fair value adjustment on conversion feature	—	(180)	(180)
Balance at December 31, 2015	32,246	5	32,251
Amortization of discount and transaction costs	**503**	**—**	**503**
Fair value adjustment on conversion feature	**—**	**56**	**56**
Balance at December 31, 2016	**32,749**	**61**	**32,810**

During the year ended December 31, 2016, we recognized $1,898 of interest expense which is included in finance costs (note 20) (2015 - $1,898).

At December 31, 2016 we remeasured the conversion feature to fair value resulting in a fair value loss of $56 for the year (2015 - fair value gain of $180). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 28.

16. SHARE CAPITAL

A. COMMON SHARES

	2016	
(# of shares)	Number of Shares Issued	Amount ($000s)
Common shares, beginning of the year	**33,233,712**	**70,061**
Share options exercised	**129,417**	**2,102**
Shares purchased for cancellation	**(12,231)**	**(26)**
Common shares, end of the year	**33,350,898**	**72,137**

	2015	
(# of shares)	Number of Shares Issued	Amount ($000s)
Common shares, beginning of the year	33,115,691	67,767
Share options exercised	134,449	2,328
Shares purchased for cancellation	(16,428)	(34)
Common shares, end of the year	33,233,712	70,061

Authorized:

- Unlimited common shares
- Unlimited common shares, non-voting
- Unlimited first preferred shares
- Unlimited first preferred shares, non-voting

We announced a Normal Course Issuer Bid on March 27, 2015 which expired March 30, 2016. Under this bid, we were allowed to purchase up to 1,653,451 common shares (5% of issued and outstanding) with a daily repurchase restriction of 3,057 common shares.

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.

During the year, there were 12,231 common shares purchased for cancellation by Melcor pursuant to the NCIB at a cost of $153 (2015 - 16,428 common shares purchased for cancellation at a cost of $215). Share capital was reduced by $26 and retained earnings decreased by $127 (2015 - share capital reduced by $34 and retained earnings decreased by $181). As at December 31, 2016, 1,649,579 additional common shares may be repurchase by Melcor under the current NCIB (2015 - 1,637,023).

B. STOCK-BASED COMPENSATION PLANS

On September 28, 2000, Melcor's Board of Directors approved a stock-based compensation plan (the "2000 Plan"). Under the 2000 Plan, Melcor may grant options to full-time, salaried employees and designated contractors after one year of service. The 2000 Plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. The options vest at 20% per year and expire seven (7) years from the date of issuance. The 2000 Plan was approved by Melcor's shareholders at the Shareholders Annual Meeting in

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May 2001. Melcor has 90,400 shares reserved for issuance under the 2000 Plan (2015 – 90,400).

On February 23, 2007 Melcor's Board of Directors approved a stock-based compensation plan (the "2007 Plan"). Under the 2007 Plan, Melcor may grant options to full-time, salaried employees and designated contractors after one year of service. The 2007 Plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. At the discretion of the board, the options vest over a period of three years and expire no longer than seven (7) years from the date of issuance. The 2007 Plan was approved by Melcor's shareholders at the Shareholders Annual Meeting in April 2007. Melcor has 1,654,566 shares reserved for issuance under the 2007 Plan (2015 – 1,783,983).

C. STOCK OPTIONS AVAILABLE FOR GRANTING

2000 Plan	2016	2015
Stock options available, beginning of the year	**90,400**	90,400

2007 Plan	2016	2015
Stock options available, beginning of the year	**877,199**	969,466
Stock options granted	**(263,400)**	(235,500)
Stock options expired / canceled	**245,067**	143,233
Stock options available, end of the year	**858,866**	877,199

D. STOCK OPTIONS OUTSTANDING UNDER THE 2000 & 2007 PLANS

	2016	
	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of the year	**906,784**	**16.86**
Stock options granted to employees	**263,400**	**13.21**
Stock options exercised	**(129,417)**	**12.76**
Stock options expired / canceled	**(245,067)**	**16.40**
Stock options outstanding, end of the year	**795,700**	**16.46**

	2015	
	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of the year	948,966	16.75
Stock options granted to employees	235,500	14.05
Stock options exercised	(134,449)	13.29
Stock options expired / canceled	(143,233)	14.50
Stock options outstanding, end of the year	906,784	16.86

The weighted average share price at the date of exercise was $13.78 (2015 - $16.47).

