

PRESS RELEASE

for immediate distribution

Melcor Developments announces results for 2017 and declares quarterly dividend of \$0.13 per share

Edmonton, Alberta | March 7, 2018

Melcor Developments Ltd. (TSX: MRD), a real estate development and asset management company with operations across western Canada and in the United States, today reported results for the fourth quarter and year ended December 31, 2017. The economic environment improved in many of Melcor's primary markets throughout the year, resulting in revenue growth of 6.4% to \$257.95 million in 2017 compared to \$242.46 million in 2016. Funds from operations (FFO) per share was up 38% to \$1.77 in 2017 compared to \$1.28 in 2016. FFO adjusts for all non-cash earnings items and management believes it better reflects true operating performance.

Net income was up 12% to \$38.53 million or \$1.15 per share (basic) in 2017, compared to \$34.43 million or \$1.04 per share (basic) in 2016.

Darin Rayburn, Melcor's President and Chief Executive Officer, commented on the year: "On behalf of the Melcor team and our Board of Directors, I'm pleased to report to you leading into a milestone year. In 2018, we have the honour of celebrating both our 95th year as a company and our 50th being publicly traded. Our Company's continued success over this extended period of time is no small feat. It requires resilience to change with the times, to react to market cycles and to continually re-imagine how our business can grow and prosper.

With the dividend declared today, we are now in our 30th consecutive year of dividend payments. Since becoming a public company in 1968, we have paid dividends in all but three years. Protecting and growing our shareholders investments and sharing profits through dividends remains a priority. Dividends in 2017 grew 8% over 2016.

Throughout 2017, we continued to execute on our conservative growth strategy and achieved stable results in both the fourth quarter and for the year. Residential sales returned to normalized levels and we balanced the offerings available in our communities to meet consumer needs for varied products and multiple price points. We continued to develop commercial assets to enable steady growth in our income-producing properties. In spite of challenges faced in the real estate acquisition and disposition market, the Melcor REIT took advantage of its unique acquisition pipeline in early 2018 with the vend-in of \$80.88 million worth of commercial properties. We now manage 3.92 million square feet of income property with stable overall occupancy of 92%.

Throughout the downturn of the past few years, we have worked towards advancing the planning and approvals of several new communities and commercial projects. In 2017, we broke ground on 2 new neighbourhood shopping centres and began servicing 2 new communities. We have additional commercial projects and communities in the works for the coming years, subject to market demand.

With appropriate levels of serviced land inventory and project approvals, stable occupancy on a diverse asset base and low debt, we are well positioned for the future."

The Board today declared a quarterly dividend of \$0.13 per share, payable on March 29, 2018 to shareholders of record on March 15, 2018. The dividend is an eligible dividend for Canadian tax purposes.

Selected Highlights

(\$000s except as noted)	2017	2016	Change
Revenue	257,950	242,461	6.4 %
Gross margin (%) *	45.1%	44.7%	0.9 %
Fair value adjustment on investment properties	(8,828)	15,795	(155.9)%
Net income	38,525	34,433	11.9 %
Net margin (%) *	14.9%	14.2%	4.9 %
Funds from operations *	59,021	42,564	38.7 %
Shareholders' equity	1,008,590	994,721	1.4 %
Total assets	1,990,983	1,891,988	5.2 %
Per Share Data			
Basic earnings	1.15	1.04	10.6 %
Diluted earnings	1.15	1.04	10.6 %
Funds from operations *	1.77	1.28	38.3 %
Book value *	30.21	29.83	1.3 %

The economic environment improved in many of our markets in 2017, contributing to strong results. We also continued to advance several strategies to position Melcor for future growth and success.

Community Development ramped up to meet demand following several years of softer markets. Single-family lot sales increased 47% and development of new single-family lots was up by 162% (including the purchase of 294 lots in the US) over 2016. Our strategy of diversifying residential product types to respond to demand in price-sensitive markets has proven successful, with smaller, more cost efficient product types leading sales. Promotions were in place throughout 2017 in certain communities to continue moving inventory; however, most promotions have been withdrawn going into 2018 due to normalized demand.

Investment Properties maintained stable occupancy rates and healthy renewals in spite of market challenges. Investment Properties manages 3.92 million sf of commercial property and 609 residential units, down slightly from last year as we sold some properties to monetize the value created and re-invest capital.

Revenue from our income-producing portfolio (including REIT properties) remained steady over 2016 while the Community Development division saw an increase of 3%. 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.

Property Development completed and transferred 4 buildings (38,199 sf) in 2017 with a further 125,300 sf under development and nearing completion. Revenue from the Property Development division is eliminated on consolidation. Total revenue was down over 2016 as 58% less GLA was completed and transferred in the year. Transfers to Investment Properties 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 an additional 5 buildings in 4 developments expected to be completed and transferred to Investment Properties in 2018.

We completed the following dispositions during the year, resulting in a 1% reduction of GLA in our portfolio of managed properties:

- a parking lot in Edmonton, Alberta for \$2.99 million (net of transaction costs),
- a residential building in the US for \$0.17 million (net of transaction costs), and
- the REIT disposed of an industrial property in Lethbridge, Alberta for \$7.76 million (net of transaction costs).

We continued to invest in land inventory and increased our land holdings by 771.44 acres in strategic growth corridors. The acquired land is primarily allocated to residential development and includes 515.78 acres acquired in the US. We continue to move land use approvals through the municipal approval process to increase our supply of shovel ready assets so that we are ready to capitalize on improved demand.

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

Subsequent to the year end, the REIT purchased five commercial properties (172,629 sf of owned GLA) from Melcor for \$80.88 million. This was the fourth sale completed to the REIT and represents a key part of our value chain. Through the REIT, we are able to monetize the value we create as we move land from raw inventory to completed commercial project. As majority owner of the REIT, we receive monthly distributions from the REIT. Growing the asset management side of our business helps to stabilize our overall revenue throughout the year.

Return to Shareholders

Melcor continues to distribute profit to our shareholders. During 2017, the Company paid annual dividends of \$0.52 per share, representing growth of 8%.

Melcor declared a \$0.13 per share dividend on March 7, 2018 payable on March 29, 2018 to shareholders of record on March 15, 2018. The dividend is an eligible dividend for Canadian tax purposes.

Melcor has been paying dividends since 1969.

Outlook

Melcor owns a high quality portfolio of assets, including raw land, developed land inventory (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 throughout the past few years, primarily related to lower oil prices. We continue to execute on our strategic plan and achieved solid results in 2017. We are intentionally diversifying across asset class and geography, and continue to invest in the US with both raw land acquisitions and the launch of an 1,100-acre community with expansion capacity. This diversification will serve to ease reliance on the Alberta economy.

Market demand varies by asset class and region and we expect this to continue in 2018. On the residential side, we expect starter homes and lower priced options including duplexes, townhomes and new product types such as zero lot lines to continue to lead the market. On the commercial side, retail activity remains steady and we expect that trend to continue. Our US assets continue to deliver positive returns 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 94 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 capacity on our operating facility, we remain positioned for the future.

MD&A and Financial Statements

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

Annual General Meeting

We invite shareholders to join us at Melcor's annual general meeting on May 10, 2018 at 11:00 am MDT. The meeting will be held in the Devonian Room at the Westin, 10135 100 Street, Edmonton, Alberta. We look forward to seeing you there.

About Melcor Developments Ltd.

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

Melcor has been focused on real estate since 1923. The Company has built over 100 communities across western Canada and today manages 3.9 million sf in commercial real estate assets and 609 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

Forward Looking Statements

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

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

This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2018 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

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

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

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Management's Discussion & Analysis

March 7, 2018

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, 2017.

The financial statements underlying this MD&A, including 2016 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

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 7, 2018.

Other Information

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

Non-standard Measures

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

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Our Business

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

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 3.92 million square feet (sf) in commercial real estate assets and 609 residential rental units.

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

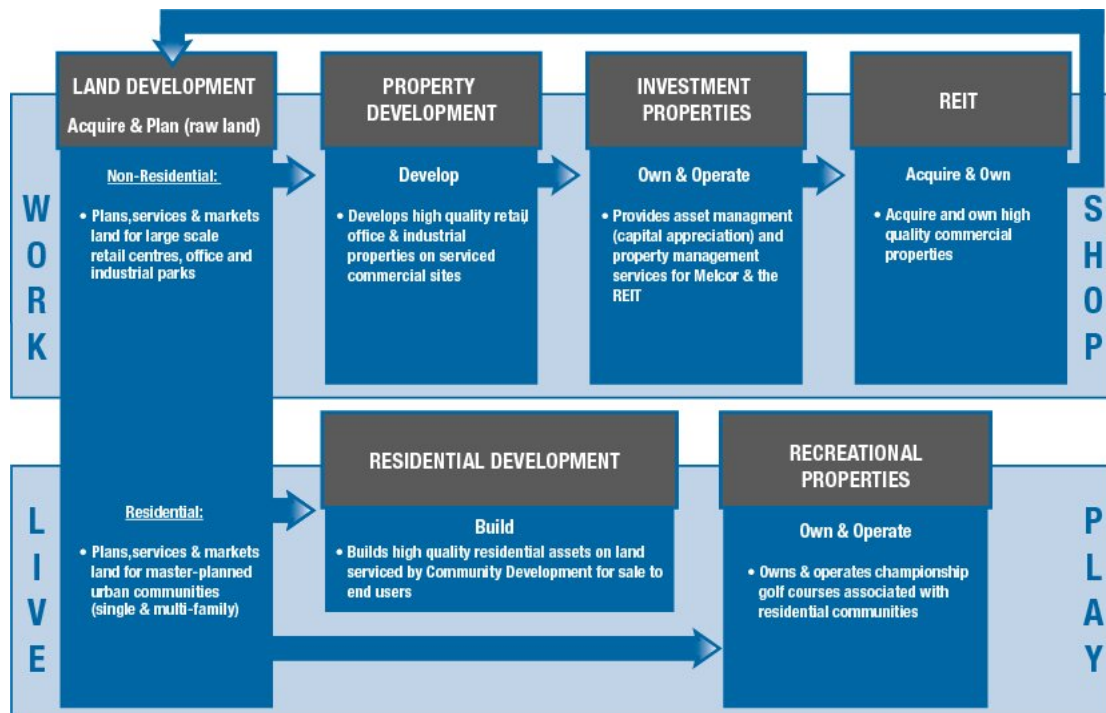
We are celebrating our 50th year as a public company (TSX:MRD). On May 1, 2013, we formed Melcor Real Estate Investment Trust (the REIT) through an initial public offering (the IPO). We retain a controlling 53.0% effective interest in the REIT and continue to manage, administer and operate the REIT and 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 \$1.99 billion in assets.

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



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

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 Colorado and Arizona in the 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 2017, the economic environment in Alberta remained steady, with signs of improvement in some regions and sectors following the challenge created by the low price of oil of the past several years. 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. Throughout the past few years, we have shifted the product type in our residential developments to meet changes in market demand. This resulted in healthy sales in 2017 in many neighbourhoods and early demand in 2018.

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 4 buildings (38,199 sf) to Investment Properties during 2017. A further 125,300 sf remain under development. We expect to begin construction on additional phases in five existing developments in 2018.

Division	Assets	Strategy
Community Development	10,418 acres of raw land inventory in strategic growth corridors	Maintain right mix of inventory, available at the right time to meet market needs Increase market share by maintaining best in class design and community standards
Property Development	Prospects for over 6.6 million sf of new development based on existing plans Completed and transferred 38,199 sf in 2017	Plan, build and lease retail, office, industrial and multi-family residential real estate projects Maintain 3-5 year inventory of developable assets Maximize value of existing assets through vertical development or re-development
Investment Properties & REIT	Over 3.92 million sf of commercial property and 609 residential units under management, diversified across 4 asset classes in 3 provinces and 2 states New buildings coming online as Property Development projects are completed	Improve existing assets with value-added investments 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 revenue from food and beverage operations

Diversification

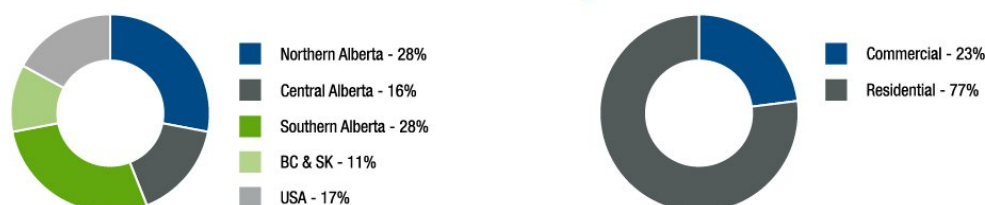
Our operating divisions diversify our revenue streams in a number of ways:

- The mix of land and property types held (residential, office, retail, industrial)
- The regional profile of our assets (Alberta, Saskatchewan, BC & western/southwestern US)
- The type of revenue each asset generates (including steady revenue from income-producing properties and revenue that fluctuates by season and by 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 United States.

