PRESS RELEASE

for immediate distribution

Melcor Developments announces second quarter results, declares quarterly dividend of $0.13 per share

Edmonton, Alberta | August 2, 2018

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the quarter ended June 30, 2018. Revenue for the quarter was $42.79 million, down 9% over Q2-2017. Year to date revenue was $87.21 million, up 2% over the same period last year. Revenue growth was driven by increased sales in the Community Development division which led to a 7% increase in divisional revenue for the year coupled with stable results in our income-producing divisions.

Net income for the quarter was $1.63 million or $0.05 per share (basic) compared with a net income of $3.93 million or $0.12 per share (basic) in the same period of 2017. Year to date net income was $16.28 million compared to a loss of $5.08 million in 2017. Net income is impacted by non-cash fair value adjustments on investment properties and on REIT units. Funds from operations (FFO) for the quarter was $7.70 million or $0.23 per share compared with $9.31 million or $0.28 per share in the same period of 2017. Year to date FFO was $12.62 million or $0.38 per share compared with $15.38 million or $0.46 per share in 2017. The decrease compared with last year is primarily due to current taxes payable resulting from the sale of assets to Melcor REIT. FFO eliminates the elements that have no cash impact on our business from net income and management believes FFO better reflects Melcor's true operating performance.

Darin Rayburn, Melcor's President and Chief Executive Officer, commented on the quarter: "Company operating results for the first half of 2018 are in line with expectations across our operating divisions and similar to the same period last year. We experienced an active start to the construction season in our Community Development and Property Development divisions in the second quarter. Our asset management divisions - Investment Properties and the REIT - continue to produce satisfactory results while maintaining occupancy and base rents.

With asset class and geographic diversification, the proven ability to adapt product offerings to changing markets, and a strong balance sheet, we remain well positioned for the future."

The Board today declared a quarterly dividend of $0.13 per share, payable on September 29, 2018 to shareholders of record on September 14, 2018. The dividend is an eligible dividend for Canadian tax purposes.

Second Quarter Results

Given the longer term nature of real estate development, comparison of any three month period may not be as meaningful as year to date results. Land sales are lumpy by nature and it is difficult to predict when they will close. In addition, the late winter experienced across Alberta delayed construction starts and golf course openings. These factors were offset by the positive impact of the strategies that we have employed to diversify our product mix in residential communities to appeal to a wider-range of buyers, as well as our strategic focus on diversifying geographically with a focus on the US over the past few years.

Highlights of the quarter and year to date periods include:

- Year to date revenue was up 2% to $87.21 million driven by strong Community Development performance, which was up 7% over the prior year. Q2-2018 revenue was down 9% as a result of the timing of multi-family and commercial sales, which tend to fluctuate quarter to quarter, in the prior year.
- Year to date FFO was down 18% to $12.62 million due to taxes owing relating to the sale to the REIT in Q1-2018. Excluding this item, FFO increased by $0.90 million or 6% over 2017. In Q2-2018 FFO was down 17% to $7.70 million compared with last year primarily due to decreased sales in Community Development.
- The Community Development and Property Development divisions are actively engaged in a number of projects as we continue through the 2018 construction season.
- The Property Development division transferred 10,532 sf of GLA in Q2-2018 and 45,897 sf year to date to the Investment Properties division and has a further 91,800 sf of commercial properties currently under construction.
- The income-producing divisions (Investment Properties and REIT) continue to yield stable results, with revenue up 1% over 2017 and consistent occupancy and base rents.

- Melcor continues to advance their value creation strategy of building commercial properties, leasing them and selling them to the REIT under a right of first offer (ROFO) agreement. In early 2018, Melcor completed its fourth sale of properties to the REIT, comprised of 172,629 sf GLA for $80.88 million.
- The REIT division also recycled capital via the sale of two properties:
    - Corinthia Plaza: a 23,179 sf retail property in Leduc, Alberta which was originally developed by Melcor and owned since 1974, was sold for gross proceeds of $6.73 million on January 31, 2018.
    - Miller Crossing: a 27,336 sf retail property in Edmonton, Alberta which was originally developed by Melcor in 2009, was sold for gross proceeds of $13.80 million on April 16, 2018.
- Melcor continues to return value to our shareholders and unitholders:
    - Melcor paid a quarterly dividend of $0.13 per share on June 29, 2018. The REIT paid distributions of $0.05625 per trust unit in April, May and June for a quarterly payout ratio of 95%.
    - On August 2, 2018, Melcor declared a quarterly dividend of $0.13 per share, payable on September 28, 2018 to shareholders of record on September 14, 2018. The dividend is an eligible dividend for Canadian tax purposes.

Selected Highlights

($000s except as noted)	Three months ended			Six months ended		
	30-June-18	30-June-17	Change	**30-June-18**	30-June-17	Change
Revenue	**42,793**	46,955	(8.9)%	**87,207**	85,522	2.0 %
Gross margin (%) *	**48.5%**	47.1%	1.4 %	**50.1%**	47.8 %	2.3 %
Net income (loss)	**1,631**	3,927	(58.5)%	**16,278**	(5,076)	420.7 %
Net margin (%) *	**3.8%**	8.4%	(4.6)%	**18.7%**	(5.9)%	24.6 %
Funds from operations *	**7,695**	9,306	(17.3)%	**12,617**	15,384	(18.0)%
Per Share Data ($)						
Basic earnings (loss)	**0.05**	0.12	(58.3)%	**0.49**	(0.15)	426.7 %
Diluted earnings	**0.05**	0.12	(58.3)%	**0.49**	(0.15)	426.7 %
Funds from operations *	**0.23**	0.28	(17.9)%	**0.38**	0.46	(17.4)%

As at ($000s except as noted)	**30-June-18**	31-Dec-17	Change
Shareholders' equity	**1,023,383**	1,008,590	1.5 %
Total assets	**1,971,474**	1,990,983	(1.0)%
Per Share Data ($)			
Book value *	**30.64**	30.21	1.4 %

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three and six months ended June 30, 2018, which can be found on the company's website at www.Melcor.ca or on SEDAR (www.sedar.com).

About Melcor Developments Ltd.

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

Melcor has been focused on real estate since 1923. The company has built over 140 communities and commercial projects across Western Canada and today manages 3.92 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 Kelowna, British Columbia and Phoenix, Arizona. Melcor has been a public company since 1968 and trades on the Toronto Stock Exchange (TSX:MRD).

Forward Looking Statements

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

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

This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 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

August 2, 2018

The following discussion of Melcor Developments Ltd.'s (Melcor's) financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the quarter ended June 30, 2018 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2017.

The financial statements underlying this MD&A, including 2017 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Melcor's Board of Directors approved the content of this MD&A on August 2, 2018 on the recommendation of the Audit Committee.

Other Information

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

Non-standard Measures

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

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

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Our Business

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

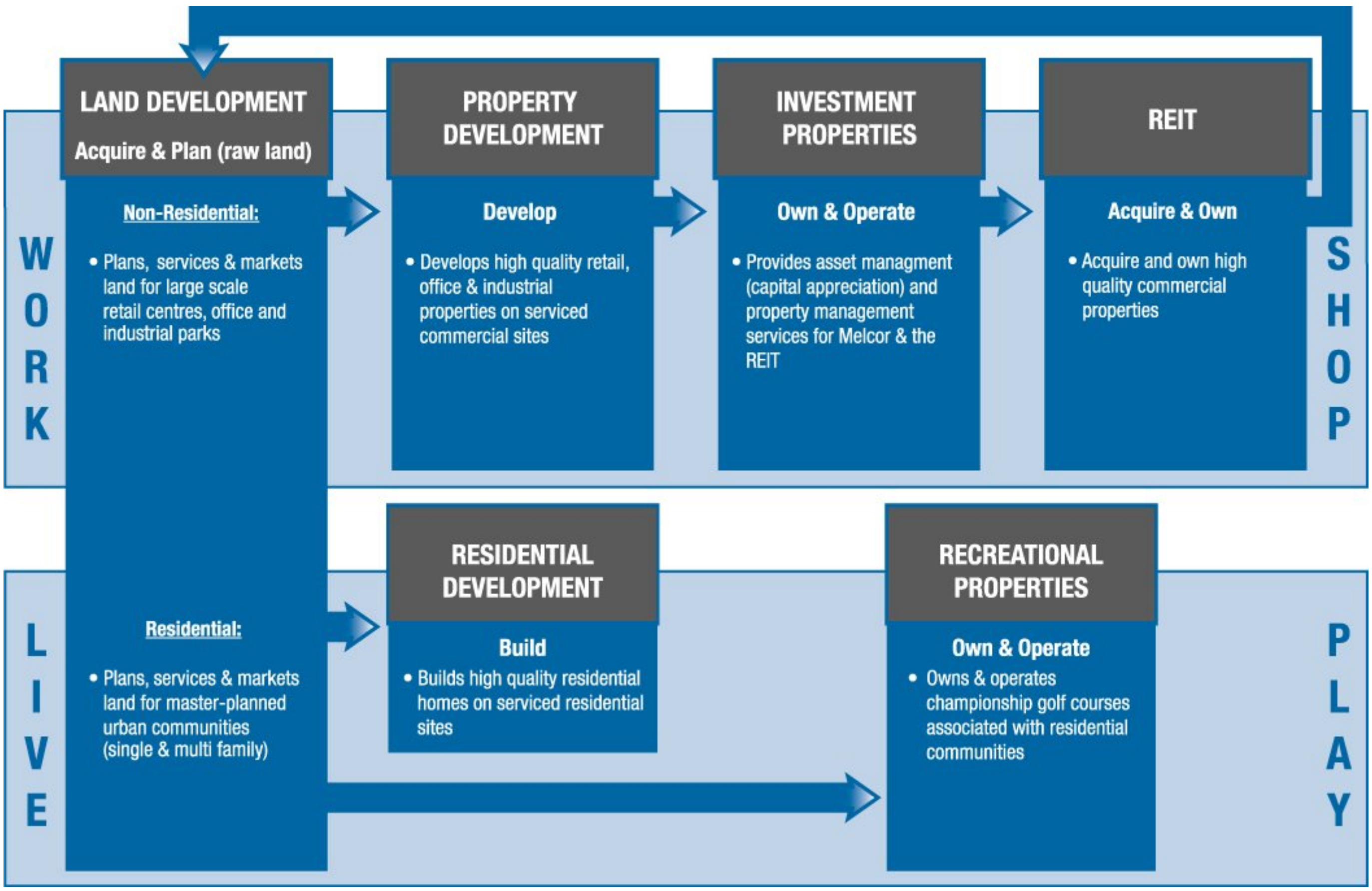
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

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

In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreational Properties. Melcor has $1.97 billion in assets.