E. STOCK OPTIONS OUTSTANDING AND EXERCISABLE UNDER THE 2000 & 2007 PLANS

Stock option expiry date	Outstanding Stock Options (#)	Exercise Price Per Share ($)	Stock Options Exercisable
December 12, 2018	157,900	19.26	157,900
December 19, 2019	179,900	21.35	121,600
December 21, 2020	194,500	14.05	66,500
December 13, 2021	263,400	13.21	—
	795,700		346,000

F. STOCK BASED COMPENSATION EXPENSE

The following assumptions were used in the Black-Scholes option pricing model for options granted. Expected volatility was based on historical volatility.

	2016	2015
Expected volatility	**23%**	24%
Risk-free interest rate	**0.95%**	0.59%
Annual dividend rate	**3.30%**	4.20%
Expected life of options in years	**3.86**	3.80

The weighted average grant date fair value of stock options granted during the year was $1.63 (2015 - $1.61) per stock option. Current year vesting of options resulted in a $302 (2015 - $339) charge to stock-based compensation expense and corresponding credit to contributed surplus.

17. PER SHARE AMOUNTS

(# of shares)	2016	2015
Basic weighted average common shares outstanding during the year	**33,248,925**	33,115,691
Dilutive effect of options	**3,615**	54,488
Diluted weighted average common shares	**33,252,540**	33,170,179

For the year ended December 31, 2016, there were 795,700 stock options excluded from the calculation of diluted earnings per share (2015 - 725,700).

Diluted earnings per share was calculated based on the following:

	2016	2015
Profit attributable to shareholders	**34,433**	75,958
Profit for computation of diluted earnings per share	**34,433**	75,958

18. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2016	2015
Balance, beginning of the year	**28,705**	10,023
Other comprehensive gain (loss)	**(3,515)**	18,682
Balance, end of the year	**25,190**	28,705

The other comprehensive gain represents the net unrealized foreign currency translation gain on our net investment in our foreign operations.

($000s except unit and per unit amounts)

19. COMMITMENTS AND CONTINGENCIES

In the normal course of operations, we issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. As at December 31, 2016 we had $39,425 (December 31, 2015 - $47,347) in letters of credit outstanding and recorded a net liability of $91,584 (December 31, 2015 - $93,839) in provision for land development costs in respect of these development agreements.

Normally, obligations collateralized by the letters of credit diminish as the developments proceed, through a series of staged reductions over a period of years (average of three to four years) and are ultimately extinguished when the municipality has issued final completion certificates.

We enter into joint arrangements and, in doing so, may take on risk beyond our proportionate interest in the joint arrangement. These situations generally arise where preferred financing terms can be arranged on the condition that the strength of our company's covenant will backstop that of the other joint arrangement participant(s) who also provide similar guarantees. We will have to perform on our guarantee only if a joint arrangement participant was in default of their guarantee. At December 31, 2016 we had guaranteed $12,458 (December 31, 2015 - $24,843) in credit facilities in excess of the amount recognized as a liability. We also guaranteed $12,477 (December 31, 2015 - $14,052) in excess of our share of letters of credit posted with the municipalities.

The loan guarantees include those which are ongoing, as they relate to the relevant lines of credit, and those which have staged reductions as they relate to the financing of specific assets or projects such as infrastructure loans, short-term land loans or mortgages.

To mitigate the possibility of financial loss, we are diligent in our selection of joint arrangement participants. As well, we have remedies available within the joint arrangement agreement, to address the application of the guarantees. In certain instances there are reciprocal guarantees amongst joint arrangement participants.

We also enter into lease agreements with tenants which specify tenant incentive payments upon completion of the related tenant improvements. Incentive payments of approximately $1,111 may be required from lease agreements entered during the year.