Land Inventory

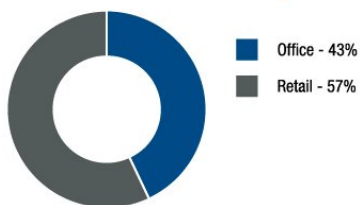


Property Development adds value to raw land by developing retail, office and industrial properties in Alberta.

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 value chain from raw land to annuity income. The REIT has the right of first offer to purchase completed and leased properties, enabling us 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 6.7 million sf based on development plans.

GLA Under Development

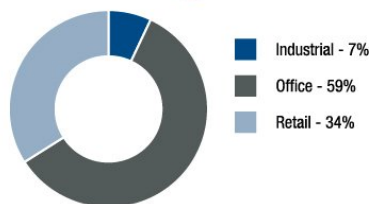
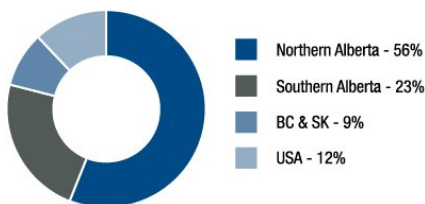


GLA For Future Development



Investment Properties manages 3.92 million sf of geographically diversified income-producing assets - 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 2.71 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 its portfolio, both through the Property Development pipeline and third party acquisitions.

Total Gross Leasable Area Owned by REIT as at March 7, 2018



- Industrial - 7%
- Office - 55%
- Retail - 38%



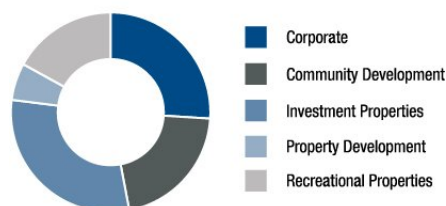
- Northern Alberta - 59%
- Southern Alberta - 28%
- BC & Saskatchewan - 13%

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 7.5 years and we have 21 team members (11 active) on Melcor's Quarter Century Club.

Employees by Division



This team, with its complementary combination of seasoned experience and new talent, contributed to stable company results over the past several years as we navigated 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 programs (ESPP).

Real Estate Inventory

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

- 10,418 acres of developable land
- 3,920,092 sf of leasable commercial property and 609 residential units under management in 3 provinces and 2 states
- Potential to develop over 6.7 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, 2017			December 31, 2016		
	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)
(including joint arrangements at 100%)						
Open	1,004	64.61	142.37	1,433	63.12	144.41
Transfers	—	(3.65)	3.65	—	—	—
New developments	1,682	10.42	3.04	529	22.81	32.13
Internal sales	—	—	(4.15)	—	—	(18.81)
Sales	(1,405)	(2.82)	(8.78)	(958)	(21.32)	(15.36)
	1,281	68.56	136.13	1,004	64.61	142.37

Development ramped up in 2017 to meet demand following several years of softer markets. New developments were up by 218% and include 294 single family lots purchased in the US. Smaller, more cost efficient product types have been particularly successful over the past few years.

Single-family lot inventory was up 28% at the end of 2017 largely due to the purchase of 294 single family lots in the US. Maintaining a maximum of one year of serviced lot inventory of diverse product types is one of our key disciplines.

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. Raw land 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 raw 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 through equity transactions and swap agreements):

<i>Land purchases (in acres, net of joint arrangement interests)</i>	2017	2016	Total Land Holdings
Edmonton & Region	107.84	39.91	2,940
Red Deer & Region	14.04	8.08	1,657
Calgary & Region	31.32	—	2,317
Lethbridge	59.40	54.35	600
British Columbia	43.06	—	567
Saskatchewan	—	—	616
United States	515.78	42.24	1,721
	771.44	144.58	10,418

We acquired 771.44 acres of land in strategic growth corridors in 2017 and continue to seek investment opportunities. The majority of land acquired in 2017 was in the United States as we continue to advance our geographic diversification strategy. We acquired 318.00 acres adjacent to the new community we are developing in Colorado and 197.78 acres and 294 finished lots in Arizona.

Financial Resources

Land and property development are capital-intensive activities. We require access to sufficient capital to continue to grow, develop new land and properties and take advantage of acquisition opportunities that fit our growth strategy.

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

We use fixed rate, long-term mortgage financing on our income-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. At the end of 2017, Melcor also had project specific financings on two residential and three commercial projects totaling \$20.93 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 2017, the REIT did not acquire any assets from Melcor; however, the REIT announced the acquisition of five commercial properties for \$80.88 million which closed on January 12, 2018 (the Melcor Acquisition). Subsequent to the closing of the Melcor Acquisition (see note 31 in the financial statements) our effective ownership in the REIT is 53.0% (December 31, 2017 - 56.7%).

Our operations are supported by a syndicated operating line of credit with total availability of \$205.60 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 2017, 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.

2017 Highlights

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Net income	38,525	34,433	11.9 %
Net margin (%) *	14.9%	14.2%	4.9 %
Funds from operations *	59,021	42,564	38.7 %
Shareholders' equity	1,008,590	994,721	1.4 %
Total assets	1,990,983	1,891,988	5.2 %
Per Share Data			
Basic earnings	1.15	1.04	10.6 %
Diluted earnings	1.15	1.04	10.6 %
Funds from operations *	1.77	1.28	38.3 %
Book value *	30.21	29.83	1.3 %

* See non-standard measures for definitions and calculations.

The economic environment improved in many of our markets in 2017, contributing to strong results. We also continued to advance several strategies to position Melcor for future growth and success.

Community Development ramped up to meet demand following several years of softer markets. Single-family lot sales increased 47% and development of new single-family lots was up by 162% (including the purchase of 294 lots in the US) over 2016. Our strategy of diversifying residential product types to respond to demand in price-sensitive markets has proven successful, with smaller, more cost efficient product types leading sales. Promotions were in place throughout 2017 in certain communities to continue moving inventory; however, most promotions have been withdrawn going into 2018 due to normalized demand.

Investment Properties maintained stable occupancy rates and healthy renewals in spite of market challenges. Investment Properties manages 3.92 million sf of commercial properties and 609 residential units, down slightly from last year as we sold some properties to monetize the value created and re-invest capital.

Revenue from our income-producing portfolio (including REIT properties) remained steady over 2016 while the Community Development division saw an increase of 3%. 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.

Property Development completed and transferred 4 buildings (38,199 sf) in 2017 with a further 125,300 sf under development. Revenue from the Property Development division is eliminated on consolidation. Total revenue was down over 2016 as 58% less GLA was completed and transferred in the year. Transfers to Investment Properties 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 an additional 5 buildings in 4 developments expected to be completed and transferred to Investment Properties in 2018.

We completed the following dispositions during the year, resulting in a 1% reduction of GLA in our portfolio of managed properties:

- a parking lot in Edmonton, Alberta for \$2.99 million (net of transaction costs),
- a residential building in the US for \$0.17 million (net of transaction costs), and
- the REIT disposed of an industrial property in Lethbridge, Alberta for \$7.76 million (net of transaction costs).

We continued to invest in land inventory and increased our land holdings by 771.44 acres in strategic growth corridors. The acquired land is primarily allocated to residential development and includes 515.78 acres acquired in the US. We continue to move land use approvals through the municipal approval process to increase our supply of shovel ready assets so that we are ready to capitalize on improved demand.

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

Subsequent to the year end, the REIT purchased five commercial properties (172,629 sf of owned GLA) from Melcor for \$80.88 million. This was the fourth sale completed to the REIT and represents a key part of our value chain. Through the REIT, we are able to monetize the value we create as we move land from raw inventory to completed commercial project. As majority owner of the REIT, we receive monthly distributions from the REIT. Growing the asset management side of our business helps to stabilize our overall revenue throughout the year.

Return to Shareholders

We continue to distribute profits to our shareholders. During 2017, we paid dividends of \$0.52 per share, representing growth of 8%.

We declared a \$0.13 per share dividend on March 7, 2018 payable on March 29, 2018 to shareholders of record on March 15, 2018. The dividend is an eligible dividend for Canadian tax purposes.

We have been paying dividends since 1969.

Revenue & Margins

Revenue growth of 6% to \$257.95 million in 2017 was driven by the 3% increase in Community Development division revenue. Swings in intercompany revenue resulted in a larger portion of revenue related to land sales being eliminated on consolidation in 2016, also contributing to the increase in consolidated revenue in 2017. Revenue from our income-producing portfolio (including REIT properties) remained stable over 2016. Property Development transfer revenue (down 76%) is eliminated on consolidation.

Gross margin was up 0.40% to 45% in 2017. This improvement was led by Community Development, which had gross margin of 37% compared to 34% in 2016 as improved market conditions resulted in fewer promotions to drive sales activity. 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 60% gross margin on income properties (Investment Properties and the REIT combined) is more stable in nature and serves to neutralize volatility in Community Development margin.

Net margin was also slightly improved at 15% due to higher gross profit and revenue, offset by higher general and administrative expense and swings in fair values adjustments recorded on our investment properties and REIT units. Net income was \$38.53 million.

Fair value losses of \$8.83 million were recorded in 2017 (2016: fair value gains of \$15.80 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 \$0.34 million (2016: \$1.79 million);
- leasing activity and completion of construction on Property Development projects resulting in fair value gains of \$3.31 million (2016: \$6.13 million); and
- net fair value losses recorded in our Investment Properties and REIT divisions, driven primarily by continued pressure on Edmonton office capitalization rates which increased 25 to 100 basis points over 2016 on certain properties.

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 items included in income such as fair value adjustments on investment properties and stock based compensation.

Melcor views FFO as an internal metric used to assess our business and does not follow the REALpac guidance on FFO.

Below is a reconciliation of net income to FFO:

(\$000s)	Year Ended	
	2017	2016
Net income for the year	38,525	34,433
Amortization of operating lease incentives	6,304	6,344
Fair value adjustment on investment properties	8,828	(15,795)
Depreciation on property and equipment	1,436	1,571
Stock based compensation expense	408	302
Non-cash financing costs	414	1,179
Gain on sale of asset	(17)	(37)
Deferred income taxes	2,565	628
Fair value adjustment on REIT units	558	13,939
FFO *	59,021	42,564
<i>Per Share Data</i>		
FFO per share *	1.77	1.28

* See non-standard measures for definitions and calculations.

FFO increased by 39% to \$59.02 million. Our income properties (Investment Properties and REIT divisions, excluding fair value adjustments) remain a steady source of FFO and help to stabilize overall income. Reductions in our overall leverage resulted in finance cost savings of \$4.40 million, also contributing to higher FFO.

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 37 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	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<i>(\$000s except as noted)</i>										
Revenue	158,285	154,201	11,015	45,729	34,792	35,774	66,613	66,042	8,650	9,176
Portion of total revenue	57%	50%	4%	15%	12%	12%	24%	21%	3%	3%
Cost of sales	(99,114)	(102,508)	(10,700)	(45,650)	(13,876)	(13,994)	(26,500)	(25,770)	(5,889)	(6,180)
Gross profit	59,171	51,693	315	79	20,916	21,780	40,113	40,272	2,761	2,996
Gross margin (%)	37%	34%	3%	—%	60%	61%	60%	61%	32%	33%
Portion of total gross profit	48%	44%	—%	—%	17%	19%	33%	34%	2%	3%
General and administrative expense	(8,908)	(8,537)	(2,065)	(1,858)	(3,197)	(2,620)	(2,718)	(2,653)	(2,183)	(2,275)
Fair value adjustment on investment properties	—	—	3,308	6,130	(2,668)	11,449	(12,800)	(6,546)	—	—
Gain on sale of assets	—	—	—	—	—	—	—	—	35	37
Interest income	906	1,119	16	4	33	6	62	35	—	—
Segment Earnings	51,169	44,275	1,574	4,355	15,084	30,615	24,657	31,108	613	758

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.

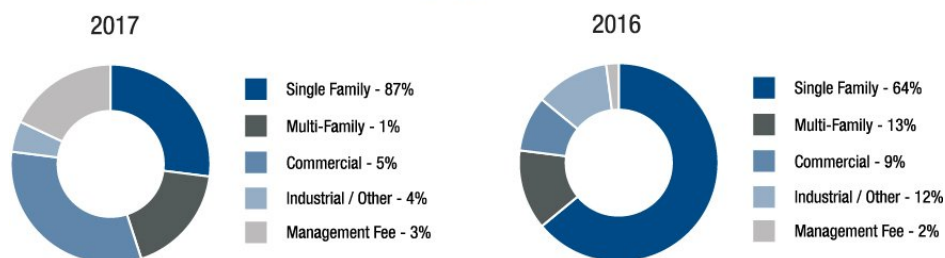
As at December 31, 2017 we held 10,418 acres of raw land for future development which positions the division well for future growth. Our developed land inventory at December 31, 2017 included 1,281 single-family lots, 69 acres for multi-family unit development, and 136.13 non-residential acres.

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 improved in 2017.