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



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

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.

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

Second Quarter Highlights

($000s except as noted)	Three months ended			Six months ended		
	30-June-18	30-June-17	Change	**30-June-18**	30-June-17	Change
Revenue	**42,793**	46,955	(8.9)%	**87,207**	85,522	2.0 %
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Total assets	**1,971,474**	1,990,983	(1.0)%
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Book value *	**30.64**	30.21	1.4 %

**See non-standard measures for calculation.*

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Highlights of the quarter and year to date periods include:

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- Year to date FFO was down 18% to $12.62 million due to taxes owing relating to the sale to the REIT in Q1-2018. Excluding this item, FFO increased by $0.90 million or 6% over 2017. In Q2-2018 FFO was down 17% to $7.70 million compared with last year primarily due to decreased sales in Community Development.
- Our Community Development and Property Development divisions are actively engaged in a number of projects as we continue through the 2018 construction season.
- Our Property Development team transferred 10,532 sf of GLA in Q2-2018 and 45,897 sf year to date to our Investment Properties division and has a further 91,800 sf of commercial properties currently under construction.
- Our income-producing divisions (Investment Properties and REIT) continue to yield stable results, with revenue up 1% over 2017 and consistent occupancy and base rents.
- We continue to advance our value creation strategy of building commercial properties, leasing them and selling them to the REIT under a right of first offer (ROFO) agreement. In early 2018, we completed our fourth sale of properties to the REIT, comprised of 172,629 sf GLA for $80.88 million.
- The REIT division also recycled capital via the sale of two properties:
    - Corinthia Plaza: a 23,179 sf retail property in Leduc, Alberta which was originally developed by Melcor and owned since 1974, was sold for gross proceeds of $6.73 million on January 31, 2018.
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- We continue to return value to our shareholders and unitholders:
    - We paid a quarterly dividend of $0.13 per share on June 29, 2018. The REIT paid distributions of $0.05625 per trust unit in April, May and June for a quarterly payout ratio of 95%.
    - On August 2, 2018 we declared a quarterly dividend of $0.13 per share, payable on September 28, 2018 to shareholders of record on September 14, 2018. The dividend is an eligible dividend for Canadian tax purposes.

Revenue & Margins:

Revenue for the quarter was $42.79 million compared with $46.96 million in Q2-2017, a decrease of 9%. Year to date, revenue was up 2% to $87.21 million. For the year, Community Development division revenue grew by 7% over 2017 however Q2-2018 revenue was down 24%. Q2-2017 revenue included a raw and commercial land sales of $6.98 million ($5.12 million at JV%). This compares to a commercial land sale of $1.04 million (1.15 acres) and industrial land sale of $0.51 million (1.48 acres) in Q2-2018. Raw land, commercial, and multifamily sales tend to vary significantly quarter over quarter. Community Development division revenue is highly dependent on the real estate market for new homes in the regions where we hold land.

Gross margin increased 1% to 48% in the quarter, driven by the increase in proportionate revenue generated from Investment Properties and REIT divisions which tend to run at a higher margin. Community Development division gross margin up 1% in the quarter to 33% and up 7% year to date to 40%. Gross margin is impacted by the revenue and product mix in a given period.

Revenue and margins on our Investment Properties and REIT operating divisions remain stable. In Q2-2018, these divisions contributed revenue of $25.64 million at 60% gross margin compared with revenue of $25.23 million at 60% gross margin last year.

Net margin is impacted by non-cash fair value adjustments on investment properties and REIT units which can result in wide swings from period to period. These adjustments are primarily driven by market forces outside of Melcor's control. Management believes that FFO (discussed below) is a more accurate reflection of our true operating performance.

Revenue and income can fluctuate significantly from quarter to quarter due to the timing of plan registrations, the cyclical nature of real estate and construction markets, the mix of lot sales and product types, and the mix of joint operation sales activity.

Funds From Operations (FFO)

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

Below is a reconciliation of net income to FFO:

($000s)	Three months ended		Six months ended	
	30-June-18	30-June-17	**30-June-18**	30-June-17
Net income for the period	**1,631**	3,927	**16,278**	(5,076)
Amortization of operating lease incentives	**1,595**	1,931	**3,255**	3,155
Fair value adjustment on investment properties	**1,790**	(947)	**(283)**	12,857
Depreciation on property and equipment	**455**	459	**652**	658
Stock based compensation expense	**107**	114	**212**	212
Non-cash finance costs	**637**	(195)	**1,207**	171
Gain on sale of asset	**(5)**	(14)	**(5)**	(14)
Deferred income taxes	**(98)**	16	**(4,897)**	(1,040)
Fair value adjustment on REIT units	**1,583**	4,015	**(3,804)**	4,461
FFO	**7,695**	9,306	**12,617**	15,384
FFO per share	**0.23**	0.28	**0.38**	0.46

FFO decreased by 17% compared with Q2-2017. The decrease in FFO was driven by a decrease in gross profit of $1.36 million as a result of fewer commercial and raw land sales in Q2-2018 compared with Q2-2017. Year to date FFO continues to be impacted by the $3.67 million reclassification between current and deferred tax expense recognized in the first quarter, resulting from the asset sale to the REIT. Excluding this reclassification, FFO increased by $0.90 million or 6% over 2017.

Divisional Results

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

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office and industrial income-producing properties on serviced commercial sites developed by Community Development;
- Investment Properties, which manages and leases the commercial developments produced by the Property Development division and an externally purchased portfolio of assets, as well as assets held in the REIT;
- The REIT, which owns and holds 36 income-producing properties; and
- Recreational Properties, which owns and operates championship golf courses associated with Melcor residential communities.

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

The following tables summarize the results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three months ended June 30		Three months ended June 30		Three months ended June 30		Three months ended June 30		Three months ended June 30	
($000s except as noted)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Revenue	**16,790**	22,089	**3,750**	49	**8,098**	8,670	**17,537**	16,559	**3,788**	3,703
Portion of total revenue	**39%**	47%	**9%**	—%	**19%**	18%	**41%**	35%	**9%**	8%
Cost of sales	**(11,204)**	(14,945)	**(3,650)**	—	**(3,328)**	(3,586)	**(6,924)**	(6,526)	**(2,080)**	(1,999)
Gross profit	**5,586**	7,144	**100**	49	**4,770**	5,084	**10,613**	10,033	**1,708**	1,704
Gross margin %	**33%**	32%	**3%**	100%	**59%**	59%	**61%**	61%	**45%**	46%
Portion of total profit	**27%**	32%	**—%**	—%	**23%**	23%	**51%**	45%	**8%**	8%
General and administrative expense	**(2,320)**	(2,368)	**(587)**	(517)	**(597)**	(663)	**(709)**	(625)	**(829)**	(804)
Fair value adjustment on investment properties	**—**	—	**2,062**	983	**(1,649)**	(878)	**(3,414)**	(249)	**—**	—
Interest income	**290**	291	**5**	12	**1**	1	**29**	14	**—**	—
Segment Earnings	**3,556**	5,067	**1,580**	527	**2,525**	3,544	**6,519**	9,173	**891**	914

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Six months ended June 30		Six months ended June 30		Six months ended June 30		Six months ended June 30		Six months ended June 30	
($000s except as noted)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Revenue	**39,441**	36,836	**20,043**	130	**15,733**	17,418	**35,554**	33,559	**3,935**	3,864
Portion of total revenue	**45%**	43%	**23%**	—%	**18%**	20%	**41%**	39%	**5%**	5%
Cost of sales	**(23,808)**	(24,739)	**(19,850)**	—	**(6,332)**	(6,891)	**(14,262)**	(13,343)	**(2,590)**	(2,502)
Gross profit	**15,633**	12,097	**193**	130	**9,401**	10,527	**21,292**	20,216	**1,345**	1,362
Gross margin %	**40%**	33%	**1%**	100%	**60%**	60%	**60%**	60%	**34%**	35%
Portion of total profit	**36%**	30%	**—%**	—%	**22%**	26%	**49%**	49%	**3%**	3%
General and administrative expense	**(4,793)**	(4,313)	**(1,206)**	(962)	**(1,180)**	(1,271)	**(1,455)**	(1,314)	**(1,203)**	(1,158)
Fair value adjustment on investment properties	**—**	—	**4,803**	2,703	**(3,731)**	(770)	**(3,415)**	(16,708)	**—**	—
Interest income	**516**	583	**11**	13	**4**	2	**64**	20	**—**	—
Segment Earnings	**11,356**	8,367	**3,801**	1,884	**4,494**	8,488	**16,486**	2,214	**154**	218

Divisional results are shown before intersegment eliminations and exclude corporate division.