20. FINANCE COSTS

	2016	2015
Interest on Melcor - revolving credit facilities	**3,222**	5,428
Interest on REIT - revolving credit facility	**749**	369
Interest on REIT convertible debenture	**1,898**	1,884
Interest on general debt	**19,919**	19,184
Financing costs and bank charges	**1,247**	2,269
Loss on debt settlement	**2,760**	2,805
	29,795	31,939
Less: capitalized interest	**(3,981)**	(4,761)
	25,814	27,178

Cumulative interest capitalized on land inventory at the end of the year is $39,792 (2015 - $37,405). Finance costs paid during the year was $28,611 (2015 - $30,312).

21. REVENUE AND EXPENSE BY NATURE

A. REVENUE:

The components of revenue are as follows:

	2016	2015
Sale of land	**138,074**	161,059
Rental income	**92,847**	86,787
Management fees	**3,282**	6,813
Golf course revenue	**8,258**	8,650
Total revenue	**242,461**	263,309

B. COST OF SALES:

The components of cost of sales are as follows:

	2016	2015
Cost of land sold	**89,980**	99,523
Investment property direct operating expenses	**37,375**	36,134
Direct golf course expenses	**5,121**	5,300
Depreciation expense	**1,571**	1,705
Total cost of sales	**134,047**	142,662

C. GENERAL AND ADMINISTRATIVE EXPENSES:

The components of general and administrative expenses are as follows:

	2016	2015
Employee salary and benefits		
Salaries and wages	**10,215**	11,461
Employee benefits	**802**	865
Stock based compensation	**302**	339
Marketing	**2,121**	2,580
Other	**7,317**	8,446
Total	**20,757**	23,691

Included in employee salary and benefits is the compensation of key management. Key management includes our directors and members of the executive management team. Compensation awarded to key management includes:

	2016	2015
Salaries and wages	**2,774**	3,268
Employee benefits	**42**	80
Stock based compensation	**142**	97
Total	**2,958**	3,445

D. FAIR VALUE ADJUSTMENT ON INVESTMENT PROPERTIES

The components of the fair value adjustment are as follows:

	2016	2015
Land transferred to investment properties	**1,789**	1,817
Property under development	**6,130**	7,717
Commercial and residential properties	**7,876**	40
Total	**15,795**	9,574

($000s except unit and per unit amounts)

22. INCOME TAX

Components of tax expense:

	2016	2015
Current tax expense		
Current year	**21,480**	21,564
Adjustment to prior years	**434**	(488)
	21,914	21,076
Deferred tax expense		
Origination and reversal of temporary differences	**628**	(1,693)
Change in tax rates	**—**	5,183
	628	3,490
Total tax expense	**22,542**	24,566

Reconciliation of effective tax rate:

	2016	2015
Income before taxes	**56,975**	100,524
Statutory rate	**27%**	26%
	15,383	26,136
Non-taxable portion of capital gains and fair value adjustment	**2,105**	64
Non-taxable portion of REIT income	**(1,982)**	(2,039)
Impact of higher tax rates in US subsidiary	**1,846**	1,240
Non-deductible expenses	**1,427**	550
Non-taxable fair value adjustments on REIT units	**3,763**	(6,568)
Change in tax rates	**—**	5,183
Total tax expense	**22,542**	24,566

Movement in deferred tax balances during the year:

	December 31, 2016			
	Opening	Recognized in profit or loss	Recognized in OCI	Closing
Investment property and capital assets	**54,408**	**5,067**	**(45)**	**59,430**
Reserves for tax purposes	**15,756**	**(4,400)**	**—**	**11,356**
Interest deducted for tax purposes	**(2,922)**	**(293)**	**—**	**(3,215)**
Provision for decommissioning obligation	**(213)**	**(10)**	**—**	**(223)**
Convertible debenture	**117**	**(7)**	**—**	**110**
Tax loss carry-forwards	**(271)**	**271**	**—**	**—**
Deferred tax liability	**66,875**	**628**	**(45)**	**67,458**

	December 31, 2015			
	Opening	Recognized in profit or loss	Recognized in OCI	Closing
Investment property and capital assets	55,278	(759)	(111)	54,408
Reserves for tax purposes	16,533	(777)	—	15,756
Interest deducted for tax purposes	(1,798)	(1,124)	—	(2,922)
Provision for decommissioning obligation	(199)	(14)	—	(213)
Convertible debenture	161	(44)	—	117
Tax loss carry-forwards	(5,618)	6,208	(861)	(271)
Deferred tax liability	64,357	3,490	(972)	66,875

No deferred tax liability has been recognized in respect of the net unrealized foreign currency exchange gain in accumulated other comprehensive income. Income tax paid during the year was $22,567 (2015 - $27,503).