Revenue by Type



The following table summarizes our activity:

Consolidated	2017	2016
<i>Sales data:</i>		
Single-family sales (number of lots)	1,405	958
Gross average revenue per single family lot (\$)	134,700	142,800
Multi-family sales (acres)	2.82	21.32
Gross average revenue per multi-family acre (\$)	800,000	127,460
Commercial sales (acres)	12.93	18.81
Gross average revenue per commercial land acre (\$)	1,087,800	781,600
Other land sales - Industrial, Other (acres)	33.26	107.22
Gross average revenue per other land acre (\$)	176,800	174,700
<i>Financial results:</i>		
Revenue (\$000s)	158,285	154,201
Earnings (\$000s)	51,169	44,275

Regional Highlights

Edmonton & Region	2017	2016
<i>Sales data:</i>		
Single-family sales (number of lots)	828	499
Multi-family sales (acres)	2.82	15.86
Commercial sales (acres)	11.84	16.70
Other land sales - Industrial & Other (acres)	4.18	2.75
<i>Financial results:</i>		
Revenue (\$000s)	85,239	72,503
Earnings (\$000s)	28,318	17,713

The residential market in the Edmonton region rebounded in 2017, leading to a significant increase in single-family lots sold.

The average selling price was down by 6% as lower priced product segments - duplexes, townhomes and detached garage home - made up the bulk of sales. The communities of Jensen Lakes, Rosenthal, Aurora and Cavanagh Ridge performed well in the year.

We sold 4.15 acres of commercial land to Property Development for \$3.74 million (\$1.87 million net of JV%) and a further 4.65 acres to a third party for the development of The Shoppes at Jagare Ridge, a neighbourhood shopping centre in South Edmonton. We sold an additional 3.04 acres to a third party in SW Edmonton.

The promotion program established early in 2016 to move builder inventory and generate activity continued through 2017 and resulted in successfully moving certain product types. We expect interest in entry level products to remain strong in 2018, with increasing interest in traditional single-family lots.

Red Deer & Region	2017	2016
<i>Sales data:</i>		
Single-family sales (number of lots)	83	67
Other land sales - Industrial & Other (acres)	10.53	90.06
<i>Financial results:</i>		
Revenue (\$000s)	12,406	14,322
Earnings (\$000s)	5,647	4,846

Single-family lot sales in the Red Deer market rebounded slightly in 2017 as we continued to move inventory in mature communities. Our city of Red Deer communities of Laredo and Vanier Woods are nearing completion, with a strong focus on single-family product with good builder support. The new community of Evergreen will have its first lots available for sale in 2018 and will help us offer a diverse range of product types in 2018 and beyond.

Calgary & Region	2017	2016
<i>Sales data:</i>		
Single-family sales (number of lots)	296	138
Multi-family sales (acres)	—	5.46
Commercial sales (acres)	1.09	2.11
Other land sales - Industrial & Other (acres)	18.55	14.41
<i>Financial results:</i>		
Revenue(\$000s)	31,903	36,521
Earnings (\$000s)	11,404	13,381

The housing market in the Calgary region improved in 2017, with the highest level of annual starts since 2015. This resulted in a 114% increase in single-family lots sold. Total finished lot inventory remains at target levels of not more than one year of supply.

Construction on infrastructure continued in Greenwich, a mixed-use community consisting of multi-family residential, retail and office space. We sold 1.09 acres of land for multi-family development to a third party.

We also sold 18.55 acres of raw land in the region for gross proceeds of \$3.68 million.

The Cobblestone community received land use approval for the first six (of nine) phases.

Continued efforts to diversify product mix has increased the number of single-family lots sold. The market remains sensitive to price point, with lower priced product being more desirable. We will continue to maintain adequate supply to accommodate diverse housing options.

We expect similar market conditions in 2018 and will continue to focus on lower priced housing options in small phases with high pre-sale thresholds. We also remain focused on advancing planning and approvals for new developments.

Lethbridge	2017	2016
<i>Sales data:</i>		
Single-family sales (number of lots)	79	90
<i>Financial results:</i>		
Revenue (\$000s)	7,753	9,340
Earnings (\$000s)	1,725	2,315

The Lethbridge housing market was slightly softer in 2017 as a result of oversupply. This contributed to a 17% reduction in revenue compared to 2016. West Lethbridge has been highly competitive with 7 new neighbourhoods. Our new phase in Legacy Ridge with townhouse and starter home product sold well in the year.

For 2018, we plan to add more entry price point product with a new phase at Garry Station and build a central park amenity in the neighbourhood.

Kelowna	2017	2016
<i>Sales data:</i>		
Single-family sales (number of lots)	25	39
<i>Financial results:</i>		
Revenue (\$000s)	10,953	13,175
Earnings (\$000s)	388	2,248

The Kelowna market remained steady in 2017; however, revenue decreased by 17% over 2016 as a result of limited lot inventory in the Blue Sky project during the year. A phase completed in 2017 is currently awaiting registration, which will provide inventory to support immediate term demand. We also began working on an additional phase at Blue Sky to maintain our target of a one year supply of inventory. During the year we purchased 43.06 acres of raw land adjacent to Blue Sky, adding potential for approximately 135 additional lots for future development.

Construction on the first phase of North Clifton Estates, a hillside community with lake views from every lot, commenced in 2017 and we expect it to be ready for registration by early summer.

We also continue to move a third development, Thomson Flats, through the planning process and expect area plan approval in 2018.

United States	2017	2016
<i>Sales data:</i>		
Single-family sales (number of lots)	94	125
<i>Financial results:</i>		
Revenue (\$000s)	10,031	8,340
Earnings (\$000s)	3,687	3,772

Activity in the US ramped up in 2017, resulting in a 20% increase in revenue. We sold an 80-acre parcel in Peoria, AZ which had approval to develop 94 lots.

We received final approvals, secured construction financing and commenced construction on the first phase of Harmony, a 1,100-acre land holding in Aurora, CO. Builder interest is high and we expect to close the first sales in the community in 2019. We acquired a further 318 acres adjacent to Harmony.

We also acquired 198 acres in Goodyear, AZ adjacent to an existing 120 acre parcel (Paseo Place).

We also acquired an 80% interest in 294 serviced lots (Mission Royale) in Casa Grande, AZ.

We continue to seek land acquisition opportunities in AZ and CO and to advance planning and approvals on all land holdings.

Property Development

Our Property Development division develops, manages construction, markets and initially leases high-quality retail, office and industrial revenue-producing properties on prime commercial sites purchased primarily from our Community Development division 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

<i>(\$000s and at JV%, except as noted)</i>	2017	2016
Total revenue	11,015	45,729
Revenue from property transfers	10,700	45,650
Management fees	315	79
Margin (%) on property transfers	43%	27%
Square footage transferred (sf, at 100%)	38,199	90,694
Number of buildings transferred	4	6
Fair value gains on investment properties	3,308	6,130

Property Development completed and transferred 4 buildings (38,199 sf) to Investment Properties during 2017. A further 125,300 sf remain under development for 2018 and we continue to move new projects through the planning and development approval process.

Regional Highlights

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

<i>(\$000s)</i>	2017	2016
Northern Alberta	2,094	2,822
Southern Alberta	1,214	3,308
	3,308	6,130

Northern Alberta transferred 17,137 sf (2 buildings) to Investment Properties. Notable activity during 2017 includes:

- Clearview Market: We completed and transferred the remaining CRU to Investment Properties. At 100%, we recognized \$5.40 million in revenue and 24% margin on transfer to Investment Properties (\$1.80 million in revenue at JV%).
- West Henday Promenade: We completed and transferred a multi-tenant building and recognized revenue of \$3.80 million and 31% margin on transfer. We have now developed 116,329 sf in the project.
- Jensen Lakes Crossing: We substantially completed construction of Landmark Cinemas Canada, our anchor tenant at our new neighbourhood shopping centre in St. Albert, Alberta which had a grand opening on February 14, 2018. During 2018 we expect to construct four CRUs and a gas station which will be completed in 2018 or early 2019.
- The Shoppes at Jagare Ridge: We commenced construction on this south Edmonton neighbourhood shopping centre. The development realized fair value gains of \$2.72 million (\$1.36 million at JV%) in 2017. These buildings are expected to transfer to Investment Properties in 2018.

Southern Alberta: This region transferred 21,062 sf (2 buildings) to Investment Properties in 2017, including:

- Chestermere Station: We completed construction on 2 buildings (a free standing restaurant and a CRU). At 100%, we recognized \$10.20 million in revenue and 33% margin on transfer to Investment Properties (\$5.10 million in revenue at JV%).
- The District at North Deerfoot: We resumed construction at this project in North Calgary. During 2018 we expect to substantially construct a free standing CRU, with completion projected for 2019.

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	<i>Regional business park</i>	725,000	56,797	54,300
Telford Industrial	Leduc	<i>Industrial Park</i>	500,000	143,118	—
West Henday Promenade	West Edmonton	<i>Regional mixed use centre</i>	726,000	116,329	—
Kingsview Market	Airdrie	<i>Regional shopping centre</i>	331,000	181,927	—
Chestermere Station	Chestermere	<i>Neighbourhood shopping centre</i>	297,416	241,602	—
Clearview Market	Red Deer	<i>Neighbourhood shopping centre</i>	150,090	150,088	—
The District at North Deerfoot	North Calgary	<i>Regional business / industrial park</i>	2,250,000	494,359	—
Campsite Industrial	Spruce Grove	<i>Industrial Park</i>	170,000	13,654	—
The Shoppes at Jagare Ridge	South Edmonton	<i>Neighbourhood shopping centre</i>	105,000	—	16,500
Jensen Lakes Crossing	St. Albert	<i>Neighbourhood shopping centre</i>	150,000	—	54,500

Expected Future Projects					
Project	Location	Type	Total SF *	Ownership Interest	Expected Start (year)
The Shoppes at Canyons	Lethbridge	<i>Neighbourhood shopping centre</i>	105,000	100%	2020
Greenwich	West Calgary	<i>Regional mixed use centre</i>	395,000	100%	2019
Rollyview	Leduc	<i>Neighbourhood shopping centre</i>	150,000	100%	2019
Woodbend Market	Leduc	<i>Neighbourhood shopping centre</i>	140,000	100%	2019
Laredo	Red Deer	<i>Neighbourhood shopping centre</i>	30,000	100%	2019
Clearview Market 2	Red Deer	<i>Neighbourhood shopping centre</i>	80,000	33%	2019
Mattson	Edmonton	<i>Neighbourhood shopping centre</i>	78,000	50%	2020
Vista Ridge	Sylvan Lake	<i>Neighbourhood shopping centre</i>	25,000	50%	2019
Secord/Rosenthal	Edmonton	<i>Neighbourhood shopping centre</i>	120,000	100%	2020
Keystone Common	North Calgary	<i>Regional power centre</i>	775,000	100%	2022+
West Pointe Marketplace	Lethbridge	<i>Regional power centre</i>	750,000	100%	2022+
Westview Commercial	West Calgary	<i>Neighbourhood shopping centre</i>	150,000	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 3.92 million sf of income-producing commercial GLA and 609 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 6 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

<i>(\$000s except as noted)</i>	2017	2016
Commercial properties GLA under management (sf, total)	3,920,092	3,953,196
Properties owned and managed (sf)	842,385	823,466
Properties managed (sf)	3,077,707	3,129,730
Revenue (total)	34,792	35,774
Canadian properties	14,359	12,439
US properties	14,266	17,022
Management fees	4,767	4,892
Parking lots and other assets	1,400	1,421
Net operating income (NOI) *	21,051	20,934
Funds from operations *	18,550	19,759
Funds from operations per share *	0.56	0.60

* 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 properties

We continued to grow via Property Development in 2017. Over the past twelve months, Property Development transferred four buildings, adding 38,199 sf to owned and managed GLA which generated an increase in commercial property revenue and NOI over 2016. In 2016, six buildings were transferred from Property Development, adding 90,694 sf of GLA. With 125,300 sf of GLA under active development in the Property Development division, we expect continued growth. Subsequent to year-end, we sold five newly-constructed commercial properties from Melcor Developments to the REIT representing 172,629 sf of owned GLA.

Revenue generated on assets acquired from Property Development and held through the period was \$4.72 million in 2017 (2016 - \$4.44 million). Our residential property acquired in 2016 contributed \$1.10 million in revenue in 2017 (2016 - \$0.22 million).

Gross profit was up 14% to \$10.46 million in 2017 due to growth in the portfolio.

Occupancy on properties owned by Investment Properties was 91% at December 31, 2017 (2016 - 94%). The decline in occupancy is due to tenant rollovers and tenants in fixturing who have not taken occupancy at year-end. Weighted average base rental rates were \$25.86 (2016 - \$26.26).

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

(\$000s except as noted)	2017	2016
Same asset NOI *	6,237	6,281
Third party acquisition	488	136
Properties transferred from PD	3,828	2,286
NOI	10,553	8,703
Amortization of operating lease incentives	(338)	(370)
Straight-line rent adjustment	247	873
Gross profit	10,462	9,206

* See non-standard measures for definition.

Divisional NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustment. Same asset NOI was stable over 2016 at \$6.24 million.