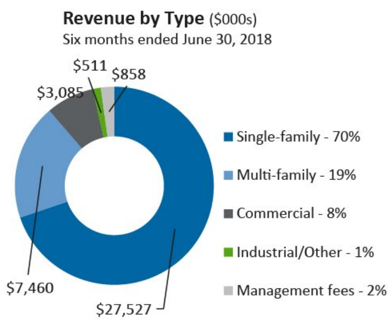
Community Development

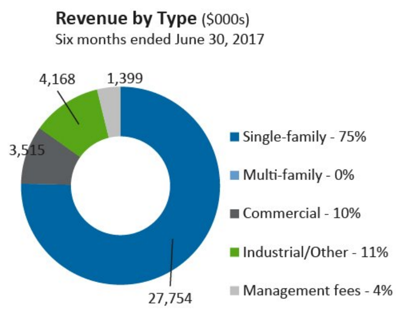
Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning,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

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

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

Sales Activity





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

Consolidated	Three months ended		Six months ended	
	30-June-18	30-June-17	**30-June-18**	30-June-17
Canada Sales data: (including joint ventures at 100%)				
Single-family sales (number of lots)	**147**	104	**201**	221
Gross average revenue per single-family lot ($)	**162,800**	174,400	**168,100**	159,600
Multi-family sales (acres)	**—**	—	**5.57**	—
Gross average revenue per multi-family acre ($)	**—**	—	**1,558,900**	—
Commercial sales (acres)	**1.15**	4.15	**5.25**	8.80
Gross average revenue per commercial land acre ($)	**900,000**	900,000	**971,700**	947,200
Industrial sales (acres)	**1.48**	—	**1.48**	—
Gross average revenue per industrial land acre ($)	**345,300**	—	**345,300**	—
Other land sales - Raw, Other (acres)	**—**	14.45	**—**	18.55
Gross average revenue per other land acre ($)	**—**	224,500	**—**	199,200
US Sales data: (including joint ventures at 100%)				
Single-family sales (number of lots)	**—**	—	**154**	—
Gross average revenue per single-family lot ($)	**—**	—	**37,900**	—
Divisional results: (including joint ventures at Melcor's interest)				
Revenue ($000s)	**16,790**	22,089	**39,441**	36,836
Earnings ($000s)	**3,556**	5,067	**11,356**	8,367

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

Market demand remains strong, producing year to date revenue of $39.44 million, up 7% over 2017. Revenue for the quarter was down 24% to $16.79 million as land sales, which include multi-family, commercial, industrial and raw land, went from $5.12 million in Q2-2017 (at JV%) to $1.55 million in Q2-2018. Year to date, revenue generated from multi-family and non-residential land sales is $11.01 million compared to $7.68 million in 2017. These types of sales typically fluctuate from quarter to quarter.

Single-family lot sales for the quarter were up 41% to 147 lots - all realized in our Canadian markets. The Edmonton area saw strong demand with 101 lots being sold during the quarter.

The Community Development division is continuing to develop new phases in communities that meet pre-sales targets to meet market demand for diverse product types. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development.

In 2017, management was made aware that one of our builders was in receivership. In Q2-2018 we collected $1.70 million (at JV%) owing from this builder through court settled transactions. This brought the remaining agreements receivable down to $2.77 million, of which $2.20 million is overdue as of June 30, 2018 (at JV%). There were no gains or losses recorded on these settlements. We continue to hold title to the lots sold to this builder as specific security against this balance. We believe our exposure to other developers and/or builders who are financially stressed due to the market contraction over the past few years is minimal.

Regional Sales Analysis

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

Regional Sales Analysis	**Three months ended June 30, 2018**			Three months ended June 30, 2017		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	**101**	—	**1.48**	60	—	4.15
Red Deer Region	**14**	—	—	15	—	—
Calgary Region	**28**	—	**1.15**	11	—	—
Lethbridge	**1**	—	—	6	—	—
Kelowna	**3**	—	—	12	—	—
United States	—	—	—	—	—	—
	147	—	**2.63**	104	—	4.15

Regional Sales Analysis	**Six months ended June 30, 2018**			Six months ended June 30, 2017		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	**137**	**1.98**	**5.58**	122	—	8.80
Red Deer	**20**	—	—	42	—	—
Calgary Region	**40**	**3.59**	**1.15**	24	—	—
Lethbridge	**1**	—	—	19	—	—
Kelowna	**3**	—	—	14	—	—
United States	**154**	—	—	—	—	—
	355	**5.57**	**6.73**	221	—	8.80

Single-family lot sales in the second quarter may vary significantly as plan registrations typically occur in the third and fourth quarters. Lot sales were down in most of our Canadian regions. Our community development business in the US became active in 2017, resulting in revenue from 154 lots sold in Arizona year to date. We expect US results to continue to be lumpy, but to grow over the next few years.

During the quarter, we sold 1.15 acres of commercial land to our Property Development division for $1.04 million. The land is under development for a neighbourhood shopping centre in north Calgary.

Inventory

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

Developed Inventory	**Six months ended June 30, 2018**			Six months ended June 30, 2017		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	**1,281**	**68.56**	**136.06**	1,004	64.61	142.37
Purchases	**—**	**—**	**1.01**	294	—	—
New developments	**36**	**—**	**—**	12	—	—
Internal sales	**—**	**—**	**(5.25)**	—	—	(4.15)
Sales	**(355)**	**(5.57)**	**(1.48)**	(221)	—	(4.65)
	962	**62.99**	**130.34**	1,089	64.61	133.57

Our primary market is Alberta. Market conditions have shown signs of improvement in most regions and we remain cautiously optimistic. We continue to commit resources outside of Alberta to diversify our land holding portfolio.

Raw land inventory

To support future growth, we acquire land in strategic growth corridors and maintain an inventory of land for future development in our primary markets.

During the quarter, we purchased 0.63 acres of raw land in our Kelowna region for $0.09 million. In Q2-2017, we purchased 1.01 acres of non-residential land in the Calgary region for $0.98 million.

We continue to monitor our land holdings and explore opportunities to secure future positions in the western Canada and US markets.

Property Development

Our Property Development division develops, manages construction, markets and initially leases high-quality retail, office and industrial income-producing properties. The division currently operates solely in Alberta.

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

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

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

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

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

Division Highlights

($000s except as noted)	Three months ended		Six months ended	
	30-June-18	30-June-17	**30-June-18**	30-June-17
Total revenue	**3,750**	49	**20,043**	130
Revenue from property transfers	**3,650**	—	**19,850**	—
Management fees	**193**	49	**193**	130
Gross margin (%) on property transfers	**40%**	—%	**11%**	n/a
Square footage transferred (sf, at 100%)	**10,532**	—	**45,897**	n/a
Number of buildings transferred	**2**	—	**3**	—
Fair value adjustment on investment properties	**2,062**	983	**4,803**	2,703

Development was completed on two buildings in The Shoppes at Jagare Ridge and these completed properties were transferred to Investment Properties in Q2-2018 (10,532 sf), for total revenue of $3.65 million. In the Q1-2018 the Property Development division completed the Landmark Cinemas building at Jensen Lakes Crossing (35,365 sf) for total revenue of $16.20 million. The Property Development currently has approximately 91,800 sf under active development.

Regional Highlights

($000s except as noted)	Three months ended		Six months ended	
Fair value adjustments by region	**30-June-18**	30-June-17	**30-June-18**	30-June-17
Northern Alberta	**2,062**	613	**4,803**	1,756
Southern Alberta	**—**	370	**—**	947
	2,062	983	**4,803**	2,703

Northern Alberta: We completed and transferred two buildings at The Shoppes at Jagare Ridge (10,532 sf) to Investment Properties during the quarter, including a free standing commercial retail unit and a gas station. During the quarter, we recognized fair value gains of $2.06 million bringing year to date fair value gains to $4.80 million related to our properties under development. Continued lease up of The Shoppes at Jagare Ridge and Jensen Lakes Crossing contributed to fair value gains of $1.32 million ($0.66 million at JV %) and $1.46 million in fair value gains, respectively in the quarter.

The office building at The Village at Blackmud Creek is near completion and is expected to transfer to Investment Properties later in the year. We recorded a loss of $0.06 million on this property in Q2-2018.

Southern Alberta: We continue to work on development plans in our Southern Alberta region, with active development on two CRUs (approximately 16,000 sf) expected to break ground during Q3-2018.

Future development opportunities

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

The following tables illustrate our current and future project expectations:

Current Projects					
Project	Location	Type	Total SF *	Developed to Date *	SF Under Development
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	2,250,000	494,400	—
West Henday Promenade	West Edmonton	*Regional mixed use centre*	726,000	116,300	—
The Village at Blackmud Creek	South Edmonton	*Regional business park*	725,000	56,800	54,300
Telford Industrial	Leduc	*Industrial Park*	500,000	143,100	—
Kingsview Market	Airdrie	*Regional shopping centre*	331,000	181,900	—
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	297,400	241,600	—
Jensen Lakes Crossing	St. Albert	*Neighbourhood shopping centre*	150,000	35,400	19,100
Campsite Industrial	Spruce Grove	*Industrial Park*	170,000	13,700	—
Clearview Market	Red Deer	*Neighbourhood shopping centre*	150,100	150,100	—
The Shoppes at Jagare Ridge	South Edmonton	*Neighbourhood shopping centre*	105,000	10,500	18,400

Expected Future Projects					
Project	Location	Type	Total SF *	Ownership Interest	Expected Start (year)
Greenwich	West Calgary	*Regional mixed use centre*	395,000	100%	2019
Rollyview	Leduc	*Neighbourhood shopping centre*	150,000	100%	2019
Woodbend Market	Leduc	*Neighbourhood shopping centre*	140,000	100%	2019
Laredo	Red Deer	*Neighbourhood shopping centre*	30,000	100%	2019
Clearview Market 2	Red Deer	*Neighbourhood shopping centre*	80,000	33%	2019
Mattson	Edmonton	*Neighbourhood shopping centre*	78,000	50%	2020
Vista Ridge	Sylvan Lake	*Neighbourhood shopping centre*	25,000	50%	2019
Secord/Rosenthal	Edmonton	*Neighbourhood shopping centre*	120,000	100%	2020
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	100%	2020
Keystone Common	North Calgary	*Regional power centre*	775,000	100%	2022+
West Pointe Marketplace	Lethbridge	*Regional power centre*	750,000	100%	2022+
Westview Commercial	West Calgary	*Neighbourhood shopping centre*	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 manages 3,919,140 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 potential.