23. JOINT ARRANGEMENTS

The table below discloses our proportionate share of the assets, liabilities, revenue, and earnings of 28 arrangements (2015 – 29) that are recorded in these financial statements as follows:

Joint Venture	Interest	Principle activity	Country of incorporation
Anders East Developments	33%	Active land development with investment property	Canada
Anders East Two Communities	50%	Non-active land development	Canada
Blackmud Communities	39%	Active land development	Canada
Black Knight Communities	50%	Active land development	Canada
Capilano Investments	50%	Investment property	Canada
Chestermere Communities	50%	Active land development with investment property	Canada
Highview Communities	60%	Active land development	Canada
HV Nine	7%	Active land development	Canada
Jagare Ridge Communities	50%	Active land development and recreational property	Canada
Jesperdale Communities	50%	Active land development	Canada
Kinwood Communities	50%	Active land development	Canada
Lakeside Communities	50%	Non-active land development	Canada
Larix Communities	50%	Active land development	Canada
Lewis Estates Communities	60%	Active land development and recreational property	Canada
MMY Properties	33%	Investment property	Canada
Rosenthal Communities	50%	Active land development	Canada
South Shepard Communities	50%	Non-active land development	Canada
Stonecreek Shopping Centre	30%	Investment property	Canada
Sunset Properties	60%	Active land development	Canada
Terwillegar Pointe Communities	50%	Non-active land development	Canada

($000s except unit and per unit amounts)

Joint Venture	Interest	Principle activity	Country of incorporation
Watergrove Developments	50%	Manufactured home community	Canada
West 33 Developments	50%	Non-active land development	Canada
Westmere Properties	50%	Investment property	Canada
Whitecap Communities	50%	Active land development	Canada
Windermere	50%	Active land development	Canada
Windermere at Glenridding	35%	Active land development	Canada
Winterburn Developments	50%	Active land development	Canada
Villeneuve Communities	60%	Active land development	Canada

The following summarizes financial information about our share of assets, liabilities, revenue and earnings of our interest in joint arrangements that are recorded in our accounts for the year ended December 31, 2016.

	2016	2015
Assets	**401,410**	437,059
Liabilities	**140,399**	169,731
Revenue	**62,224**	103,466
Net Earnings	**18,881**	17,478

Contingent liabilities arising for liabilities of other joint arrangement participants are disclosed in note 19.

24.SEGMENTED INFORMATION

In the following schedules, segment earnings has been calculated for each segment by deducting from revenues of the segment all direct costs and administrative expenses which can be specifically attributed to the segment, as this is the basis for measurement of segment performance. Common costs, which have not been allocated, include finance costs, foreign exchange gains, adjustments to REIT units and income tax expense.

The allocation of these costs on an arbitrary basis to the segments would not assist in the evaluation of the segments' contributions. Inter-segment transactions are entered into under terms and conditions similar to those with unrelated third parties.

COMMUNITY DEVELOPMENT

This division is responsible for purchasing and developing land to be sold as residential, industrial and commercial lots.

PROPERTY DEVELOPMENT

This division develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed primarily from our community development division. Once substantial completion of construction and leasing are complete, these properties are transferred to our investment property division at fair value (refer to note 10).

INVESTMENT PROPERTY

This division owns 21 leasable commercial, retail and residential properties (2015 – 16 properties) and other rental income producing assets such as parking lots and land leases.

REIT

This division owns 38 leasable commercial and retail properties (2015 – 38 properties) and other rental income producing assets such as residential property, parking lots and land leases.

RECREATION PROPERTY

This division owns and manages three 18-hole golf course operations (one of which is 60% owned), and has a 50% ownership interest in one 18-hole golf course.

US OPERATIONS

Melcor has a wholly owned subsidiary with operations in the US, which includes a Community Development division and an Investment Property division. The subsidiary's related balances are below.