US properties

Our US property portfolio remained stable through 2017 with no significant acquisitions or dispositions completed during the year. Comparatively, in 2016, we completed three commercial property acquisitions and disposed of one residential property. Our portfolio is concentrated in the Phoenix and Denver areas; regions we view as a hedge to our Canadian resource derived economic exposure. Funds from the sale of Lakeside 121 in December 2016 have been redeployed into our US community development operations which has experienced significant growth over the past year.

Details of acquisitions and disposals completed through 2017 and 2016 are as follows:

	Date	Type	Area	Price (millions \$)
<i>Acquisitions</i>				
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)
<i>Dispositions</i>				
Lakeside 121, Greater Dallas Area, Texas	Dec 2016	Multi-Residential	240 units / 11.01 ac	\$38.42 (US\$29.19)
The Edge, Greater Phoenix Area, Arizona	Nov 2017	Residential	1 unit	\$0.18 (US\$0.13)

Revenue decreased 16% over 2016, primarily due to the sale of Lakeside 121 in December 2016 (as outlined above). Revenues recognized from Lakeside 121 in 2016 were \$3.45 million (US\$2.65 million). The decline in residential revenue was partially offset by additional revenues from commercial assets acquired in 2017 adding \$6.81 million (US\$5.25 million) in 2017 compared to \$5.60 million (US\$4.30 million) in 2016. Same asset revenue was down 3% over 2016 due to higher vacancy in our Phoenix area commercial properties.

Occupancy on commercial US properties was 87% (2016 - 89%). This decrease is due to above average lease maturities in 2017 resulting in tenant rollover and increased vacancy at certain properties. Rental rates on commercial US properties were \$18.43 (2016 - \$17.83). The increase in rental rates is due to lease rollovers and tenants coming off rent free periods.

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

(\$000s except as noted)	2017	2016
Same asset NOI *	2,268	2,462
Third party acquisitions	2,442	2,079
Third party disposals	8	1,276
NOI	4,718	5,817
Foreign currency translation	1,398	1,754
Amortization of operating lease incentives	(597)	(220)
Straight-line rent adjustment	416	558
Gross profit	5,935	7,909

* 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 8% over 2016 due to lower occupancy on our commercial assets in conjunction with the timing of maintenance projects undertaken on our residential assets.

Management fees & other

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the asset manager. Management fees were down \$0.13 million or 3% compared to 2016. In 2016 we re-negotiated the management agreement on one of our joint arrangements in order to align the fee structure with other management agreements and fairly compensate Melcor for administration of the assets. The amended agreement was applied retroactively, resulting in higher than normal management fee income in 2016.

During 2017 we recognized \$1.40 million in revenues on our 488 (2016 - 516) parking stalls and other assets, which is consistent with 2016. In September 2017 we disposed of Phillips Lofts Parking Lot (28 stalls on 0.17 acres) in Edmonton, Alberta for \$2.99 million (net of transaction costs). These revenues fluctuate from period to period.

Funds from Operations

Funds from operations (FFO) decreased by \$1.21 million or 6% over 2016 as a result of lower gross profit and higher G&A. G&A costs were slightly higher than 2016 due to higher 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

	2017	2016
Fair value of portfolio (\$000s)	318,413	317,790
Weighted average capitalization rate	6.30%	6.37%
Weighted average terminal cap rate	6.61%	6.71%
Weighted average discount rate	7.40%	7.44%

The fair value of our portfolio increased by \$0.62 million over 2016. Growth in the portfolio was the result of \$10.30 million in buildings transferred from Property Development and \$2.47 million in property improvements. Other changes included fair value losses of \$3.30 million, disposals of \$3.16 million, foreign currency translation loss of \$7.53 million, and changes to tenant improvements and straight line rent.

For the year ended December 31, 2017, Melcor's internal valuation team performed the valuation assessment. Of 35 legal phases assessed, 21 investment properties with a fair value of \$295.57 million were valued by qualified independent external valuation professionals during the year. In 2016, 23 investment properties of 35 legal phases with a fair value of \$143.31 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 is as follows:

(\$000s)	2017	2016
Alberta - all assets	2,572	(5,030)
US - residential	(2,883)	20,269
US - commercial	(2,357)	(3,790)
	(2,668)	11,449

We recognized fair value losses on our US 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 partially offset by gains in our Canadian portfolio, primarily on our Edmonton, AB parking lots and other assets, where we have seen an increase in land valuations. Fair value gains in 2016 were the result of US residential asset dispositions, where the sale price exceeded carrying value. Refer to note 30 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

REIT

The REIT owned 37 income-producing office, retail and industrial properties, comprising 2,710,862 sf GLA and a land lease community at December 31, 2017. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants operating in a variety of industries.

As at March 7, 2018 we hold a controlling 53.0% effective interest in the REIT through ownership of all Class B LP Units (December 31, 2016 and 2017 - 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)	2017	2016
Rental revenue	66,613	66,042
Net operating income (NOI) *	42,101	42,329
Same asset NOI (see calculation following)	41,398	41,351
Fair value adjustments	(12,800)	(6,546)
Occupancy	92%	92%
Funds from operations *	26,670	26,668
Funds from operations per share *	0.80	0.79

* See non-standard measures for definition and calculation.

Rental revenue increased \$0.57 million or 1% over 2016. Higher operating cost and realty tax recoveries ("recoveries") in 2017 are due to an increase in direct operating expenses. The sale of LC Industrial in April 2017 combined with slightly lower same-asset average occupancy and base rent resulted in a 2% decrease in base rent.

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 2017 we signed 340,546 sf of new and renewed leases (including holdovers) for occupancy of 91.8%. We exceeded our retention rate target, with the renewal of 80.6% of expiring leases (representing 77 leases) in spite of challenging market conditions in many of our operating regions.

Weighted average base rent was \$15.88 per sf at December 31, 2017, an increase of 1% compared to 2016. Excluding LC Industrial, which had a base rate of \$8.68, base rates were down \$0.04 over 2016. This reduction is primarily due to market conditions and significant new inventory creating downward pressure on downtown Edmonton office rates, partially offset by step-ups on leases with multiple rent escalations. Leasing activity across Alberta and increased industrial rates offset the rate compression in our office portfolio. Increases in weighted average base rents were tempered by the compression of net effective rent due to increases in tenant incentives.

Direct operating expenses were up 3% over 2016. A 5% increase in property taxes was due to higher mill rates while the introduction of the carbon tax in Alberta, effective January 1, 2017, contributed to an 8% increase in utilities. In spite of continued pressure on

property taxes and utilities, we were able to hold operating expenses at 2016 levels in 2017. As a cornerstone of our property management strategy, we are committed to efficient and cost effective building maintenance to ensure maximum value to our tenants and unitholders.

<i>(\$000s except as noted)</i>	2017	2016
Same asset NOI *	41,398	41,351
Acquisitions	703	978
NOI before adjustments	42,101	42,329
Amortization of operating lease incentives	(3,062)	(3,216)
Straight-line rent adjustment	1,074	1,159
Divisional NOI	42,101	42,329

* See non-standard measures for definitions and calculations.

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

Slightly lower average occupancy and the sale of LC Industrial contributed to the 1% decline in NOI. On a same-asset basis, NOI was stable over 2016 on account of improved recovery ratio.

Funds from Operations

FFO remained stable over 2016. Stability in FFO demonstrates the REIT's consistency in helping stabilize Melcor's overall operating results year over year.

Fair Value of REIT Portfolio

	2017	2016
Number of properties	37	38
Total GLA (sf)	2,830,368	2,895,306
GLA (REIT owned %) (sf)	2,710,862	2,775,782
Fair value of portfolio (\$000s)	642,763	659,611
Weighted average capitalization rate	6.68%	6.63%
Weighted average terminal cap rate	6.79%	6.83%
Weighted average discount rate	7.75%	7.70%

For the year ended December 31, 2017, Melcor's internal valuation team performed the valuation assessment. In 2017, 27 phases of 46 legal phases with a fair value of \$392.70 million were valued by qualified independent external valuation professionals. Valuations performed during the year resulted in fair value losses of \$12.80 million. In 2016, 22 phases of 47 legal phases with a fair value of \$287.00 million were valued by qualified independent external valuation professionals, resulting in a fair value loss of \$6.55 million. Refer to note 30 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 is as follows:

<i>(\$000s)</i>	2017	2016
Northern Alberta	(16,959)	(3,773)
Southern Alberta	4,710	(3,322)
Saskatchewan & British Columbia	(551)	549
	(12,800)	(6,546)

Fair value losses in Northern Alberta were primarily driven by continued pressure on Edmonton office capitalization rates, which increased 25 to 100 basis points over Q4-2016 on certain properties. The significant drop is the result of recent asset transactions on comparable properties. Capitalization rates on retail assets have remained stable through 2017; however, lower projected market rents resulted in fair value losses on two retail properties in the greater Edmonton area. Fair value gains in Southern Alberta were the result of the sale of LC Industrial in Q2-2017 where the sale price exceeded the carrying value. We also realized fair value gains on

certain office and retail assets in the portfolio as a result of higher NOI. The remainder of fair value losses across the portfolio were due to capital and tenant incentive spending that did not result in a significant change in the fair value of the related property. Fair value adjustments represent a change of approximately 2% 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

<i>(\$000s except as noted)</i>	2017	2016
Revenue	8,650	9,176
Gross profit	2,761	2,996
Gross margin (%)	31.9%	32.7%
Earnings	613	758

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 6% decrease in revenue and 19% decrease in earnings in 2017. The number of rounds played at all four courses was down 11% to 103,590 rounds.

We continue to focus on food and beverage initiatives as part of our strategy for attracting tournaments and growing revenue.

	Ownership interest	2017		
		Season opened	Season closed	Rounds of golf *
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 6	October 29	27,711
The Links (Spruce Grove)	100%	April 7	October 29	23,047
Black Mountain (Kelowna)	100%	April 1	November 1	31,216
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	April 29	October 22	21,616
		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

* Rounds of golf indicated at 100%.

General and Administrative Expense

General and administrative expenses increased by 20% over 2016. This increase was driven by bonus accruals, a one-time retirement allowance of \$1.27 million accrued in relation to an employee who resigned in the year, and increases in certain corporate expenses including stock based compensation, donations and professional fees.

Income Tax Expense

The statutory tax rate for the year ended December 31, 2017 is 27%, consistent with 2016. Significant adjustments that caused the 2017 effective tax rate to exceed the statutory rate include permanent differences related to revaluation adjustments on investment properties and REIT units. These adjustments are partially offset by the non-taxable portion of REIT income and the reduction in deferred tax liabilities caused by the recently enacted reduction in US federal corporate tax rates.

Financing

As at December 31, 2017, our total general debt outstanding was \$658.26 million compared to \$608.61 million in 2016. 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)		2017	2016
Melcor - revolving credit facilities	a	76,529	32,728
REIT - revolving credit facility	b	—	17,324
Project specific financing	c	20,926	5,213
Secured vendor take back debt on land inventory	d	64,891	65,408
Debt on investment properties and golf course assets	e	444,807	455,189
REIT - convertible debentures	f	54,775	32,749
Less: Liability held for sale		(3,670)	—
		658,258	608,611

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 our community development assets.

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, 2019, are renewable one year in advance of expiry and may be modified.

A summary of the credit facilities is as follows:

As at (\$000s)		2017	2016
Credit limit approved	i)	205,603	205,649
Supportable credit limit	ii)	162,597	163,892
Credit used		(76,529)	(32,728)
Credit available		86,068	131,164

i) The portion of these loan limits that relate solely to Melcor Developments Ltd. is \$120.00 million (2016 - \$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)	2017	2016
Total letter of credit facility	71,810	72,358
Letters of credit issued	(40,256)	(39,425)
Available for issue	31,554	32,933

b) REIT - revolving credit facility

The REIT has an available credit limit based on the carrying values of specific investment properties up to a maximum of \$35.00 million for general purposes, including a \$5.00 million swingline sub-facility. The agreement also provides the REIT with \$5.00 million 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, 2017 we had \$nil drawn from the facility, and posted letters of credit of \$nil.

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)	2017	2016
Project specific debt on investment properties under development, with interest rates between 3.50% and 3.70% (2016 - nil%)	12,217	—
Project specific debt on land, with interest rates between 4.58% and 5.70% (2016 - 3.20% to 4.08%)	8,709	5,213
	20,926	5,213
Weighted average effective interest rate	4.94%	3.63%

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 2018 to 2021.

As at (\$000s)	2017	2016
Agreements payable with interest at the following contractual rates:		
Fixed rates of 3.00% - 6.00% (2016 - 3.00% to 6.00%)	64,891	65,408
Weighted average effective interest rate	5.04%	4.56%

As at December 31, 2017 \$10.62 million of debt was payable in US dollars (2016 - \$13.50 million).

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 \$444.81 million, excluding fair value adjustments and deferred finance fees, reflects financing placed on investment properties that have a carrying value of \$708.72 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 3.11% to 3.75% in 2017.