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

Operating results

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

($000s except as noted)	**Three months ended**		**Six months ended**	
	30-June-18	30-June-17	**30-June-18**	30-June-17
Commercial properties GLA under management (sf, total)	**3,919,140**	3,883,659	**3,919,140**	3,883,659
Properties owned and managed (sf)	**711,391**	821,987	**711,391**	821,987
Properties managed (sf)	**3,207,749**	3,061,672	**3,207,749**	3,061,672
Revenue (total)	**8,098**	8,670	**15,733**	17,418
Canadian properties	**2,844**	3,504	**5,444**	7,082
US properties	**3,504**	3,627	**7,027**	7,196
Management fees	**1,439**	1,165	**2,612**	2,412
Parking lots and other assets	**311**	374	**650**	728
Net operating income (NOI) *	**4,643**	5,143	**9,181**	10,608
Funds from operations *	**4,372**	4,657	**8,686**	9,678
Funds from operations per share *	**0.13**	0.14	**0.26**	0.29

** See non-standard measures for definition and 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

On January 12, 2018, we completed a transaction whereby five commercial properties were sold from Melcor to Melcor REIT. This transaction demonstrates our strategy of monetizing value created on the assets that Melcor develops and leases. There was no revenue generated on assets transferred to the REIT in the quarter ($1.53 million in Q2-2017). Revenue related to these properties is now shown in the REIT operating division. As Melcor controls the REIT, the revenue is fully recognized on consolidation.

Investment Properties continues to grow as properties are developed and transferred from our Property Development division. In Q2-2018, 10,532 sf representing two buildings in our Jagare Ridge commercial development site were completed and transferred. Over the past twelve months, Property Development has transferred seven buildings representing 83,984 sf (at 100%). Revenue generated on assets acquired from Property Development and held through the period was $0.81 million (2017 - $0.01 million). This portfolio growth was offset by the transfers to REIT discussed above.

Occupancy on Canadian properties was 90% at June 30, 2018, stable over Q1-2018 and down 1% since year end. Weighted average base rents (WABR) were $25.13, up 2% since the first quarter. The properties transferred to REIT had a WABR of $28.08 which were moved out of the Investment Properties portfolio and into the REIT division in Q1-2018 bringing year to date WABR down from $25.86. This transfer pulled down Investment Properties WABR, however resulted in an increase in WABR in REIT from $15.88 to $16.53 year to date.

The calculation of Canadian properties same asset NOI is as follows:

($000s except as noted)	**Three months ended**		**Six months ended**	
	30-June-18	30-June-17	**30-June-18**	30-June-17
Same asset NOI *	**1,571**	1,572	**3,058**	2,891
Properties transferred from PD	**224**	805	**412**	15
Properties transferred to REIT	**(28)**	—	**61**	2,143
NOI *	**1,767**	2,377	**3,531**	5,049
Amortization of operating lease incentives	**(62)**	(79)	**(166)**	(162)
Straight-line rent adjustment	**366**	(108)	**642**	207
Gross profit	**2,071**	2,190	**4,007**	5,094

** See non-standard measures for definition.*

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 measurement most directly comparable to NOI and same-asset NOI is segment earnings.

On a same asset basis, NOI during the quarter was stable at $1.57 million (Q2-2017 - $1.57 million). Gross Margin was down 5% to $2.07 million in the quarter and down 21% to $4.01 million year to date. The transfer of properties to the REIT drove this decrease as NOI on properties transferred in the comparative period was $2.14 million (Q2-2018 - $0.06 million). On a same asset basis, NOI during the year was down slighting to $3.06 million (Q2-2017 - $2.89 million).

US properties

Our US property portfolio has stabilized over the past 12 months following significant changes in 2015/2016. Revenue on US properties was $3.50 million compared with $3.63 million in Q2-2017. In Q1-2018 we disposed of two residential units at one of our properties in Arizona for $0.52 million (US$0.41 million).

Occupancy increased to 88%, up 1% over year end and the prior quarter. Weighted average rental rates on our US commercial properties were increased over Q1-2018 at US$21.58, up from US$18.15.

The calculation of US properties same asset NOI is as follows:

($000s except as noted)	Three months ended		Six months ended	
	30-June-18	30-June-17	**30-June-18**	30-June-17
Same asset NOI	**1,254**	1,120	**2,646**	2,413
Third party dispositions / acquisitions	**—**	—	**—**	—
NOI *	**1,254**	1,120	**2,646**	2,413
Foreign currency translation	**407**	401	**734**	795
Amortization of operating lease incentives	**(216)**	(156)	**(376)**	(258)
Straight-line rent adjustment	**(30)**	68	**50**	132
Gross profit	**1,415**	1,433	**3,054**	3,082

** See non-standard measures for definition.*

Same asset NOI was up $0.23 million over Q2-2017.

Management fees & other

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the manager. Management fees were $1.44 million in the quarter, compared with $1.17 million in Q2-2017. Revenue from our 516 parking stalls and other assets was $0.31 million in Q2-2018 (Q2-2017 - $0.37 million). These revenues can fluctuate from period to period.

Funds from operations (FFO) decreased $0.29 million, or 6%, as a result of the transfers made to REIT.

REIT

The REIT owned 36 income-producing office, retail and industrial properties, comprising 2,834,133 sf of gross leasable area (GLA) at June 30, 2018. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants, operating in a variety of industries.

We have a controlling 53.0% effective interest in the REIT through ownership of all Class B LP Units (December 31, 2017 - 56.7%). As Melcor controls the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities.

Operating results

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

($000s except as noted)	Three months ended		Six months ended	
	30-June-18	30-June-17	**30-June-18**	30-June-17
Rental revenue	**17,537**	16,559	**35,554**	33,559
Net operating income (NOI) *	**11,057**	10,570	**22,132**	21,307
Same asset NOI * *(see calculation following)*	**10,567**	9,718	**18,759**	19,497
Fair value adjustment on investment properties	**(3,414)**	(249)	**(3,415)**	(16,708)
Gross leasable area (GLA) (sf)	**2,834,133**	2,711,847	**2,834,133**	2,711,847
Occupancy % (weighted by GLA)	**90.1%**	92.7%	**90.1%**	92.7%
Fair value of portfolio	**702,972**	636,717	**702,972**	636,717
Funds from operations *	**10,690**	10,224	**21,426**	20,493
Funds from operations per share *	**0.32**	0.31	**0.64**	0.61

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

Rental revenue for the period increased by $0.98 million or 6% over Q2-2017. The increase in revenue was a result of the transaction whereby Melcor sold properties to Melcor REIT, completed on January 12, 2018, partially offset by the third party sale of two properties over the past twelve months and lower same-asset revenue. Q2-2018 rental revenue from the properties sold from Investment Properties properties was $1.84 million and $3.42 million year to date. During the three and six-month period we also recognized $0.06 million and $0.38 million of rental revenue from properties disposed of within the last twelve months (2017 - $0.41 million and $0.93 million). Same-asset revenues were down in the quarter and year to date due to lower same-asset occupancy and lower base rents on new and renewed deals.

Year to date we completed 201,972 sf of lease renewals (including holdovers) and had 35,958 sf in new leases commence for steady occupancy at 90.1%. In 2018, 91 leases representing 437,397 sf or 15.2% of our portfolio are up for renewal. We have retained 72.5% of expiring leases (representing 278,697 sf) as at June 30, 2018 in spite of challenging market conditions in many of our operating regions. We remain committed to our proactive leasing program to both retain tenants and attract new tenants.

Weighted average base rent was $16.53, up $0.65 compared to December 31, 2017 and $0.84 over Q2-2017 due to the properties sold from Melcor to Melcor REIT, which had a weighted average base rate of $28.08. This increase was partially offset by lower rates on new leasing completed during the period and the sale of Corinthia Plaza and Miller Crossing in the first half of 2018.

Direct operating expenses were up 7% year to date in 2018. Excluding the impact of properties acquired and disposed of over the past twelve months, direct operating expenses increased by 1%. On a same-asset basis, property taxes and utilities increased by 3% due to higher mill rates and increased utility consumption on account of colder weather and increases to levies and taxes in Alberta. The timing of maintenance projects and lower non-recoverable costs led to a 2% decrease in same-asset operating expenses in the first half of 2018. As a cornerstone of our property management strategy, we are committed to efficient and cost effective maintenance of our buildings to ensure maximum value to our tenants and unitholders.

Portfolio growth over the past twelve months contributed to a 5% increase in NOI over Q2-2017. On a same-asset basis, second quarter NOI was down 4% as a result of lower occupancy and weighted average base rents. Same-asset NOI compared to Q1-2018 was up 1%.