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

External Revenue:

(in Canadian dollars)	2016	2015
United States	**25,362**	20,146
Canada	**217,099**	243,163
Total	**242,461**	263,309

Total Assets:

As at December 31 (in Canadian dollars)	2016	2015
United States	**203,415**	184,908
Canada	**1,688,573**	1,707,061
Total	**1,891,988**	1,891,969

Our divisions reported the following results:

2016	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 21)	**154,201**	**45,729**	**35,774**	**66,042**	**9,176**	**—**	**310,922**	**(68,461)**	**242,461**
Cost of sales (note 21)	**(102,508)**	**(45,650)**	**(13,994)**	**(25,770)**	**(6,180)**	**(512)**	**(194,614)**	**60,567**	**(134,047)**
Gross profit	**51,693**	**79**	**21,780**	**40,272**	**2,996**	**(512)**	**116,308**	**(7,894)**	**108,414**
General and administrative expense (note 21)	**(8,537)**	**(1,858)**	**(2,620)**	**(2,653)**	**(2,275)**	**(5,946)**	**(23,889)**	**3,132**	**(20,757)**
Fair value adjustment on investment properties (note 10, 21 and 28)	**—**	**6,130**	**11,449**	**(6,546)**	**—**	**—**	**11,033**	**4,762**	**15,795**
Gain on sale of assets	**—**	**—**	**—**	**—**	**37**	**—**	**37**	**—**	**37**
Interest income	**1,119**	**4**	**6**	**35**	**—**	**14**	**1,178**	**—**	**1,178**
Segment Earnings	**44,275**	**4,355**	**30,615**	**31,108**	**758**	**(6,444)**	**104,667**	**—**	**104,667**
Foreign exchange loss									**(412)**
Finance costs (note 20)									**(25,814)**
Adjustments related to REIT units (note 25)									**(21,466)**
Income before income taxes									**56,975**
Income tax expense (note 22)									**(22,542)**
Net income for the year									**34,433**

2015	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 21)	167,281	30,068	32,103	65,482	9,665	—	304,599	(41,290)	263,309
Cost of sales (note 21)	(100,193)	(29,743)	(12,678)	(25,613)	(6,400)	(608)	(175,235)	32,573	(142,662)
Gross profit	67,088	325	19,425	39,869	3,265	(608)	129,364	(8,717)	120,647
General and administrative expense (note 21)	(9,649)	(1,621)	(3,636)	(2,529)	(2,294)	(7,526)	(27,255)	3,564	(23,691)
Fair value adjustment on investment properties (note 10, 21 and 28)	—	7,717	2,122	(5,418)	—	—	4,421	5,153	9,574
Gain on sale of assets	—	—	—	—	58	—	58	—	58
Interest income	2,356	—	14	56	—	1	2,427	—	2,427
Segment Earnings	59,795	6,421	17,925	31,978	1,029	(8,133)	109,015	—	109,015
Foreign exchange gains									1,008
Finance costs (note 20)									(27,178)
Adjustments related to REIT units (note 25)									17,679
Income before income taxes									100,524
Income tax expense (note 22)									(24,566)
Net income for the year									75,958

($000s except unit and per unit amounts)

25. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, as detailed in notes 3(r) and 28, we account for the 43.3% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at December 31, 2016 the REIT units had a fair value of $94,340 (2015 - $80,401). We recorded adjustments related to REIT units for the year of $21,466 (2015 - $17,679).

In 2015, there were 123,703 trust units purchased for cancellation by the REIT pursuant to the normal course issuer bid ("NCIB") at a cost of $1,000, which is recorded as a reduction in the balance of REIT units on the consolidated statement of financial position. The NCIB ended one year from commencement, on June 29, 2016.

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

	2016	2015
Fair value adjustment on REIT units	**(13,939)**	25,261
Distributions to REIT unitholders	**(7,527)**	(7,582)
Adjustments related to REIT units	**(21,466)**	17,679

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 (presented at 100%).