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

As at (\$000s)	2017	2016
Canadian mortgages at fixed rates	345,709	348,021
Canadian mortgages at variable rates	49,816	52,033
US mortgages at fixed rates	44,576	48,763
US mortgages at variable rates	7,786	8,660
	447,887	457,477
Interest rate ranges	(2.48% - 6.16%)	(2.48% - 6.16%)
Weighted average effective interest rate	3.42%	3.54%

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
2018	43,287	4.09%	9
2019	81,673	3.47%	10
2020	53,880	3.82%	8
2021	56,217	3.05%	8
2022	26,096	5.08%	5
2023	15,461	4.00%	2
2024	34,359	3.73%	4
2025	26,609	3.63%	6
2026	26,896	3.65%	5
2027	2,566	3.72%	1
2028	2,086	3.62%	1

As at December 31, 2017, \$52.36 million of debt was payable in US dollars (2016: \$57.42 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.

On December 21, 2017, the REIT issued a 5.25% extendible convertible unsecured subordinated debenture ("2017 Debenture") to the public for gross proceeds of \$23.00 million, including \$3.00 million issued pursuant to the exercise of an over-allotment option. Transaction costs related to the issuance were \$1.46 million for net proceeds of \$21.54 million. The 2017 Debenture bears interest at an annual rate of 5.25% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2018. On completion of the Melcor Acquisition (refer to financial statements note 31), the maturity date of the 2017 Debenture was extended to December 31, 2022. The 2017 Debenture can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 86.9565 trust units per one thousand principal amount of convertible debenture.

These debentures were 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, 2017, compared to December 31, 2016.

<i>As at (\$000s except as noted)</i>	2017	2016
Cash & cash equivalents	42,505	39,892
Restricted cash	16,956	—
Accounts receivable	17,384	16,918
Agreements receivable	129,949	116,244
Revolving credit facilities	76,529	50,052
Accounts payable and accrued liabilities	51,979	35,274
Total assets	1,990,983	1,891,988
Total liabilities	982,393	897,267
Debt to equity ratio *	0.97	0.90

**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 January 12, 2018, we sold the REIT five commercial properties for a total purchase price of \$80.88 million. The purchase price was settled through assumption of \$31.04 million in mortgages payable; issuance of 1,331,202 Class C LP Units, representing \$13.31

million in Retained Debt by Melcor; issuance of 283,447 Class B LP Units at a price of \$8.82, representing \$2.50 million; and cash of \$34.03 million. Concurrent with closing of this sale, the REIT issued 2,035,000 trust units in exchange for subscription receipts previously issued and outstanding and the maturity date of the 2017 Debentures was extended to December 31, 2022. Melcor's interest in the REIT on closing the Melcor Acquisition is approximately 53.0%.

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:

	Total	Payments due by period			
		Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt on investment properties and golf course assets	447,887	58,876	161,606	97,043	130,362
Revolving credit facilities	76,529	76,529	—	—	—
Secured vendor take back debt on land inventory	64,891	22,678	32,798	559	8,856
Project specific financing	20,926	20,926	—	—	—
REIT debenture	55,500	—	32,500	23,000	—
Interest expense	52,597	13,903	19,192	11,062	8,440
Operating leases	930	156	356	372	46
Total contractual obligations	719,260	193,068	246,452	132,036	147,704

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:

	2017	2016
Cash flows from operating activities	7,406	68,997
Cash flows used in investing activities	(29,341)	(15,299)
Cash flows from financing activities	26,694	(61,363)

Cash from operations was \$61.59 million lower in 2017. During 2017 we purchased 771 acres of land inventory for \$42.58 million compared with 144 acres for \$9.75 million in 2016. Net cash from operating activities was also impacted by the increase in agreements receivable in our community development division. In response to market trends, terms on our agreements have increased in the past couple of years resulting in an increase in the balance at year end which was up \$13.71 million over 2016. We also incurred \$5.94 million in tenant incentives and direct leasing costs in 2017 to renew and secure new leases.

Cash used in investing activities was \$29.34 million, an increase of \$14.04 million over 2016. In 2016, we sold a residential property and residential units in the US for net proceeds of \$38.96 million. In the current year, the REIT disposed of an industrial property in Lethbridge, AB and Melcor disposed of a parking lot in Edmonton, AB for net proceeds of \$7.38 million. In the current year, we did not purchase any investment properties from third parties (2016 - \$38.72 million in purchases).

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 2017 we invested \$36.15 million in properties under development, property improvements and capitalized borrowing costs, compared with \$14.77 million in 2016.

Cash from financing activities increased by \$88.06 million over 2016 largely a result of a draw on our revolving credit facilities. In 2017, the revolving credit facilities made net draws of \$26.48 million compared to net repayments of \$54.02 million in 2016. General debt contributed to a net cash outflows of \$4.50 million through financings received and repayments made, compared to a net cash inflow of \$5.88 million in 2016. We also recognized \$21.54 million in cash inflows related to the issuance of the convertible debenture.

In 2017, we paid dividends of \$0.52 per share, for a total cash outflow of \$17.35 million. This compares to dividends of \$0.48 per share in 2016, for a cash outflow of \$15.97 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, 2017 there were 33,389,451 common shares issued and outstanding and 978,447 options, each convertible to one common share upon exercise or exchange. There is only one class of shares issued.

Please refer to note 18 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 21 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.

(\$000s)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	109,633	62,795	46,955	38,567	106,391	63,432	42,084	30,554
Net income	32,084	11,517	3,927	(9,003)	24,109	16,260	1,778	(7,714)
<i>Per Share</i>								
Basic earnings	0.96	0.34	0.12	(0.27)	0.73	0.49	0.05	(0.23)
Diluted earnings	0.96	0.34	0.12	(0.27)	0.73	0.49	0.05	(0.23)
Book value *	30.21	29.39	29.30	29.41	29.83	29.19	28.80	28.86

*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)	2017	2016
Revenue	109,633	106,391
Cost of sales	(61,753)	(63,333)
Gross profit	47,880	43,058
General and administrative expense	(7,229)	(6,083)
Fair value adjustment on investment properties	3,923	208
Adjustments related to REIT units	1,909	461
Loss on sale of assets	(18)	(1)
Operating earnings	46,465	37,643
Interest income	194	340
Foreign exchange loss	(26)	(412)
Finance costs	(5,938)	(3,375)
Net finance costs	(5,770)	(3,447)
Income before income taxes	40,695	34,196
Income tax expense	(8,611)	(10,087)
Net income for the period	32,084	24,109
Earnings per share attributable to Melcor's shareholders:		
Basic earnings per share	0.96	0.73
Diluted earnings per share	0.96	0.73

Highlights of the fourth quarter include:

- Our Property Development division completed and transferred 2 buildings (17,137 sf) to Investment Properties.
- Our Community Development division registered 11 plans in 7 communities, which added 796 lots to inventory with 864 lots sold in Q4-2017. This compares to 9 plan registrations in 6 communities adding 381 lots to inventory with 616 lots sold in Q4-2016.
- On December 4, 2017, we announced that we had entered into an agreement with the REIT to sell a portfolio of five commercial properties comprised of 172,629 sf GLA at ownership percentage for \$80.88 million. The sale closed on January 12, 2018. Through the REIT, we are able to monetize the value we create as we move land from raw inventory to completed commercial project. As majority owner of the REIT, we receive monthly distributions from the REIT. Growing the asset management side of our business helps to stabilize our overall revenue throughout the year.

Segmented information for the fourth quarter is as follows:

Three months ended December 31, 2017	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	85,776	5,765	8,910	16,263	693	—	117,407	(7,774)	109,633
Cost of sales	(51,118)	(5,600)	(3,456)	(6,733)	(980)	(119)	(68,006)	6,253	(61,753)
Gross profit	34,658	165	5,454	9,530	(287)	(119)	49,401	(1,521)	47,880
General and administrative expense	(2,381)	(577)	(1,244)	(780)	(317)	(2,649)	(7,948)	719	(7,229)
Fair value adjustment on investment properties	—	795	(1,503)	3,829	—	—	3,121	802	3,923
Loss on sale of assets	—	—	—	—	—	(18)	(18)	—	(18)
Interest income	87	2	27	22	—	56	194	—	194
Segment Earnings	32,364	385	2,734	12,601	(604)	(2,730)	44,750	—	44,750
Foreign exchange loss									(26)
Finance costs									(5,938)
Adjustments related to REIT units									1,909
Income before income taxes									40,695
Income tax expense									(8,611)
Net income for the period									32,084

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
Loss 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

Outlook

Melcor owns a high quality portfolio of assets, including raw land, developed land inventory (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 throughout the past few years, primarily related to lower oil prices. We continue to execute on our strategic plan and achieved solid results in 2017. We are intentionally diversifying across asset class and geography, and continue to invest in the US with both raw land acquisitions and the launch of an 1,100-acre community with expansion capacity. This diversification will serve to ease reliance on the Alberta economy.

Market demand varies by asset class and region and we expect this to continue in 2018. On the residential side, we expect starter homes and lower priced options including duplexes, townhomes and new product types such as zero lot lines to continue to lead the market. On the commercial side, retail activity remains steady and we expect that trend to continue. Our US assets continue to deliver positive returns 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 94 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 capacity on our operating facility, we remain positioned for the future.

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 7, 2018, Melcor holds a 53.0% (December 31, 2016 and 2017 - 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 47.0% interest (December 31, 2017 and 2016 - 43.3%) 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 29 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 re-balance 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 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. We also focus on growing revenue related to food and beverage and event rentals.

Other Financial Information

Normal Course Issuer Bid

On March 29, 2017 we announced a Normal Course Issuer bid commencing March 31, 2017 and ending March 30, 2018. Under the bid, we could acquire up to 1,667,704 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 2,158 common shares.

During 2017, we did not buy back any shares (2016 - 12,231 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 31 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 25 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.

<i>Joint arrangement activity at 100% (\$000s)</i>	2017	2016
Revenue	169,505	139,282
Earnings	42,679	39,771
Assets	1,008,635	859,830
Liabilities	403,964	310,568

<i>Joint arrangement activity at Melcor's ownership % (\$000s) *</i>	2017	2016
Revenue	82,046	62,224
Earnings	22,280	18,881
Assets	444,378	401,410
Liabilities	169,740	140,399

* Ownership in joint arrangements varies from 7% - 80%.

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, 2017. 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, 2017.

There has been no change to Melcor's disclosure controls and procedures or internal control over financial reporting during the year ended December 31, 2017, 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

(\$000s)	Year Ended	
	2017	2016
Segment earnings	15,084	30,615
Fair value adjustment on investment properties	2,668	(11,449)
General and administrative expenses	3,197	2,620
Interest income	(33)	(6)
Amortization of operating lease incentives	798	593
Straight-line rent adjustments	(663)	(1,439)
Divisional NOI	21,051	20,934

REIT

(\$000s)	Year Ended	
	2017	2016
Segment earnings	24,657	31,108
Fair value adjustment on investment properties	12,800	6,546
General and administrative expenses	2,718	2,653
Interest income	(62)	(35)
Amortization of operating lease incentives	3,062	3,216
Straight-line rent adjustments	(1,074)	(1,159)
Divisional NOI	42,101	42,329

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)	Year Ended	
	2017	2016
Net income for the year	38,525	34,433
Amortization of operating lease incentives	6,304	6,344
Fair value adjustment on investment properties	8,828	(15,795)
Depreciation on property and equipment	1,436	1,571
Stock based compensation expense	408	302
Non-cash financing costs	414	1,179
Gain on sale of asset	(17)	(37)
Deferred income taxes	2,565	628
Fair value adjustment on REIT units	558	13,939
FFO *	59,021	42,564

Investment Properties

(\$000s)	Year Ended	
	2017	2016
Divisional income for the year	15,084	30,615
Fair value adjustment on investment properties	2,668	(11,449)
Amortization of operating lease incentives	798	593
Divisional FFO	18,550	19,759

REIT

(\$000s)	Year Ended	
	2017	2016
Divisional income for the year	24,657	31,108
Fair value adjustment on investment properties	12,800	6,546
Amortization of operating lease incentives	3,062	3,216
Divisional FFO	40,519	40,870

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.



Darin Rayburn
Chief Executive Officer



Naomi Stefura, CA
Chief Financial Officer

Edmonton, Alberta
March 7, 2018



March 7, 2018

Independent Auditor's Report

To the Shareholders of Melcor Developments Ltd.

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, 2017 and 2016 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.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers LLP
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T: +1 780 441 6700, F: +1 780 441 6776*



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, 2017 and 2016 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

MELCOR DEVELOPMENTS LTD.