The calculation of REIT same asset NOI is as follows:

($000s except as noted)	Three months ended		Six months ended	
	30-June-18	30-June-17	**30-June-18**	30-June-17
Same asset NOI *	**9,833**	10,255	**19,599**	20,588
Acquisitions	**1,178**	—	**2,252**	—
Disposals/Held for Sale	**46**	315	**281**	719
NOI *	**11,057**	10,570	**22,132**	21,307
Amortization of operating lease incentives	**(757)**	(802)	**(1,525)**	(1,571)
Straight-line rent adjustment	**313**	265	**685**	480
Gross profit	**10,613**	10,033	**21,292**	20,216

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

Funds from operations

Funds from operations (FFO) was up in the second quarter at $10.69 million compared with $10.22 million in the prior year. The increase in FFO was driven by the properties transferred from Investment Properties in January 2018.

Recreational Properties

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

Our golf courses aspire to achieve consistent course conditions and quality, and to be recognized as championship public golf courses with state of the art clubhouses that contribute to our ability to attract tournaments and events. Achieving these goals enables us to find the appropriate balance between the revenue levers of course fees, number of rounds played and customer satisfaction and enjoyment.

The Recreational Properties division earned revenue of $3.94 million year to date, an increase of 2% over 2017 in spite of late course openings. Although rounds of golf were down 2% compared to 2017, food and beverage sales were up 10% over 2017.

	Ownership interest	Season opened 2018	Rounds of Golf	Season opened 2017	Rounds of Golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	**April 27**	**10,273**	**April 6**	10,873
The Links (Spruce Grove)	100%	**April 27**	**9,516**	**April 7**	9,318
Black Mountain (Kelowna)	100%	**April 6**	**12,148**	**April 1**	13,119
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	**May 1**	**8,474**	**April 29**	8,062

General and Administrative Expense

General and administrative expenses (G&A) were consistent with the comparable period. Corporate G&A decreased by $0.23 million, to $1.82 million in the quarter as we continue to prudently monitor our controllable expenses. Our other operating divisions remained fairly steady over Q2-2017. Year to date G&A was impacted by a one-time retirement allowance accrued in the comparative period.

Income Tax Expense

The statutory tax rate is 27% for the three and six months ended June 30, 2018, consistent with 2017. Significant adjustments that impacted the 2018 effective tax rate include the non-taxable portion of REIT income as well as permanent differences related to revaluation adjustments on investment properties and REIT units.

Liquidity & Capital Resources

The following table represents selected information as at June 30, 2018, compared with December 31, 2017.

As at ($000s except as noted)	**30-June-18**	31-Dec-17
Cash & cash equivalents	**31,620**	42,505
Restricted cash	—	16,956
Accounts receivable	**9,549**	17,384
Agreements receivable	**108,912**	129,949
Revolving credit facilities	**50,130**	76,529
Accounts payable and accrued liabilities	**36,792**	51,979
Total assets	**1,971,474**	1,990,983
Total liabilities	**948,091**	982,393
Debt to equity ratio*	**0.93**	0.97

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

We employ a range of strategies to maintain operations and facilitate growth. Our principal liquidity needs are to:

- Fund recurring expenses;
- Meet debt service requirements;
- Make dividend payments;

- Make distributions to unitholders of the REIT;
- Fund land development; and
- Fund investing activities such as the discretionary purchase of land inventory and/or investment property purchases.

We are able to meet our capital needs through a number of sources, including cash generated from operations, long and short-term borrowings from our syndicated credit facility, mortgage financings, convertible debentures, and the issuance of common shares or trust units. Our primary use of capital includes paying operating expenses, sustaining capital requirements on land and property development projects, completing real estate acquisitions, debt principal and interest payments, paying distributions on the REIT units and paying dividends when declared by our board of directors.

We believe that internally generated cash flows, supplemented by borrowings through our credit facility and mortgage financings, where required, will be sufficient to cover our normal operating and capital expenditures. We regularly review our credit facility limits and manage our capital requirements accordingly.

Financing

As at June 30, 2018, our total general debt outstanding was $639.32 million. A summary of our debt is as follows:

As at ($000s)	**30-June-18**	31-Dec-17
Melcor - revolving credit facilities	**50,130**	76,529
REIT - revolving credit facility	**—**	—
Project specific financing	**58,313**	20,926
Secured vendor take back debt on land inventory	**41,938**	64,891
Debt on investment properties and golf course assets	**433,680**	444,807
REIT - convertible debentures	**55,254**	54,775
Total general debt	**639,315**	661,928
Less: Liabilities held for sale	**—**	3,670
General debt	**639,315**	658,258

We are subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to total capital ratio of 125%, a minimum debt service coverage ratio of 3.00, and a minimum net book value of shareholder's equity of $300.00 million. As at June 30, 2018 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT's $35.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.50, and a minimum adjusted unitholders' equity of $140.00 million. As at June 30, 2018 and throughout the period, we were in compliance with our financial covenants.

These metrics are non-standard measures used to assess compliance with our lending agreements and are not specifically defined in the CPA Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies.

Sources and uses of cash

The following table summarizes our cash flows from (used in) operating, investing and financing activities, as reflected in our consolidated statement of cash flows:

($000s)	Three months ended		Six months ended	
	30-June-18	30-June-17	**30-June-18**	30-June-17
Cash flows from (used in) operating activities	**(2,594)**	(2,241)	**(1,744)**	11,368
Cash flows from (used in) investing activities	**5,992**	(2,951)	**4,261**	(5,363)
Cash flows used in financing activities	**(4,692)**	(11,155)	**(13,867)**	(17,569)

During Q2-2018, cash flows used in operating activities were $2.59 million. Cash generated from operating activities was offset by $14.65 million cash used in community development activities and $0.09 million in land purchases made during the quarter. Payment of tenant lease incentives and direct leasing costs was $1.93 million, an increase of $0.33 million over the comparative period. Collections on agreements receivable positively impacted cash from operations and was $12.21 million during the quarter compared with $10.38 million in the same period last year.

Cash flows used in investing activities were $5.99 million in Q2-2018 compared with cash used in investing activities of $2.95 million during Q2-2017. Additions to Investment Properties of $7.11 million was offset by cash proceeds of $13.39 million on an asset that had previously been classified as held for sale. Concurrent with the sale we paid off the associated mortgage liability which had a balance of $6.95 million. We continue to develop commercial properties and invest in our existing portfolio, and year to date have spent $12.33 million, compared with $9.42 million in 2017.

Cash flows used in financing activities were $4.69 million during the quarter, a change of $6.46 million over Q2-2017. Proceeds of $23.02 million primarily relate to project specific financing on land and property development projects .

On January 12, 2018 we received $17.30 million from the issuance of 2,035,500 REIT trust units. Proceeds were used to pay down the revolving credit facilities, which has decreased $26.40 million year to date. In the quarter, we paid a $0.13 per share dividend for a total of $4.34 million (Q2-2017 - $0.13 per share). Year to date dividend payments are $8.68 million, consistent with 2017.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at June 30, 2018 there were 33,403,651 common shares issued and outstanding and 960,047 options, each convertible to one common share upon exercise or exchange. There is only one class of common shares issued. As at June 30, 2018, no restricted share units have been issued.

Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Critical Accounting Estimates, Changes in Accounting Policies

There are no material changes to the above titled sections at June 30, 2018 in comparison to the December 31, 2017 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

Normal Course Issuer Bid

On March 29, 2018 we announced a Normal Course Issuer Bid (NCIB) commencing March 31, 2018 and ending March 30, 2019. Under the bid, we may acquire up to 1,669,782 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 1,262 common shares. We may also make one block purchase each calendar week in excess of the daily repurchase restriction in accordance with the Block Purchase Exemption rules of the TSX. During the year and quarter ended June 30, 2018, we did not repurchase any common shares.

In connection with the commencement of the NCIB, we entered into an automatic share purchase plan agreement with a broker to allow for the purchase of common shares under the NCIB at times when we ordinarily would not be active in the market due to regulatory restrictions or self-imposed trading blackout periods.

Quarterly Results

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

	Three Months Ended							
($000s)	**30-June-18**	31-Mar-18	31-Dec-17	30-Sept-17	30-Jun-17	31-Mar-17	31-Dec-16	30-Sept-16
Revenue	**42,793**	44,414	109,633	62,795	46,955	38,567	106,391	63,432
Net income (loss)	**1,631**	14,647	32,084	11,517	3,927	(9,003)	24,109	16,260
FFO	**7,695**	4,920	30,850	12,787	9,306	6,078	28,149	10,225
Per Share								
Basic earnings (loss)	**0.05**	0.44	0.96	0.34	0.12	(0.27)	0.73	0.49
Diluted earnings (loss)	**0.05**	0.44	0.96	0.34	0.12	(0.27)	0.73	0.49
FFO	**0.23**	0.15	0.93	0.38	0.28	0.18	0.79	0.31
Book value	**30.64**	30.63	30.21	29.39	29.30	29.41	29.83	29.19

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

Subsequent Events

Refer to note 14 of the interim consolidated financial statements for information pertaining to subsequent events.

Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

Non-standard Measures

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

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

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

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

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

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

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

Investment Properties

($000s)	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Segment Earnings	**2,525**	3,544	**4,494**	8,488
Fair value adjustment on investment properties	**1,649**	878	**3,731**	770
General and administrative expenses	**597**	663	**1,180**	1,271
Interest income	**(1)**	(1)	**(4)**	(2)
Amortization of operating lease incentives	**198**	235	**461**	420
Straight-line rent adjustment	**(325)**	(176)	**(681)**	(339)
Divisional NOI	**4,643**	5,143	**9,181**	10,608

REIT

($000s)	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Segment Earnings	**6,519**	9,173	**16,486**	2,214
Fair value adjustment on investment properties	**3,414**	249	**3,415**	16,708
General and administrative expenses	**709**	625	**1,455**	1,314
Interest income	**(29)**	(14)	**(64)**	(20)
Amortization of operating lease incentives	**757**	802	**1,525**	1,571
Straight-line rent adjustment	**(313)**	(265)	**(685)**	(480)
Divisional NOI	**11,057**	10,570	**22,132**	21,307

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

Consolidated

($000s)	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Net income for the period	**1,631**	3,927	**16,278**	(5,076)
Amortization of operating lease incentives	**1,595**	1,931	**3,255**	3,155
Fair value adjustment on investment properties	**1,790**	(947)	**(283)**	12,857
Depreciation on property and equipment	**455**	459	**652**	658
Stock based compensation expense	**107**	114	**212**	212
Non-cash finance costs	**637**	(195)	**1,207**	171
Gain on sale of asset	**(5)**	(14)	**(5)**	(14)
Deferred income taxes	**(98)**	16	**(4,897)**	(1,040)
Fair value adjustment on REIT units	**1,583**	4,015	**(3,804)**	4,461
FFO	**7,695**	9,306	**12,617**	15,384

Investment Properties

($000s)	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Segment Earnings	**2,525**	3,544	**4,494**	8,488
Fair value adjustment on investment properties	**1,649**	878	**3,731**	770
Amortization of operating lease incentives	**198**	235	**461**	420
Divisional FFO	**4,372**	4,657	**8,686**	9,678

REIT

($000s)	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Segment Earnings	**6,519**	9,173	**16,486**	2,214
Fair value adjustment on investment properties	**3,414**	249	**3,415**	16,708
Amortization of operating lease incentives	**757**	802	**1,525**	1,571
Divisional FFO	**10,690**	10,224	**21,426**	20,493

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

Condensed Interim Consolidated Financial Statements

For the three and six-months ended June 30, 2018

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income (Loss)

	For the three months ended		For the six months ended	
Unaudited ($000s)	**June 30, 2018**	June 30, 2017	**June 30, 2018**	June 30, 2017
Revenue (note 8)	**42,793**	46,955	**87,207**	85,522
Cost of sales	**(22,058)**	(24,860)	**(43,519)**	(44,668)
Gross profit	**20,735**	22,095	**43,688**	40,854
General and administrative expense	**(6,026)**	(6,192)	**(11,838)**	(12,107)
Fair value adjustment on investment properties (note 6 and 12)	**(1,790)**	947	**283**	(12,857)
Adjustments related to REIT units (note 11)	**(3,809)**	(5,897)	**(2,135)**	(8,225)
Gain on sale of assets	**5**	14	**5**	14
Operating earnings	**9,115**	10,967	**30,003**	7,679
Interest income	**379**	335	**701**	655
Finance costs	**(6,117)**	(4,936)	**(11,637)**	(10,454)
Net finance costs	**(5,738)**	(4,601)	**(10,936)**	(9,799)
Income before income taxes	**3,377**	6,366	**19,067**	(2,120)
Income tax expense	**(1,746)**	(2,439)	**(2,789)**	(2,956)
Net income (loss) for the period	**1,631**	3,927	**16,278**	(5,076)
Income (loss) per share:				
Basic earnings (loss) per share	**0.05**	0.12	**0.49**	(0.15)
Diluted earnings (loss) per share	**0.05**	0.12	**0.49**	(0.15)

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income (Loss)

	For the three months ended		For the six months ended	
Unaudited ($000s)	**June 30, 2018**	June 30, 2017	**June 30, 2018**	June 30, 2017
Net income (loss) for the period	**1,631**	3,927	**16,278**	(5,076)
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income (loss):				
Currency translation differences	**3,012**	(3,219)	**6,792**	(3,951)
Comprehensive income (loss)	**4,643**	708	**23,070**	(9,027)

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	**June 30, 2018**	December 31, 2017
ASSETS		
Cash and cash equivalents	**31,620**	42,505
Restricted cash	**—**	16,956
Accounts receivable	**9,549**	17,384
Income taxes recoverable	**3,358**	8,933
Agreements receivable	**108,912**	129,949
Land inventory (note 5)	**765,391**	729,300
Investment properties (note 6 and 12)	**983,271**	975,856
Property and equipment	**14,391**	14,658
Other assets	**54,982**	48,710
Assets held for sale (note 4)	**—**	6,732
	1,971,474	1,990,983
LIABILITIES		
Accounts payable and accrued liabilities	**36,792**	51,979
Provision for land development costs	**98,565**	87,139
General debt (note 7)	**639,315**	658,258
Deferred income tax liabilities	**65,024**	69,826
REIT units (note 11 and 12)	**108,395**	94,898
Subscription receipts	**—**	16,623
Liability held for sale (note 4)	**—**	3,670
	948,091	982,393
SHAREHOLDERS' EQUITY		
Share capital (note 9)	**72,946**	72,729
Contributed surplus	**3,128**	2,939
Accumulated other comprehensive income (AOCI)	**23,740**	16,948
Retained earnings	**923,569**	915,974
	1,023,383	1,008,590
	1,971,474	1,990,983

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

	Equity attributable to Melcor's shareholders				
Unaudited ($000's)	**Share capital**	**Contributed surplus**	**AOCI**	**Retained earnings**	**Total equity**
Balance at January 1, 2018	**72,729**	**2,939**	**16,948**	**915,974**	**1,008,590**
Net income for the period	—	—	—	16,278	16,278
Cumulative translation adjustment	—	—	6,792	—	6,792
Transactions with equity holders					
Dividends	—	—	—	(8,683)	(8,683)
Employee share options					
Value of services recognized	—	212	—	—	212
Share issuance	217	(23)	—	—	194
Balance at June 30, 2018	**72,946**	**3,128**	**23,740**	**923,569**	**1,023,385**

	Equity attributable to Melcor's shareholders				
Unaudited ($000's)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
Balance at January 1, 2017	72,137	2,594	25,190	894,800	994,721
Net loss for the period	—	—	—	(5,076)	(5,076)
Cumulative translation adjustment	—	—	(3,951)	—	(3,951)
Transactions with equity holders					
Dividends	—	—	—	(8,672)	(8,672)
Employee share options					
Value of services recognized	—	212	—	—	212
Share issuance	87	(9)	—	—	78
Balance at June 30, 2017	72,224	2,797	21,239	881,052	977,312

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

	For the three months ended		For the six months ended	
Unaudited ($000's)	**June 30, 2018**	June 30, 2017	**June 30, 2018**	June 30, 2017
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income (loss) for the period	**1,631**	3,927	**16,278**	(5,076)
Non cash items:				
Amortization of tenant incentives	**1,595**	1,931	**3,255**	3,155
Depreciation of property and equipment	**455**	459	**652**	658
Stock based compensation expense	**107**	114	**212**	212
Non-cash finance costs	**637**	(195)	**1,207**	171
Straight-line rent adjustment	**(505)**	(224)	**(1,218)**	(522)
Fair value adjustment on investment properties (note 6 and 12)	**1,790**	(947)	**(283)**	12,857
Fair value adjustment on REIT units (note 11 and 12)	**1,583**	4,015	**(3,804)**	4,461
Loss (gain) on sale of assets	**(5)**	(14)	**(5)**	(14)
Deferred income taxes	**(98)**	16	**(4,897)**	(1,040)
	7,190	9,082	**11,397**	14,862
Agreements receivable	**12,206**	10,380	**21,037**	22,285
Development activities	**(14,646)**	(1,404)	**(21,032)**	(1,352)
Purchase of land inventory (note 5)	**(91)**	(23,451)	**(1,066)**	(25,130)
Payment of tenant lease incentives and direct leasing costs	**(1,931)**	(1,604)	**(3,738)**	(2,398)
Operating assets and liabilities	**(5,322)**	4,756	**(8,342)**	3,101
	(2,594)	(2,241)	**(1,744)**	11,368
INVESTING ACTIVITIES				
Additions to investment properties (note 6)	**(7,110)**	(7,003)	**(12,333)**	(9,415)
Net proceeds from disposal of investment properties (note 6)	**—**	4,220	**516**	4,220
Net proceeds from disposal of asset held for sale (note 4 and 6)	**13,389**	—	**16,459**	—
Purchase of property and equipment	**(311)**	(184)	**(405)**	(192)
Proceeds on disposal of property and equipment	**24**	16	**24**	24
	5,992	(2,951)	**4,261**	(5,363)
FINANCING ACTIVITIES				
Proceeds from issuance of trust units (note 11)	**—**	—	**17,302**	—
Revolving credit facilities	**(8,297)**	(945)	**(26,399)**	7,102
Proceeds from general debt	**23,022**	10,160	**42,106**	10,160
Repayment of general debt	**(15,183)**	(16,059)	**(38,387)**	(26,237)
Dividends paid	**(4,342)**	(4,336)	**(8,683)**	(8,672)
Share capital issued	**108**	25	**194**	78
	(4,692)	(11,155)	**(13,867)**	(17,569)
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	**672**	(649)	**465**	(872)
DECREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**(622)**	(16,996)	**(10,885)**	(12,436)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**32,242**	44,452	**42,505**	39,892
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**31,620**	27,456	**31,620**	27,456
Total income taxes paid	**680**	4,854	**1,144**	8,954
Total interest paid	**5,752**	5,806	**11,662**	11,704

See accompanying notes to these condensed interim consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

We are a real estate development company with community development, property development, investment properties, REIT and recreational property divisions. We develop, manage, and own mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres, and golf courses.

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 June 30, 2018 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 August 2, 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".

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

2. BASIS OF PRESENTATION

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

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on August 2, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES AND NEW STANDARDS ADOPTED

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those of the previous financial year, except as described below. Beginning January 1, 2019 IFRS 16, Leases, will be in effect. We are in the process of assessing the impact of this new standard on our financial statements.