	2016	2015
Assets	**663,724**	666,458
Liabilities	**359,828**	362,129
Net assets	**303,896**	304,329
Cost of NCI	**103,959**	103,959
Fair value of NCI	**94,340**	80,401

	2016	2015
Revenue	**66,042**	65,482
Net income (loss) and comprehensive income (loss)	**(11,176)**	41,070
Cash flows from operating activities	**12,312**	10,563
Cash flows used in investing activities	**(2,828)**	(18,113)
Cash flows (used) from financing activities, before distributions to REIT unitholders	**(327)**	8,420
Cash flows used in financing activities - cash distributions to REIT unitholders	**(7,527)**	(7,582)
Net increase (decrease) in cash and cash equivalents	**1,630**	(6,712)

26. MANAGEMENT OF CAPITAL RESOURCES

We define capital as share capital, contributed surplus, accumulated other comprehensive income, retained earnings and general debt. Our objective when managing capital is to utilize debt to improve our performance, support the growth of our assets, and finance capital requirements arising from the cyclical nature of our business. Specifically, we plan to utilize shorter term debt for financing infrastructure, land inventory, receivables and development activities and to utilize longer term debt and equity for the purchase of property and land assets.

We manage the capital structure through adjusting the amount of long-term debt, credit facilities, the amount of dividends paid, and through normal course issuer bids.

There were no changes to the way we define capital, our objectives, and our policies and processes for managing capital from the prior fiscal period.

We are subject to financial covenants on our $120,000 (2015 - $120,000) Melcor 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 shareholders' equity of $300,000. As at December 31, 2016, and throughout the period, we were in compliance with our financial covenants.

In addition, we are subject to financial covenants on our $35,000 REIT revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debentures), a minimum debt service coverage ratio of 1.50, and a minimum adjusted unitholders' equity of $140,000. As at December 31, 2016, and throughout the period, the REIT was in compliance with its financial covenants.

We also have financial covenants on certain mortgages for investment properties. At December 31, 2016, 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.

27. RISK MANAGEMENT

We are exposed to the following risks as a result of holding financial instruments:

A. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Our financial assets that are exposed to credit risk consist of cash and cash equivalents, restricted cash, accounts receivable, and agreements receivable. Our maximum exposure to credit risk is the carrying amount of cash and cash equivalents, restricted cash, accounts receivable and agreements receivable.

We invest our cash in bank accounts and short-term deposits with a major Canadian chartered bank. Accounts receivable balances include amounts due from other joint arrangement participants for their portion of management fees due to us as well as other various smaller balances due from municipal governments, other developers and tenants. There have been no impairment adjustments made to these accounts.

We manage our credit risk in the Investment Property and REIT Divisions through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan review for smaller tenants. We manage our concentration risk in the Investment Property Division by renting to an expansive tenant base, with no dependency on rents from any one specific tenant. Management has reviewed outstanding receivable balances at December 31, 2016 and has provided for $289 of outstanding receivables related to accounts where collectibility is doubtful (2015 - $191). We expect full payment of remaining balances outstanding, and accordingly, no additional allowance for doubtful accounts has been recorded.

Agreements receivable are collateralized by specific real estate sold. Agreements receivable relate primarily to land sales in Alberta and, accordingly, collection risk is related to the economic conditions of that region. We manage credit risk by selling to certain qualified registered builders. Concentration risk is low as we sell to a large builder base, and no receivables are concentrated to one specific builder.

Management has reviewed all agreements receivable balances as at December 31, 2016 and considered the following in assessing credit risk:

i. The credit quality of agreements receivable that are neither past due nor impaired is determined based on whether balances are due from builders on our approved builder list, and based on geographic location. The approved builder list contains those builders which have a long standing track record, good volumes, positive perception in the industry, and a strong history of repayment. At December 31, 2016, 97% of agreements receivable are due from approved builders (2015 – 96%).

ii. At December 31, 2016, we have identified $3,947 (2015 - $1,942) in agreements receivable which are in arrears and have indications of possible impairment. Agreements receivable which were past due are as follows:

	2016	2015
0 - 6 months past due	3,602	1,722
Greater than 6 months past due	345	220

iii. Total loans included in agreements receivable that would have otherwise been past due or impaired at December 31, 2016, but whose terms have been renegotiated is $28,543 (2015 - $38,046).

In light of economic conditions, we have recorded a provision for impairment of $810 (2015 - $1,500) in relation to agreements receivables. The factors considered in determining that these assets were impaired were primarily the geographic location and related product type. Agreements receivable balances were reviewed on a project by project basis and the loans identified as impaired relate to multiple product types in various regions throughout Alberta.