Consolidated Financial Statements

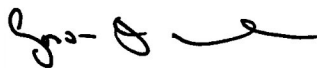
December 31, 2017

Consolidated Statement of Income

For the years ended December 31 (\$000s)	2017	2016
Revenue (note 23)	257,950	242,461
Cost of sales (note 23)	(141,582)	(134,047)
Gross profit	116,368	108,414
General and administrative expense (note 23)	(24,913)	(20,757)
Fair value adjustment on investment properties (note 11, 23 and 30)	(8,828)	15,795
Adjustments related to REIT units (note 27)	(8,085)	(21,466)
Gain (loss) on sale of assets	17	37
Operating earnings	74,559	82,023
Interest income	1,129	1,178
Foreign exchange loss	(591)	(412)
Finance costs (note 22)	(21,412)	(25,814)
Net finance costs	(20,874)	(25,048)
Income before income taxes	53,685	56,975
Income tax expense (note 24)	(15,160)	(22,542)
Net income for the year	38,525	34,433
Earnings per share attributable to Melcor's shareholders (note 19):		
Basic earnings per share	1.15	1.04
Diluted earnings per share	1.15	1.04

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
Chairman

Consolidated Statement of Comprehensive Income

For the years ended December 31 (\$000s)	2017	2016
Net income for the year	38,525	34,433
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences (note 20)	(8,242)	(3,515)
Comprehensive income	30,283	30,918

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Financial Position

(\$000s)	2017	2016
ASSETS		
Cash and cash equivalents	42,505	39,892
Restricted cash (note 3d and 16)	16,956	—
Accounts receivable	17,384	16,918
Income taxes recoverable	8,933	1,909
Agreements receivable (note 9)	129,949	116,244
Land inventory (note 10)	729,300	680,260
Investment properties (note 11 and 30)	975,856	970,693
Property and equipment (note 12)	14,658	15,507
Other assets (note 13)	48,710	50,565
Assets held for sale (note 8 and 30)	6,732	—
	1,990,983	1,891,988
LIABILITIES		
Accounts payable and accrued liabilities (note 14)	51,979	35,274
Provision for land development costs (note 15)	87,139	91,584
General debt (note 17)	658,258	608,611
Deferred income tax liabilities (note 24)	69,826	67,458
REIT units (note 27 and 30)	94,898	94,340
Subscription receipts (note 16)	16,623	—
Liabilities held for sale (note 8 and 30)	3,670	—
	982,393	897,267
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 18a)	72,729	72,137
Contributed surplus	2,939	2,594
Accumulated other comprehensive income (AOCI) (note 20)	16,948	25,190
Retained earnings	915,974	894,800
	1,008,590	994,721
	1,990,983	1,891,988

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Equity

(\$000s)	Equity attributable to Melcor's shareholders				Total equity
	Share capital	Contributed surplus	AOCI	Retained earnings	
Balance at January 1, 2017	72,137	2,594	25,190	894,800	994,721
Net income for the year	—	—	—	38,525	38,525
Cumulative translation adjustment (note 20)	—	—	(8,242)	—	(8,242)
Transactions with equity holders					
Dividends	—	—	—	(17,351)	(17,351)
Employee share options					
Value of services recognized	—	408	—	—	408
Share issuance	592	(63)	—	—	529
Balance at December 31, 2017	72,729	2,939	16,948	915,974	1,008,590

(\$000s)	Equity attributable to Melcor's shareholders				Total equity
	Share capital	Contributed surplus	AOCI	Retained earnings	
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 20)	—	—	(3,515)	—	(3,515)
Transactions with equity holders					
Dividends	—	—	—	(15,967)	(15,967)
Share repurchase (note 18a)	(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

See accompanying notes to the consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the years ended December 31 (\$000s)	2017	2016
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	38,525	34,433
Non cash items:		
Amortization of tenant incentives (note 13)	6,304	6,344
Depreciation of property and equipment (note 12 and 23)	1,436	1,571
Stock based compensation expense (note 18f and 23)	408	302
Non cash financing costs	414	1,179
Straight-line rent adjustment	(1,446)	(2,302)
Fair value adjustment on investment properties (note 11, 23 and 30)	8,828	(15,795)
Fair value adjustment on REIT units (note 27 and 30)	558	13,939
Gain on sale of assets	(17)	(37)
Deferred income taxes (note 24)	2,565	628
Cash provided by operating activities before changes in non-cash working capital	57,575	40,262
Agreements receivable	(13,705)	33,729
Development activities (note 3u)	1,149	15,010
Payment of tenant incentives and direct leasing costs	(5,944)	(6,362)
Change in restricted cash (note 3d)	—	1,041
Purchase of land inventory (note 10)	(42,579)	(9,754)
Operating assets and liabilities (note 3u)	10,910	(4,929)
	7,406	68,997
INVESTING ACTIVITIES		
Purchase of investment properties (note 11)	—	(38,720)
Additions to investment properties (note 11)	(36,150)	(14,768)
Net proceeds from disposal of investment properties (note 11)	7,379	38,961
Purchase of property and equipment (note 12)	(625)	(829)
Proceeds from disposal of assets	55	57
	(29,341)	(15,299)
FINANCING ACTIVITIES		
Proceeds from issuing convertible debenture, net of costs (note 17f)	21,543	—
Revolving credit facilities	26,477	(54,019)
Proceeds from general debt	56,774	86,467
Repayment of general debt	(61,278)	(80,589)
Change in restricted cash (note 3d)	—	1,247
Dividends paid	(17,351)	(15,967)
Common shares repurchased (note 18a)	—	(153)
Share capital issued	529	1,651
	26,694	(61,363)
FOREIGN EXCHANGE LOSS ON CASH HELD IN A FOREIGN CURRENCY	(2,146)	(1,117)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	2,613	(8,782)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	39,892	48,674
CASH AND CASH EQUIVALENTS, END OF THE YEAR	42,505	39,892

See accompanying notes to the consolidated financial statements.

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, 2017 Melton Holdings Ltd. holds approximately 47.0% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at March 7, 2018, Melcor, through an affiliate, holds an approximate 53.0% 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 7, 2018.

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 as at December 31, 2017). 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 27 for details related to our interest in the REIT.

- III. Investments in 30 joint arrangements (2016 – 28) 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 25 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. As at December 31, 2017 our restricted cash represents amounts held in escrow pending the closing of the Melcor Acquisition (note 16 and note 31). In 2016 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 valuers 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 10 – 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, 2017.

- 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.

Additional disclosures (note 17) have been added to comply with this amended standard.

- 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.

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

Other standards, amendments and interpretations that were effective for the year beginning January 1, 2017 are not material to Melcor.

b. New standards not yet adopted

- i. **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.

- ii. **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. We have completed our initial assessment of the impact of adopting this standard on our consolidated financial statements and note that there will be no material changes expected.

The standard may be applied either retrospectively to each prior reporting period, using the practical expedients available, or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. We are currently evaluating which transition method to use.

- iii. **IFRS 9, Financial Instruments** was issued in its finalized version in July 2014 to replace IAS 39, and mainly affects the classification and measurement of financial assets and financial liabilities; the recognition of expected credit losses; and hedge accounting. 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, and is applicable retrospectively subject to certain exemptions and exceptions. We are currently assessing the impact that this standard will have on our consolidated financial statements.

- iv. **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:

(i) All leases will be on the balance sheet of lessees, except those that meet the limited exception criteria;

(ii) Rent expense for leases on the balance sheet will be recorded as depreciation and finance expenses;

(iii) 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 in the process of evaluating this standard will have on our 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 29(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 30 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, 2017 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 17c), 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 exemption under ITA

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.

7. INTEREST IN MELCOR REIT

As at December 31, 2017 we hold a 56.7% (2016 - 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 27 for summary financial information of the REIT at December 31, 2017. As of March 7, 2018 we hold a 53.0% ownership interest in the REIT (note 31).

8. ASSETS HELD FOR SALE

As at December 31, 2017, we classified a retail property as asset held for sale with a fair value of \$6,732 (including investment property of \$6,642, tenant incentives of \$66 and straight line rent of \$24) and associated mortgage payable of \$3,670. As at December 31, 2017 management has committed to a plan of sale of the property, with a contract in place. Subsequent to year-end, the property was sold to a third party for a purchase price of \$6,732 (net of transaction costs) (note 31).

9. AGREEMENTS RECEIVABLE

Agreements receivable are due in 2018, except for \$46,929 due in 2019 and \$1,449 due in 2020 (2016 - balance due 2017, except \$28,526 due in 2018, \$9,294 due in 2019 and \$1,482 due in 2020). 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 (5.20% at December 31, 2017) 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, 2017, there was no provision recorded for impairment (2016 - \$810). This 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 29a for further discussion surrounding credit risk.

As at December 31, 2017, we have an agreements receivable balance of \$5,028 due from one of our registered builders that is currently in receivership, of which \$1,161 is overdue as of December 31, 2017. We hold title to the lots sold to this builder as specific security against this balance. We have performed an assessment of the collectibility of the underlying security for these agreements, and have concluded that no impairment is required as at December 31, 2017.

10. LAND INVENTORY

<i>As at December 31</i>	2017	2016
Raw land held	383,843	333,854
Land under development	137,872	142,350
Developed land	207,585	204,056
	729,300	680,260

A breakdown of our land purchases are as follows:

	2017	2016
Land purchases - acres	771 acres	144 acres
Land purchases - lot/inventory	294 lots	15 acres
Land cost	59,775	14,098
Vendor financing	17,196	2,134
Settlement of receivable	—	2,210
Net cash to close	42,579	9,754

Land purchased in the year includes 771 acres of raw land and 294 lots (2016 - 144 acres of raw land and 15 acres of lot inventory).

During the year, certain land inventories were reclassified to investment properties, and fair value gains of \$342 (2016 - \$1,789) were recognized in the consolidated financial statements. For the purposes of segment reporting, this is disclosed as revenue of \$1,868 (2016 - \$13,929) and cost of sales of \$1,526 (2016 - \$12,140) for the Community Development division.

The weighted average interest rate used for capitalization of borrowing costs to land under development is 3.97% for the year ended December 31, 2017 (2016 – 4.03%). Borrowing costs capitalized to land inventory during the year were \$3,603 (2016 - \$3,878).

Land inventory expensed to cost of sales during the year was \$97,588 (2016 - \$89,980).

The net realizable value exceeds the carrying cost of all land inventories at December 31, 2017 and 2016, such that no provision for impairment is required.

11. INVESTMENT PROPERTIES

Investment properties consists of the following:

<i>As at December 31</i>	2017	2016
Investment properties	907,310	929,299
Properties under development	68,546	41,394
Total	975,856	970,693

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

	2017		
	Investment properties	Properties under development	Total
Balance - beginning of year	929,299	41,394	970,693
Additions			
Transfer from land inventory	—	1,526	1,526
Direct leasing costs	1,117	287	1,404
Property improvements	4,088	—	4,088
Property development	73	31,781	31,854
Capitalized borrowing costs	—	208	208
Disposals	(10,919)	—	(10,919)
Transfers	10,302	(10,302)	—
Net fair value adjustment on investment properties	(12,480)	3,652	(8,828)
Investment Property classified as held for sale (note 8)	(6,642)	—	(6,642)
Foreign currency translation (included in OCI)	(7,528)	—	(7,528)
Balance - end of year	907,310	68,546	975,856
			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

Acquisitions:

During the year, we did not make any direct acquisitions.

Disposals:

On April 27, 2017, we disposed of an industrial property in Lethbridge, Alberta for a sale price of \$7,760 (net of transaction costs). The sale price was settled through mortgage assumption of \$2,640, issuance of vendor-take-back mortgage of \$900, and cash of \$4,220. The vendor take-back (VTB) mortgage bears interest at an annual rate of 6.00%, with interest only payments payable monthly over a 36 month term. The VTB can be prepaid in whole or in part without penalty.

During the year we also disposed of a parking lot in Edmonton, Alberta for cash consideration of \$2,986 (net of transaction costs), as well as a residential unit in the US for \$173 (US\$133) cash consideration (net of transaction costs).

Acquisitions and disposals in the comparative year:

During 2016 we completed the following acquisitions in our US portfolio:

- 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).
- On October 24, 2016 - acquired a multi-family residential property, Northridge Apartments, in St. Albert, Alberta \$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

In 2016 we completed the following dispositions from our portfolio:

- 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).
- 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).

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 30.

Properties transferred from property under development to commercial properties during the year totaled \$10,302 (2016 - \$44,967). Properties transferred is net of tenant incentives of \$398 (2016 - \$683).

Presented separately from investment properties is \$34,716 (2016 - \$36,546) in tenant incentives and \$9,648 (2016 -\$8,226) in straight-line rent adjustments (included in note 13). 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 3.77% for the year ended December 31, 2017 (2016 – 3.91%).

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:

	2017	2016
Within one year	55,788	57,127
Later than one year but not later than 5 years	172,736	171,053
Later than 5 years	109,200	125,713
Total	337,724	353,893

12. PROPERTY AND EQUIPMENT

	Golf course assets				Corporate	Total
	Land	Buildings	Equipment	Greens and tees		
January 1, 2017						
Cost	1,293	8,053	8,580	6,498	6,675	31,099
Accumulated depreciation	—	(2,636)	(6,169)	(2,948)	(3,839)	(15,592)
Opening net book value	1,293	5,417	2,411	3,550	2,836	15,507
Additions	—	63	448	19	95	625
Disposals	—	—	(20)	—	(18)	(38)
Depreciation	—	(214)	(564)	(219)	(439)	(1,436)
Net Book Value - December 31, 2017	1,293	5,266	2,275	3,350	2,474	14,658

	Golf course assets				Corporate	Total
	Land	Buildings	Equipment	Greens and tees		
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

13. OTHER ASSETS

	2017	2016
Tenant incentives	34,716	36,546
Deposits and prepaids	3,837	5,266
Straight-line rent adjustments	9,648	8,226
Inventory	509	527
	48,710	50,565

During the year we provided tenant incentives of \$4,540 (2016 - \$5,067) and recorded \$6,304 (2016 - \$6,344) 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. During the year we also reclassified \$66 in tenant incentives and \$24 in straight line rent adjustments to assets held for sale (note 8).