We have adopted the following new IFRS standards effective January 1, 2018

a) ***IFRS 15, Revenue from Contracts with Customers*** supersedes IAS 18, 'Revenue', IAS 11,'Construction Contracts' and other interpretive guidance associated with revenue recognition. 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.

   Impact of adoption

   The adoption of IFRS 15 did not result in any adjustments upon transition, change in recognition, or timing of recognition of revenue from contracts in Melcor. Adoption does require additional disclosures to the interim financial statements to distinguish between those revenues related to lease components or service revenues (note 8).

   Lease revenues will continue to be accounted for under IAS 17, Leases, with the exception of any service component revenue earned on a lease contract which will now be accounted for under IFRS 15. Management fee revenue earned on Melcor's joint arrangements will continue to be accounted for under IFRS 11 and revenues from land sales and golf courses will be accounted for under IFRS 15.

   Accounting Policies Adopted From January 1, 2018

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

   Revenue from contracts related to the sale of developed land is recognized at a point in time, which is when a minimum of 15% of the sale price has been received, the sale is unconditional and possession has been granted. All contracts related to the sale of developed land have one performance obligation, the delivery of a fully developed lot to the customer. Common areas within a development community that are subsequently transferred to municipal or government organizations or home-owner associations are not considered an extension of a customer and therefore; this does not represent a separate performance obligation.

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.

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.

Rental revenues include both lease and service revenue components. Lease revenues from investment properties include base rents, recoveries of operating expenses including property taxes, parking revenue, incidental income and sign and storage lease revenue. 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 the 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.

Service revenues are amounts outlined separately in the lease agreement for distinct services provided including utilities, maintenance and security recoveries from tenants which are recognized on a monthly basis in the period in which the corresponding costs are incurred and performance obligations are completed.

Revenue from contracts related to golf courses (green fees, food and beverage) is recognized at a point in time and the performance obligation is satisfied in the accounting period in which the services are provided. Membership revenue from golf courses is recognized over time on a monthly basis in the period in which the performance obligations are completed.

b) IFRS 9, Financial Instruments replaces IAS 39 and introduces a new classification and measurement model with three classification categories, 'amortized cost', 'fair value' and '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 and a new hedge accounting model.

Impact of adoption

The adoption of IFRS 9 did not result in any adjustments upon transition. Financial assets which include cash and cash equivalents, restricted cash, accounts receivable and agreements receivables were previously classified as Loans and Receivable are now classified as amortized cost. This change in classification did not result in any changes in measurement of financial assets in Melcor.

Melcor was required to revise its impairment methodology under IFRS 9 for its financial assets, to account for expected credit losses. To measure the expected credit loss, financial assets have been grouped based on shared credit risk characteristics, days past due or past due. While our financial assets are subject to the expected credit loss requirements, the identified loss was immaterial.

There was no impact to the measurement, recognition or disclosures of financial liabilities, and Melcor does not apply hedge accounting.

Accounting Policies Adopted From January 1, 2018

Financial assets

Finance assets that are held for collection of contractual cash flows represent solely payments of principle and interest are measured at amortized cost. This includes cash and cash equivalents, restricted cash, accounts receivable and agreements receivable. Financial assets are initially recognized at fair value plus transaction costs, adjusted for an expected credit loss. Subsequently, receivables are measured at amortized cost using the effective interest rate method adjusted for expected credit losses.

For financial assets, Melcor applies the simplified expected credit loss approach, which requires expected lifetime losses to be recognized from initial recognition of the accounts receivables and agreements receivables.

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

4. ASSET HELD FOR SALE

On January 31, 2018, we disposed of an industrial property previously held for sale for proceeds of $6,732 (net of transaction costs and including tenant incentives of $66 and straight line rent of $24). The sale price was settled through mortgage assumption of $3,662 and cash of $3,070.

5. LAND INVENTORY

	June 30, 2018	December 31, 2017
Raw land held	**383,145**	383,843
Land under development	**143,995**	137,872
Developed land	**238,251**	207,585
	765,391	729,300

During the six-month period ended June 30, 2018, we purchased 1.64 acres of land at a cost of $1,066.

During the comparative six-month period ended June 30, 2017, we purchased 424.49 acres of land and 294 lots at a cost of $35,752 and received vendor financing of $10,622.

6. INVESTMENT PROPERTIES

Investment properties consists of the following:

	June 30, 2018	December 31, 2017
Investment properties	**915,856**	907,310
Properties under development	**67,415**	68,546
Total	**983,271**	975,856

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

			Six months ended June 30, 2018
	Investment Properties	**Properties under Development**	**Total**
Balance - beginning of period	907,310	68,546	**975,856**
Additions			
Transfer from land inventory	—	2,070	**2,070**
Direct leasing costs	465	524	**989**
Property improvements	2,108	—	**2,108**
Development costs	—	9,887	**9,887**
Capitalized borrowing costs	—	338	**338**
Disposals	(13,391)	—	**(13,391)**
Transfers	19,767	(19,767)	**—**
Fair value adjustment on investment properties	(5,534)	5,817	**283**
Foreign currency translation (included in OCI)	5,131	—	**5,131**
Balance - end of period	**915,856**	**67,415**	**983,271**

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

			Year ended December 31, 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**
Development costs	73	31,781	**31,854**
Capitalized borrowing costs	—	208	**208**
Disposals	(10,919)	—	**(10,919)**
Transfers	10,302	(10,302)	**—**
Fair value adjustment on investment properties	(12,480)	3,652	**(8,828)**
Investment Property classified as held for sale	(6,642)	—	**(6,642)**
Foreign currency translation (included in OCI)	(7,528)	—	**(7,528)**
Balance - end of year	**907,310**	**68,546**	**975,856**

In accordance with our policy we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 12.

Disposals

During the six-month period ended June 30, 2018, we disposed of two residential units in Arizona for a sales price of $261 and $255 (US$212 and US$199) (net of transaction costs). The sale price was settled through cash.

On April 16, 2018 we sold an investment property for proceeds of $13,389 (net of transaction costs and including tenant incentives of $434 and straight line rent of $80). Concurrent with the sale we paid off the associated mortgage liability which had a balance of $6,947.

7. GENERAL DEBT

	June 30, 2018	December 31, 2017
Melcor - revolving credit facilities	**50,130**	76,529
REIT - revolving credit facility	**—**	—
Project specific financing	**58,313**	20,926
Secured vendor take back debt on land inventory	**41,938**	64,891
Debt on investment properties and golf course assets	**433,680**	444,807
REIT - convertible debentures	**55,254**	54,775
Total general debt	**639,315**	661,928
Less: Liability held for sale (note 4)	**—**	3,670
General debt	**639,315**	658,258

8. REVENUE

($000s)	**For the three months ended**		**For the six months ended**	
Total Revenues	**June 30, 2018**	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Revenue from contracts	**23,127**	27,635	**48,225**	46,602
Revenue from other sources	**19,666**	19,320	**38,982**	38,920
	42,793	46,955	**87,207**	85,522

($000s)	**For the three months ended**		**For the six months ended**	
Timing of contract revenue recognition	**June 30, 2018**	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
At a point in time	**18,297**	22,793	**38,702**	37,177
Over time	**4,830**	4,842	**9,523**	9,425
	23,127	27,635	**48,225**	46,602

9. SHARE CAPITAL

Issued and outstanding common shares at June 30, 2018 are 33,403,651 (December 31, 2017 – 33,389,451). During the three and six months ended June 30, 2018, there were 8,000 and 14,200 options exercised (Q2-2017 – 1,700 and 5,553).

10. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues	**For the three months ended**		**For the six months ended**	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
United States	**3,524**	3,642	**11,767**	7,236
Canada	**39,269**	43,313	**75,440**	78,286
Total	**42,793**	46,955	**87,207**	85,522

Total Assets		
As at	**June 30, 2018**	December 31, 2017
United States	**248,789**	203,687
Canada	**1,722,685**	1,787,296
Total	**1,971,474**	1,990,983

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

10. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

For the three months ended June 30, 2018	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	16,790	3,750	8,098	17,537	3,788	—	49,963	(7,170)	42,793
Cost of sales	(11,204)	(3,650)	(3,328)	(6,924)	(2,080)	—	(27,186)	5,128	(22,058)
Gross profit	5,586	100	4,770	10,613	1,708	—	22,777	(2,042)	20,735
	—	—	—	—	—	—		—	
General and administrative expense	(2,320)	(587)	(597)	(709)	(829)	(1,815)	(6,857)	831	(6,026)
Fair value adjustment on investment properties	—	2,062	(1,649)	(3,414)	—	—	(3,001)	1,211	(1,790)
Gain on sale of assets	—	—	—	—	12	(7)	5	—	5
Interest income	290	5	1	29	—	54	379	—	379
Segment Earnings (Loss)	3,556	1,580	2,525	6,519	891	(1,768)	13,303	—	13,303
Finance costs									(6,117)
Adjustments related to REIT units									(3,809)
Income before tax									3,377
Income tax expense									(1,746)
Net income for the period									1,631

For the three months ended June 30, 2017	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	22,089	49	8,670	16,559	3,703	—	51,070	(4,115)	46,955
Cost of sales	(14,945)	—	(3,586)	(6,526)	(1,999)	—	(27,056)	2,196	(24,860)
Gross profit	7,144	49	5,084	10,033	1,704	—	24,014	(1,919)	22,095
							—		—
General and administrative expense	(2,368)	(517)	(663)	(625)	(804)	(2,043)	(7,020)	828	(6,192)
Fair value adjustment on investment properties	—	983	(878)	(249)	—	—	(144)	1,091	947
Interest income	291	12	1	14	—	17	335	—	335
Segment Earnings (Loss)	5,067	527	3,544	9,173	914	(2,026)	17,199	—	17,199
Finance costs									(4,936)
Adjustments related to REIT units									(5,897)
Income before tax									6,366
Income tax expense									(2,439)
Net income for the period									3,927