B. LIQUIDITY RISK

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk to ensure that we have sufficient liquid financial resources to finance operations and meet long-term debt repayments. We monitor rolling forecasts of our liquidity, which includes cash and cash equivalents and the undrawn portion of the operating loan, on the basis of expected cash flows. In addition, we monitor balance sheet liquidity ratios against loan covenant requirements and maintain ongoing debt financing plans. We believe that we have access to sufficient capital through internally generated cash flows, external sources and undrawn committed borrowing facilities to meet current spending forecasts.

Refer to note 15 for the maturity analysis of general debt and details on the bank indebtedness. Accounts payable and accrued liabilities are expected to be repaid in the next twelve months.

C. MARKET RISK

We are subject to interest rate cash flow risk as our operating credit facilities and certain of our general debt bear interest at rates that vary in accordance with prime borrowing rates in Canada. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately $1,160 (2015 - $2,009) based upon applicable year end debt balances. We are not subject to other significant market risks pertaining to our financial instruments.

28. 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).

In addition, Melcor carries its investment properties at fair value, as detailed in note 3f, which is determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows (Level 3).

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 year.

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.

December 31, 2016

($000s)	Fair Value Hierarchy	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value
Non-financial assets					
Investment properties	Level 3	970,693	—	970,693	970,693
Financial liabilities					
General debt, excluding derivative financial liability	Level 3	—	608,550	608,550	618,506
Derivative financial liability					
Interest rate swaps	Level 3	27	—	27	27
Conversion feature on convertible debenture	Level 3	61	—	61	61
REIT units	Level 1	94,340	—	94,340	94,340

December 31, 2015

($000s)	Fair Value Hierarchy	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value
Non-financial assets					
Investment properties	Level 3	904,348	—	904,348	904,348
Financial liabilities					
General debt, excluding derivative financial liability	Level 3	—	631,003	631,003	638,297
Derivative financial liability					
Interest rate swaps	Level 3	318	—	318	318
Conversion feature on convertible debenture	Level 3	5	—	5	5
REIT units	Level 1	80,401	—	80,401	80,401

($000s except unit and per unit amounts)

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. The application of these valuation methods results in these measurements being classified as Level 3 in the fair value hierarchy.

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

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

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

- Capitalization rate - based on actual location, size and quality of the property and taking into consideration available market data as at the valuation date;
- Stabilized net operating income - revenue less direct operating expenses adjusted for items such as average lease up costs, vacancies, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items;
- Discount rate - reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Terminal capitalization rate - taking into account assumptions regarding vacancy rates and market rents; and
- 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 valued by Melcor's internal valuation team as at December 31, 2016 of which 45 investment properties (of 82 legal phases valued) with a fair value of $430,312 were valued by qualified independent external valuation professionals during the year which resulted in fair value gains of $15,795 recorded as fair value adjustment on investment properties in the statements of income and comprehensive income (2015 - investment properties were valued by Melcor Development Ltd.'s internal valuation team of which 37 investment properties (of 76 legal phases valued) 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 stabilized net operating income for investment properties is $1,477 (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.

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

	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 the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by $57,485 (2015 - $55,483). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by $66,944 (2015 - $64,662).

GENERAL DEBT, EXCLUDING DERIVATIVE FINANCIAL LIABILITIES

The fair value of revolving credit facilities approximates the carrying value excluding unamortized financing costs. The facilities bear interest, at our option, at a rate per annum equal to either the bank's prime lending rate plus 0.75% to 2.25% or at the bank's then prevailing banker's acceptance rate plus a stamping fee of 2.25% to 3%.

($000s except unit and per unit amounts)

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

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 December 31, 2016 the fair value of the REIT units was $94,340 (2015 - $80,401). During the year a fair value loss of $13,939 (2015 - gain of $25,261) was recognized in the statement of income and comprehensive income. In 2015 the fair value of REIT units was also impacted by the $1,000 repurchase of trust units during the year (note 25).

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 December 31, 2016 the fair value of interest rate swap contracts was $27.