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
Trade accounts payable	21,674	16,402
Distribution payable	630	627
Other payables	28,151	16,770
Provision for decommissioning obligation	1,524	1,475
	51,979	35,274

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, 2017, distribution payable pertains to the December 2017 monthly distribution which was subsequently paid on January 15, 2018 (2016 - December 2016 monthly distribution paid on January 16, 2017).

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, 2016 - \$2,014). At December 31, 2017, a discount rate of 4.00% (December 31, 2016 - 4.00%) and an inflation rate of 2.00% (December 31, 2016 - 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.

15. PROVISION FOR LAND DEVELOPMENT

	2017	2016
Balance - beginning of year	91,584	93,839
New development projects	86,160	98,737
Changes to estimates	(4,037)	(3,123)
Costs incurred	(86,568)	(97,869)
Balance - end of year	87,139	91,584

16. SUBSCRIPTION RECEIPTS

On December 21, 2017 the REIT issued 2,035,500 subscription receipts to the public at a price of \$8.50 per subscription receipt for gross proceeds of \$17,302, including \$2,257 issued pursuant to the exercise of an over-allotment option. Subscription receipts entitle the holder to receive one trust unit of the REIT upon closing of the Melcor Acquisition from Melcor Developments Ltd. ("Melcor Acquisition") (note 31). While the subscription receipts remain outstanding, holders are entitled to receive cash payments per subscription receipt that are equivalent to distributions declared by the REIT on trust unit. The gross proceeds, less 50% of the underwriter's fees, representing \$16,956 are held in escrow pending the closing of the Melcor Acquisition and have been recorded as restricted cash. The remaining 50% of the underwriter's fee, representing \$346, is payable upon closing of the Melcor Acquisition and has been disclosed as a contingent liability (note 21).

A reconciliation of the subscription receipts are as follows:

(\$000s)	Amount
Gross Proceeds	17,302
Accrued interest payable for distribution declared	114
Transaction costs	(793)
	16,623

17. GENERAL DEBT

General debt consists of the following:

		2017	2016
Melcor - revolving credit facilities	a	76,529	32,728
REIT - revolving credit facility	b	—	17,324
Project specific financing	c	20,926	5,213
Secured vendor take back debt on land inventory	d	64,891	65,408
Debt on investment properties and golf course assets	e	444,807	455,189
REIT - convertible debentures	f	54,775	32,749
Total General debt		661,928	608,611
Less: Liabilities held for sale (note 8)		(3,670)	—
General debt		658,258	608,611

a. Melcor - revolving credit facilities

We have available credit facilities with approved loan limits of \$205,603 (2016 - \$205,649) with a syndicate of major chartered banks. The portion of these loan limits that pertain solely to Melcor is \$120,000 (2016 - \$120,000) with the remaining balance pertaining to specific joint arrangements.

The amount of the total credit facilities currently used is \$76,529 (2016 - \$32,728). 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 \$364,181 (2016 - \$338,678).

The facilities mature on July 31, 2019, 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 3.95% to 5.45% at December 31, 2017 (2016 - 3.45% 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 4.52% (December 31, 2016 - 4.04%).

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. 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, 2017, the carrying value of pledged properties was \$56,258 (December 31, 2016 - \$55,647). We initially capitalized \$341 in transaction costs associated with the facility, of which \$28 was unamortized at December 31, 2017 and is included in other assets (December 31, 2016 - \$114).

As at December 31, 2017 we had \$nil (December 31, 2016 - \$17,480) drawn from the facility; and posted letters of credit of \$nil (December 31, 2016 - \$nil). The weighted average effective interest rate on borrowings during 2016 was 3.48%.

c. Project specific financing

	2017	2016
Project specific debt on land, with interest rates between 4.58% and 5.70% (2016 - 3.20% to 4.08%)	8,709	5,213
Project specific debt on investment properties under development, with interest rates between 3.50% and 3.70% (2016 - nil%)	12,217	—
	20,926	5,213

Land inventory and agreements receivable with a December 31, 2017 carrying value of \$22,173 (2016 - \$18,255) 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 4.94% (2016 - 3.63%). Specific investment properties under development with a December 31, 2017 carrying value of \$40,715 (2016 - \$nil), have been pledged as collateral on project specific debt on investment properties under development.

The change in project specific financing during the year is summarized as follows:

Balance at December 31, 2016	5,213
Loan repayments	(3,554)
New project financing	19,267
Balance at December 31, 2017	20,926

d. Secured vendor take back debt on land inventory

	2017	2016
Agreements payable with interest at the following contractual rates:		
Fixed rates of 3.00% - 6.00% (2016 - 3.00% to 6.00%)	64,891	65,408
	64,891	65,408

As at December 31, 2017 \$10,622 (2016 - \$13,495) of debt was payable in US dollars (2017 - US\$8,467 and 2016 - US\$10,051). The debts mature from 2018 to 2021.

Land inventory with a December 31, 2017 carrying value of \$131,440 (2016 - \$126,973), 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 5.04% (2016 - 4.56%).

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

2018	22,678
2019	22,347
2020	10,451
2021	9,415
2022	—
	64,891

The change in secured vendor take back debt on land inventory during the year is as follows:

Balance at December 31, 2016	65,408
Principal repayments	
Schedule amortization on debt	(17,310)
New secured vendor take back loans	17,195
Amortization of non cash interest	(402)
Balance at December 31, 2017	64,891

e. Debt on investment properties and golf course assets

Debt on investment properties and golf course assets	2017	2016
Variable rate mortgages amortized over 10 to 30 years at variable interest rates	57,602	60,693
Mortgages amortized over 15 to 25 years at fixed interest rates	390,285	396,784
	447,887	457,477
Fair value adjustment for interest rate swaps	(1,057)	88
Unamortized deferred financing fees	(2,023)	(2,376)
	444,807	455,189
Interest rate ranges	(2.48% -6.16%)	(2.48% -6.16%)

As at December 31, 2017 \$52,362 (2016 - \$56,733) of debt was payable in US dollars (2017 - US \$41,739 and 2016 - US \$42,253). The debts mature from 2018 to 2028.

Specific investment properties and golf courses with a carrying value of \$708,720 (2016 - \$870,857) 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 3.42% (2016 – 3.54%).

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

2018	58,876
2019	96,066
2020	65,540
2021	64,651
2022	32,392
Thereafter	130,362
	447,887

The change in debt on investment properties and golf course assets during the year is as follows:

Balance as December 31, 2016	455,189
Principal repayments:	
Scheduled amortization on mortgages	(37,706)
Mortgage repayments	(6,751)
Mortgage payable disposed through sale during the year	(2,640)
New mortgages	37,507
Deferred financing fees capitalised	(195)
Amortization of deferred financing fees	548
Change in derivative fair value swap	(1,145)
Balance at December 31, 2017	444,807

f. REIT - convertible debentures

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.

On December 21, 2017, the REIT issued a 5.25% extendible convertible unsecured subordinated debentures (the "2017 Debentures") to the public for gross proceeds of \$23,000, including \$3,000 issued pursuant to the exercise of an over-allotment option. Transaction costs related to the issuance were \$1,457 for net proceeds of \$21,543. The 2017 Debentures bear interest at an annual rate of 5.25% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2018. Upon completion of the Melcor Acquisition (note 31), the maturity date of the 2017 Debentures were extended to December 31, 2022. The 2017 Debentures can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 86.9565 trust units per one thousand principal amount of convertible debentures (the "Conversion Price"). On and from December 31, 2020, and prior to December 31, 2021, the 2017 Debentures 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, 2021, and prior to the maturity date, the 2017 Debentures 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 convertible 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 2017 Debentures being repaid by 95% of the Current Market Price on the date of redemption or maturity.

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

A reconciliation of the convertible debentures is as follows:

(\$000s)	Host Instruments	Conversion Features	Total
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
Convertible debenture issued	22,205	795	23,000
Transaction costs	(1,457)	—	(1,457)
Amortization of discount and transaction costs	549	—	549
Fair value adjustment on conversion feature	—	(127)	(127)
Balance at December 31, 2017	54,046	729	54,775

During the year ended December 31, 2017, we recognized \$1,931 of interest expense which is included in finance costs (note 22) (2016 - \$1,898).

At December 31, 2017 we remeasured the conversion features to fair value resulting in a fair value gain of \$127 for the year (2016 - fair value loss of \$56). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 30.

18. SHARE CAPITAL

a. Common Shares

	2017	
(# of shares)	Number of Shares Issued	Amount (\$000s)
Common shares, beginning of the year	33,350,898	72,137
Share options exercised	38,553	592
Shares purchased for cancellation	—	—
Common shares, end of the year	33,389,451	72,729

	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

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 (NCIB) 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, 2017 we announced a new NCIB commencing March 31, 2017 and ending March 30, 2018. Under the bid, we may acquire up to 1,667,704 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 2,158 common shares.

During the year, there were no common shares purchased for cancellation by Melcor pursuant to the NCIB (2016 - 12,231 common shares purchased for cancellation at a cost of \$153). In 2016 share capital was reduced by \$26 and retained earnings decreased by \$127. As at December 31, 2017, 1,649,579 additional common shares may be repurchase by Melcor under the current NCIB (2016 - 1,649,579) .

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 May 2001. Melcor has 90,400 shares reserved for issuance under the 2000 Plan (2016 – 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 1,616,013 shares reserved for issuance under the 2007 Plan (2016 – 1,654,566).

c. Stock Options Available for Granting

2000 Plan	2017	2016
Stock options available, beginning and end of the year	90,400	90,400
2007 Plan	2017	2016
Stock options available, beginning of the year	854,666	875,099
Stock options granted	(276,300)	(265,500)
Stock options expired / canceled	59,200	245,067
Stock options available, end of the year	637,566	854,666

d. Stock Options Outstanding Under the 2000 & 2007 Plans

	2017	
	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of the year	799,900	16.44
Stock options granted to employees	276,300	14.94
Stock options exercised	(38,553)	13.73
Stock options expired / canceled	(59,200)	18.43
Stock options outstanding, end of the year	978,447	16.00
	2016	
	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of the year	908,884	16.86
Stock options granted to employees	265,500	13.21
Stock options exercised	(129,417)	12.76
Stock options expired / canceled	(245,067)	16.40
Stock options outstanding, end of the year	799,900	16.46

The weighted average share price at the date of exercise was \$14.99 (2016 - \$13.78).

e. Stock Options Outstanding and Exercisable Under the 2000 & 2007 Plans

	2017		
Stock option expiry date	Outstanding Stock Options (#)	Exercise Price Per Share (\$)	Stock Options Exercisable
December 12, 2018	133,300	19.26	133,300
December 19, 2019	160,800	21.35	160,800
December 21, 2020	167,147	14.05	107,147
December 13, 2021	240,900	13.21	73,300
December 12, 2022	276,300	14.94	—
	978,447		474,547

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.

	2017	2016
Expected volatility	25%	23%
Risk-free interest rate	1.61%	0.95%
Annual dividend rate	3.49%	3.30%
Expected life of options in years	3.86	3.86

The weighted average grant date fair value of stock options granted during the year was \$2.21 (2016 - \$1.63) per stock option. Current year vesting of options resulted in a \$408 (2016 - \$302) charge to stock-based compensation expense and corresponding credit to contributed surplus.

19. PER SHARE AMOUNTS

(# of shares)	2017	2016
Basic weighted average common shares outstanding during the year	33,361,144	33,248,925
Dilutive effect of options	19,884	3,615
Diluted weighted average common shares	33,381,028	33,252,540

For the year ended December 31, 2017, there were 570,400 stock options excluded from the calculation of diluted earnings per share (2016 - 795,700) as their impact would be anti-dilutive.

Diluted earnings per share was calculated based on the following:

	2017	2016
Profit attributable to shareholders	38,525	34,433
Profit for computation of diluted earnings per share	38,525	34,433

20. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2017	2016
Balance, beginning of the year	25,190	28,705
Other comprehensive loss	(8,242)	(3,515)
Balance, end of the year	16,948	25,190

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

21. 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, 2017 we had \$40,256 (December 31, 2016 - \$39,425) in letters of credit outstanding and recorded a net liability of \$87,139 (December 31, 2016 - \$91,584) 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, 2017 we had guaranteed \$10,051 (December 31, 2016 - \$12,458) in credit facilities in excess of the amount recognized as a liability. We also guaranteed \$12,534 (December 31, 2016 - \$12,477) 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 \$440 (2016 - \$1,111) may be required from lease agreements entered during the year.