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

For the six months ended June 30, 2018	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	39,441	20,043	15,733	35,554	3,935	—	**114,706**	(27,499)	**87,207**
Cost of sales	(23,808)	(19,850)	(6,332)	(14,262)	(2,590)	—	**(66,842)**	23,323	**(43,519)**
Gross profit	15,633	193	9,401	21,292	1,345	—	**47,864**	(4,176)	**43,688**
General and administrative expense	(4,793)	(1,206)	(1,180)	(1,455)	(1,203)	(3,551)	**(13,388)**	1,550	**(11,838)**
Fair value adjustment on investment properties	—	4,803	(3,731)	(3,415)	—	—	**(2,343)**	2,626	**283**
Gain on sale of assets	—	—	—	—	12	(7)	**5**	—	**5**
Interest income	516	11	4	64	—	106	**701**	—	**701**
Segment Earnings (Loss)	11,356	3,801	4,494	16,486	154	(3,452)	**32,839**	—	**32,839**
Finance costs									**(11,637)**
Adjustments related to REIT units									**(2,135)**
Income before tax									**19,067**
Income tax expense									**(2,789)**
Net income for the period									**16,278**

For the six months ended June 30, 2017	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	36,836	130	17,418	33,559	3,864	—	**91,807**	(6,285)	**85,522**
Cost of sales	(24,739)	—	(6,891)	(13,343)	(2,502)	—	**(47,475)**	2,807	**(44,668)**
Gross profit	12,097	130	10,527	20,216	1,362	—	**44,332**	(3,478)	**40,854**
General and administrative expense	(4,313)	(962)	(1,271)	(1,314)	(1,158)	(4,649)	**(13,667)**	1,560	**(12,107)**
Fair value adjustment on investment properties	—	2,703	(770)	(16,708)	—	—	**(14,775)**	1,918	**(12,857)**
Interest income	583	13	2	20	—	37	**655**	—	**655**
Segment Earnings (Loss)	8,367	1,884	8,488	2,214	218	(4,612)	**16,559**	—	**16,559**
Finance costs									**(10,454)**
Adjustments related to REIT units									**(8,225)**
Income before tax									**(2,120)**
Income tax expense									**(2,956)**
Net loss for the period									**(5,076)**

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

11. NON-CONTROLLING INTEREST IN MELCOR REIT

On January 12, 2018 the REIT completed the issuance of 2,035,500 trust units in exchange for subscription receipts previously issued and outstanding as of December 31, 2017. Subscription receipts had been issued at $8.50 for gross proceeds of $17,302, including $2,257 issued pursuant to the exercise of an over-allotment option. The funds were used to help the REIT finalize a purchase 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 1,331,167 Class C LP units, representing $13,312 in Retained Debt by Melcor; issuance of 283,447 Class B LP units at price of $8.82, representing $2,500; and cash of $34,025. As at June 30, 2018 Melcor owns a 53.0% interest in the REIT through ownership of Class B LP units. We have assessed and concluded that Melcor continues to retain control of the REIT in accordance with IFRS 10 Consolidated Financial Statements.

In accordance with our policy, we account for the remaining 47.0% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss (“FVTPL”). As at June 30, 2018 the REIT units had a fair value of $108,395. We recorded adjustments related to REIT units for the three and six months ended June 30, 2018 of $3,809 and $(2,135) (Q2-2017 - $5,897 and $8,225).

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

	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Fair value adjustment on REIT units (note 12)	**(1,583)**	(4,015)	**3,804**	(4,461)
Transaction costs on REIT unit issuance				
Capitalized against REIT trust units	—	—	**(1,190)**	—
Capitalized to investment properties	—	—	**(298)**	—
Distributions to REIT unitholders	**(2,226)**	(1,882)	**(4,451)**	(3,764)
Adjustments related to REIT units	**(3,809)**	(5,897)	**(2,135)**	(8,225)

The following tables summarize the financial information relating to Melcor's subsidiary, the REIT, that has material non-controlling interest (NCI), before intra-group eliminations.

As at	**June 30, 2018**	December 31, 2017
Assets	**711,545**	676,237
Liabilities	**396,097**	378,405
Net assets	**315,448**	297,832
Cost of NCI	**118,819**	102,707
Fair value of NCI	**108,395**	94,898

	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Revenue	**17,537**	16,559	**35,554**	33,559
Net income (loss) and comprehensive income (loss)	**(1,768)**	(1,792)	**7,776**	(15,282)
Cash flows from operating activities	**1,679**	2,701	**5,376**	5,528
Cash flows from (used in) investing activities	**12,252**	3,411	**(19,036)**	3,198
Cash flows from (used in) financing activities, before distributions to REIT unitholders	**(9,822)**	(3,046)	**8,951**	(4,420)
Cash flows used in financing activities - cash distributions to REIT unitholders	**(2,130)**	(1,882)	**(4,243)**	(3,764)
Net increase (decrease) in cash and cash equivalents	**1,979**	1,184	**(8,952)**	542

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

12. 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, accounts receivables, 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 are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 3).
- fair value of derivative financial liabilities, which is the conversion feature on the REIT convertible debenture, and our floating for fixed interest rate swap, 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 and the fair value of the convertible debenture is estimated based on the closing trading price of the REIT's debenture (Level 1).

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

The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

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

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

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.

					June 30, 2018	December 31, 2017	
	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**	**983,271**	**—**	**983,271**	**983,271**	975,856	975,856
Assets held for sale	**Level 3**	**—**	**—**	**—**	**—**	6,732	6,732
Financial liabilities							
General debt, excluding convertible debenture and derivative financial liability	**Level 3**	**—**	**585,152**	**585,152**	**571,108**	603,483	576,920
Convertible debenture	**Level 1**	**—**	**54,525**	**54,525**	**57,500**	54,046	58,018
Liabilities held for sale	**Level 3**	**—**	**—**	**—**	**—**	3,670	3,670
Derivative financial liability							
Interest rate swaps	**Level 3**	**(1,091)**	**—**	**(1,091)**	**(1,091)**	(1,057)	(1,057)
Conversion feature on convertible debenture	**Level 3**	**729**	**—**	**729**	**729**	729	729
REIT units	**Level 1**	**108,395**	**—**	**108,395**	**108,395**	94,898	94,898

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 result 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 two years, the valuations are performed by qualified external valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Investment properties were valued by Melcor's internal valuation team as at June 30, 2018 of which 18 investment properties (of 82 legal phases) with a fair value of $214,233 were valued by qualified independent external valuation professionals during the period. Valuations performed during the period resulted in fair value gains of $283. As at December 31, 2017 Melcor's internal valuation team valued investment properties 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. Valuations performed during 2017 resulted in fair value losses of $8,828.

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

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

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

Weighted average annual stabilized net operating income for investment properties as at June 30, 2018 is $1,498 (December 31, 2017 - $1,484). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties			**Properties under Development**		
June 30, 2018	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**8.75%**	**6.62%**	**6.00%**	**6.50%**	**6.22%**
Terminal capitalization rate	**5.75%**	**9.00%**	**6.73%**	**6.25%**	**6.25%**	**6.25%**
Discount rate	**6.75%**	**9.75%**	**7.66%**	**6.22%**	**6.25%**	**7.00%**

	Investment Properties			Properties under Development		
December 31, 2017	Min	Max	Weighted Average	Min	Max	Weighted Average
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%

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by $55,028 (December 31, 2017 - $56,320). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by $64,015 (December 31, 2017 - $65,115).

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 and convertible debenture 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.

Derivative financial liabilities

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

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

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 June 30, 2018, the fair value of interest rate swap contracts was $1,091 (December 31, 2017 - $1,057).

The significant unobservable inputs used in the fair value measurement of the conversion feature on the REIT convertible debenture as at June 30, 2018 are as follows:

- Volatility - expected volatility as at June 30, 2018 was derived from the historical prices of the REIT's trust units. As the REIT was formed on May 1, 2013, price history is limited and we have used the entire historical data up until June 30, 2018. Volatility was 21.70% (December 31, 2017 - 21.70%).
- Credit spread - the credit spread of the convertible debenture was imputed from the traded price of the convertible debenture as at June 30, 2018. The credit spread used was 2.81% (December 31, 2017 - 2.81%).

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as level 1 in the fair value heirarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At June 30, 2018 the fair value of the REIT units was $108,395, resulting in a fair value gain during the quarter of $1,583 and $3,804 (2017 - loss of $4,015 and $4,461) in the statement of income and comprehensive income for the period ended ended June 30, 2018 (note 11).

13. CREDIT RISK

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.

As at June 30, 2018, we have agreements receivable balances of $2,769 due from one of our registered builders that is currently in receivership, of which $2,196 is overdue as of June 30, 2018. We hold title to the lots sold to this builder as specific security against this balance. Management has performed an assessment of the collectibility and of the underlying security for these agreements, and has concluded that no impairment is required as at June 30, 2018. We will continue to monitor our exposure to impairment as we work to settle the outstanding amounts.

14. EVENTS AFTER THE REPORTING PERIOD

Distributions on REIT trust units

On July 16, 2018 the REIT declared a distribution of $0.05625 per unit for the months of July, August and September 2018. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
July 2018	July 31, 2018	August 15, 2018	$0.05625 per unit
August 2018	August 31, 2018	September 17, 2018	$0.05625 per unit
September 2018	September 28, 2018	October 15, 2018	$0.05625 per unit

Dividends declared

On August 2, 2018 our board of directors declared a dividend of $0.13 per share payable on September 28, 2018 to shareholders of record on September 14, 2018.