The derivative financial liability was valued by qualified independent external valuation professionals at December 31, 2016. This resulted in a fair value loss of $54 being recognized in income. The significant unobservable inputs used in the fair value measurement of the conversion feature on the REIT convertible debenture as at December 31, 2016 are as follows:

- Volatility - expected volatility as at December 31, 2016 was derived from the historical prices of the REIT's trust units. As the REIT was formed on May 1, 2013, we have used the entire historical data up until December 31, 2016. Volatility was 16.73% (2015 - 15.86%).
- Credit spread - the credit spread of the convertible debenture was imputed from the traded price of the convertible debenture as at December 31, 2016. The credit spread used was 3.71% (2015 - 4.60%).

29. SUBSEQUENT EVENTS

DISTRIBUTIONS ON REIT TRUST UNITS:

On January 16, 2017 we declared a distribution of $0.05625 per unit for the months of January, February and March 2017. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
January 2017	January 31, 2017	February 15, 2017	$0.05625 per unit
February 2017	February 28, 2017	March 15, 2017	$0.05625 per unit
March 2017	March 31, 2017	April 17, 2017	$0.05625 per unit

DIVIDEND DECLARED:

On March 15, 2017, our board of directors declared a quarterly dividend of $0.13 per share payable on April 5, 2017 to shareholders of record on March 27, 2017.

30. COMPARATIVE FIGURES

The 2015 comparative balance of the purchase of land inventory of $2,500 has been reclassified from investing activities to operating activities in the consolidated statement of cash flows to reflect better presentation of the underlying nature of cash flows.

Five Year Performance Measures (unaudited)

	2016	% change	2015	% change	2014	% change	2013	% change	2012
Assets ($000s)	**1,891,988**	-	1,891,969	1.5%	1,863,296	7.8%	1,727,933	19.4%	1,447,356
Shareholders' Equity ($000s)	**994,721**	1.7%	977,970	8.5%	901,335	17.2%	769,231	11.3%	690,832
Revenue ($000s)	**242,461**	(7.9)%	263,309	(15.9)%	313,009	3.1%	303,742	10.5%	274,930
Gross Margin	**44.7%**		45.8%		48.0%		44.4%		41.0%
Net Income ($000s)	**34,433**	(54.7)%	75,958	(24.6)%	100,719	2.1%	98,623	(6.1)%	105,019
Administrative Expenses/Revenue	**8.6%**		9.0%		7.9%		9.6%		8.3%
Basic Earnings per Share ($)	**1.04**	(54.6)%	2.29	(28.0)%	3.18	(1.9)%	3.24	(7.2)%	3.49
Average Share Price ($)	**13.80**	(17.4)%	16.71	(27.3)%	22.98	20.7%	19.04	28.6%	14.81
Dividend Per Share ($)	**0.48**	(20.0)%	0.60	3.4%	0.58	16.0%	0.50*	11.1%	0.45
Dividend	**3.5%**		3.6%		2.5%		2.6%		3.0%
Book Value Per Share ($)	**29.83**	1.4%	29.43	8.1%	27.22	8.7%	25.03	9.3%	22.89
Average Book Value Per Share ($)	**29.17**	3.0%	28.33	9.0%	26.01	8.5%	23.96	11.9%	21.42
Average Market/Average Book	**0.47**		0.59		0.88		0.79		0.67
Price/Earnings Ratio	**13.27**		7.30		7.23		5.88		4.24
Return on Equity	**3.5%**		7.8%		11.2%		12.8%		15.2%
Return on Assets	**1.8%**		4.0%		5.4%		5.7%		7.3%
Debt/Equity Ratio	**0.81**		0.85		0.95		1.12		1.10
Asset Turnover	**12.8%**		13.9%		16.8%		17.6%		19.0%

*regular dividend only. In 2013, a $0.50 special dividend was also paid following the REIT IPO.

Price/Earnings Ratio is the average share price for the year divided by the basic earnings per share.
Return on equity is net income for the year divided by the average equity during the year.
Return on assets is net income for the year divided by the average assets during the year.
Debt/Equity Ratio is debt, excluding REIT units, divided by shareholders equity.

CORPORATE & SHAREHOLDER INFORMATION

Annual General Meeting

Please join us at our annual general meeting.

The Westin Edmonton
Devonian Room
10135 – 100 Street NW
Edmonton, AB

Wednesday, April 26
11:00 AM MDT

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