In connection with the issuance of subscription receipts (note 16), the REIT has entered into an underwriter's agreement that will require the remaining 50% of the underwriter's fee, representing \$346, to be paid upon closing of the Melcor Acquisition (note 31).

22. FINANCE COSTS

	2017	2016
Interest on Melcor - revolving credit facilities	2,549	3,222
Interest on REIT - revolving credit facility	776	749
Interest on REIT convertible debenture	1,931	1,898
Interest on general debt	19,373	19,919
Financing costs and bank charges	1,284	1,247
(Gain) Loss on debt settlement	(690)	2,760
	25,223	29,795
Less: capitalized interest	(3,811)	(3,981)
	21,412	25,814

Cumulative interest capitalized on land inventory at the end of the year is \$41,279 (2016 - \$39,792). Finance costs paid during the year was \$24,956 (2016 - \$28,611).

23. REVENUE AND EXPENSE BY NATURE

a. Revenue:

The components of revenue are as follows:

	2017	2016
Sale of land	153,234	138,074
Rental income	92,649	92,847
Management fees	4,283	3,282
Golf course revenue	7,784	8,258
Total revenue	257,950	242,461

b. Cost of sales:

The components of cost of sales are as follows:

	2017	2016
Cost of land sold	97,588	89,980
Investment property direct operating expenses	38,044	37,375
Direct golf course expenses	4,514	5,121
Depreciation expense	1,436	1,571
Total cost of sales	141,582	134,047

c. General and administrative expenses:

The components of general and administrative expenses are as follows:

	2017	2016
Employee salary and benefits		
Salaries, wages and retirement allowance	12,964	10,215
Employee benefits	813	802
Stock based compensation	408	302
Marketing	1,806	2,121
Other	8,922	7,317
Total	24,913	20,757

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:

	2017	2016
Salaries, wages and retirement allowance	4,690	2,774
Employee benefits	47	42
Stock based compensation	238	142
Total	4,975	2,958

d. Fair value adjustment on investment properties

The components of the fair value adjustment are as follows:

	2017	2016
Land transferred to investment properties	342	1,789
Property under development	3,310	6,130
Commercial and residential properties	(12,480)	7,876
Total	(8,828)	15,795

24. INCOME TAX

Components of tax expense:

	2017	2016
Current tax expense		
Current year	11,559	21,480
Adjustment to prior years	1,036	434
	12,595	21,914
Deferred tax expense		
Origination and reversal of temporary differences	3,613	628
Change in tax rates	(1,048)	—
	2,565	628
Total tax expense	15,160	22,542

Reconciliation of effective tax rate:

	2017	2016
Income before taxes	53,685	56,975
Statutory rate	27%	27%
	14,495	15,383
Non-taxable portion of capital gains and fair value adjustment	932	2,105
Non-taxable portion of REIT income	(1,324)	(1,982)
Impact of higher tax rates in US subsidiary	(343)	1,846
Non-deductible expenses	2,297	1,427
Non-taxable fair value adjustments on REIT units	151	3,763
Change in tax rates	(1,048)	—
Total tax expense	15,160	22,542

Movement in deferred tax balances during the year:

	December 31, 2017			
	Opening	Recognized in profit or loss	Recognized in OCI	Closing
Investment property and capital assets	59,430	1,343	(197)	60,576
Reserves for tax purposes	11,356	1,315	—	12,671
Interest deducted for tax purposes	(3,215)	(142)	—	(3,357)
Provision for decommissioning obligation	(223)	(10)	—	(233)
Convertible debenture	110	59	—	169
Tax loss carry-forwards	—	—	—	—
Deferred tax liability	67,458	2,565	(197)	69,826

	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

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 \$21,672 (2016 - \$22,567).

25. JOINT ARRANGEMENTS

The table below discloses our proportionate share of the assets, liabilities, revenue, and earnings of 30 arrangements (2016 – 28) 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
Capilano Investments	50%	Investment property	Canada
Chestermere Communities	50%	Active land development with investment property	Canada
Country Hills Communities	50%	Active land development	Canada
Highview Communities	60%	Active land development	Canada
HV Nine Joint Venture	7%	Active land development	Canada
Jagare Ridge Communities	50%	Active land development and recreational property	Canada
Jesperdale Communities	50%	Active land development	Canada
Kimcor 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
Mattson North	50%	Active land development	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
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, 2017.

	2017	2016
Assets	444,378	401,410
Liabilities	169,740	140,399
Revenue	82,046	62,224
Net Earnings	22,280	18,881

Contingent liabilities arising for liabilities of other joint arrangement participants are disclosed in note 21.

26. 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 11).

Investment Property

This division owns 25 leasable commercial, retail and residential properties (2016 – 21 properties) and other rental income producing assets such as parking lots and land leases.

REIT

This division owns 37 leasable commercial and retail properties (2016 – 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)	2017	2016
United States	24,297	25,362
Canada	233,653	217,099
Total	257,950	242,461

Total Assets:		
As at December 31 (in Canadian dollars)	2017	2016
United States	203,687	203,415
Canada	1,787,296	1,688,573
Total	1,990,983	1,891,988

2016	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 23)	154,201	45,729	35,774	66,042	9,176	—	310,922	(68,461)	242,461
Cost of sales (note 23)	(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 23)	(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 11, 23 and 30)	—	6,130	11,449	(6,546)	—	—	11,033	4,762	15,795
Gain (loss) on sale of assets	—	—	—	—	37	—	37	—	37
Interest income	1,119	4	6	35	—	14	1,178	—	1,178
<i>Segment Earnings</i>	<i>44,275</i>	<i>4,355</i>	<i>30,615</i>	<i>31,108</i>	<i>758</i>	<i>(6,444)</i>	<i>104,667</i>	<i>—</i>	<i>104,667</i>
Foreign exchange gains									(412)
Finance costs (note 22)									(25,814)
Adjustments related to REIT units (note 27)									(21,466)
Income before income taxes									56,975
Income tax expense (note 24)									(22,542)
Net income for the year									34,433

27. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, as detailed in notes 3(r) and 30, 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, 2017 the REIT units had a fair value of \$94,898 (2016 - \$94,340). We recorded adjustments related to REIT units for the year of \$8,085 (2016 - \$21,466).

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

	2017	2016
Fair value adjustment on REIT units	(558)	(13,939)
Distributions to REIT unitholders	(7,527)	(7,527)
Adjustments related to REIT units	(8,085)	(21,466)

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%).

	2017	2016
Assets	676,237	663,721
Liabilities	378,405	359,828
Net assets	297,832	303,896
Cost of NCI	103,959	103,959
Fair value of NCI	94,898	94,340

	2017	2016
Revenue	66,613	66,042
Net income (loss) and comprehensive income (loss)	732	(11,176)
Cash flows from operating activities	13,605	12,312
Cash flows from (used in) investing activities	1,905	(2,828)
Cash flows from (used in) financing activities, before distributions to REIT unitholders	2,576	(327)
Cash flows used in financing activities - cash distributions to REIT unitholders	(7,527)	(7,527)
Net increase in cash and cash equivalents	10,559	1,630

28. 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 (2016 - \$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, 2017, 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, 2017, 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, 2017, 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.

29. 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, 2017 and has provided for \$144 of outstanding receivables related to accounts where collectibility is doubtful (2016 - \$289). 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, 2017 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, 2017, 93% of agreements receivable are due from approved builders (2016 – 97%).
- ii. At December 31, 2017, we have identified \$2,866 (2016 - \$3,947) in agreements receivable which are in arrears and have indications of possible impairment. Agreements receivable which were past due are as follows:

	2017	2016
0 - 6 months past due	2,591	3,602
Greater than 6 months past due	275	345

- iii. Total loans included in agreements receivable that would have otherwise been past due or impaired at December 31, 2017, but whose terms have been renegotiated is \$1,821 (2016 - \$22,703). In order to meet market need, we have extended our standard terms during the year resulting fewer renegotiations as at December 31, 2017.

We have determined no provision for impairment is required as of December 31, 2017 (2016 - provision of \$810) 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, in determining that no impairment was required.

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 17 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 \$1,551 (2016 - \$1,160) based upon applicable year end debt balances. We are not subject to other significant market risks pertaining to our financial instruments.

30. 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 features on the REIT's convertible debentures are estimated based upon unobservable inputs, including volatility and credit spread (Level 3).
- fair value of REIT units are estimated based on the closing trading price of the REIT's trust units (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 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.

(\$000s)	December 31, 2017					December 31, 2016	
	Fair Value hierarchy	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
Non-financial assets							
Investment properties	Level 3	975,856	—	975,856	975,856	970,693	970,693
Assets held for sale	Level 3	6,732	—	6,732	6,732	—	—
Financial liabilities							
General debt, excluding derivative financial liability	Level 3	—	603,483	603,483	576,920	575,801	583,488
REIT - Convertible debenture	Level 1	—	54,046	54,046	58,018	32,749	35,018
Liability held for sale	Level 3	—	3,670	3,670	3,670	—	—
Derivative financial liability							
Interest rate swaps	Level 3	(1,057)	—	(1,057)	(1,057)	27	27
Conversion features on convertible debentures	Level 3	729	—	729	729	61	61
REIT units	Level 1	94,898	—	94,898	94,898	94,340	94,340

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

- Level 1: 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.

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 valuers 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, 2017 of which 48 investment properties (of 81 legal phases valued) with a fair value of \$688,267 were valued by qualified independent external valuation professionals during the year which resulted in fair value losses of \$8,828 recorded as fair value adjustment on investment properties in the statements of income and comprehensive income (2016 - investment properties were valued by Melcor Development Ltd.'s internal valuation team 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).

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 \$1,484 (2016 - \$1,477). 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		
	Min	Max	Weighted Average	Min	Max	Weighted Average
December 31, 2017						
Capitalization rate	5.50%	8.75%	6.60%	5.75%	6.50%	6.07%
Terminal capitalization rate	5.75%	9.00%	6.75%	6.00%	6.25%	6.07%
Discount rate	6.00%	9.75%	7.67%	6.75%	7.00%	6.93%

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

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by \$56,320 (2016 - \$57,485). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by \$65,115 (2016 - \$66,944).

General Debt, excluding derivative financial liabilities

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

The fair value of project specific financing, secured vendor take back debt on land inventory and debt on investment properties and golf course assets 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, 2017 the fair value of the REIT units was \$94,898 (2016 - \$94,340). During the year a fair value loss of \$558 (2016 - loss of \$13,939) was recognized in the statement of income and comprehensive income.

Derivative financial liabilities

Our derivative financial liabilities are comprised of floating for fixed interest rate swaps on mortgages (level 2) and the conversion features on our convertible debentures (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, 2017 the fair value of interest rate swap contracts was \$1,057 (2016 - \$27).

The derivative financial liability was valued by qualified independent external valuation professionals at December 31, 2017. This resulted in a fair value gain of \$127 (2016 - fair value loss of \$56) being recognized in income. The significant unobservable inputs used in the fair value measurement of the conversion features on the REIT convertible debentures as at December 31, 2017 are as follows:

- Volatility - expected volatility as at December 31, 2017 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, 2017. Volatility was 21.70% (2016 - 16.73%).
- Credit spread - the credit spread of the convertible debentures was imputed from the traded price of the convertible debentures as at December 31, 2017. The credit spread used was 2.81% (2016 - 3.71%).

31. SUBSEQUENT EVENTS

Closing of the Melcor Acquisition

On January 12, 2018 Melcor closed on the previously announced sale of five commercial properties to the REIT for a total sales price of \$80,875. The sales price was settled through the REIT's assumption of \$31,038 in mortgages payable; issuance of 1,331,202 Class C LP Units, representing \$13,312 in Retained Debt by Melcor; issuance of 283,447 Class B LP Units at a price of \$8.82, representing \$2,500; and cash of \$34,025.

Concurrent with closing of the Melcor Acquisition, the REIT issued 2,035,500 trust units in exchange for each subscription receipt previously issued and outstanding and the maturity date of the 2017 Debentures was extended to December 31, 2022. Melcor's interest in the REIT on closing the Melcor Acquisition is approximately 53.0%.

Distributions on REIT trust units:

On January 15, 2018 we declared a distribution of \$0.05625 per unit for the months of January, February and March 2018. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
January 2018	January 31, 2018	February 15, 2018	\$0.05625 per unit
February 2018	February 28, 2018	March 15, 2018	\$0.05625 per unit
March 2018	March 29, 2018	April 16, 2018	\$0.05625 per unit

Dividend declared:

On March 7, 2018, our board of directors declared a quarterly dividend of \$0.13 per share payable on March 29, 2018 to shareholders of record on March 15, 2018.

Asset Disposition:

On January 31, 2018 the REIT sold an investment property for gross proceeds of \$6,850. The purchase price was settled through mortgage assumption of \$3,673 (including accrued interest) and cash of \$3,177 (excluding working capital adjustments).

Subsequent to year end, conditions were removed on a pending sale of a property which did not meet the requirements to be classified as held for sale at December 31, 2017. The property with a sale price of \$13,800 is expected to close in Q2 2018.