

Management's Discussion & Analysis

November 6, 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 September 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 November 6, 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.

Forward-looking Statements

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

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

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

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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.

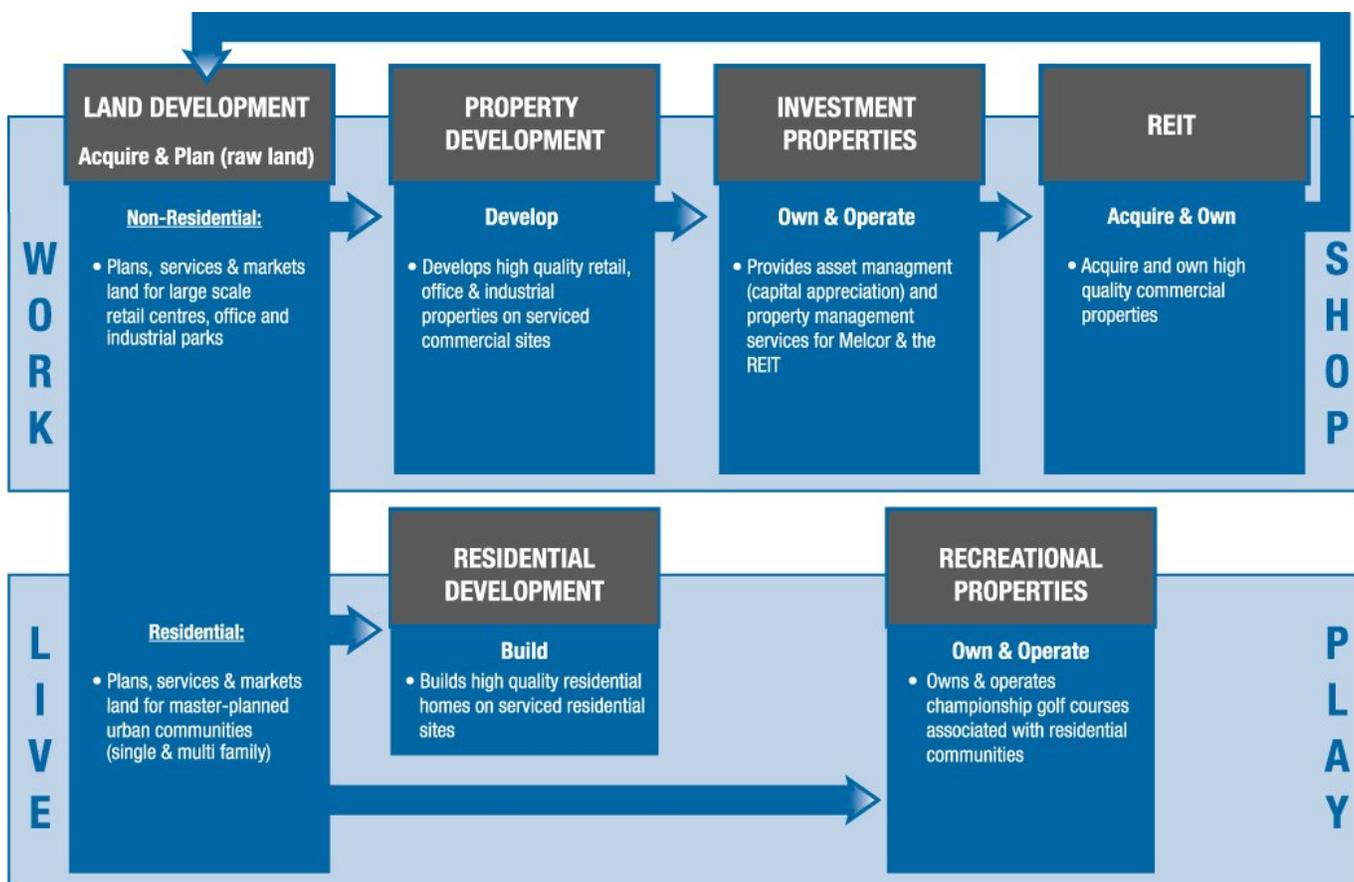
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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 \$2.02 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).

Third Quarter Highlights

| (\$000s except as noted) | Three months ended | | | Nine months ended | | |
|----------------------------|--------------------|------------|--------|-------------------|------------|---------|
| | 30-Sept-18 | 30-Sept-17 | Change | 30-Sept-18 | 30-Sept-17 | Change |
| Revenue | 60,245 | 62,795 | (4.1)% | 147,452 | 148,317 | (0.6)% |
| Gross margin (%) * | 46.6% | 44.5% | 2.1 % | 48.7% | 46.4% | 2.3 % |
| Net income (loss) | 11,469 | 11,517 | (0.4)% | 27,747 | 6,441 | 330.8 % |
| Net margin (%) * | 19.0% | 18.3% | 0.7 % | 18.8% | 4.3% | 14.5 % |
| Funds from operations * | 12,841 | 12,787 | 0.4 % | 25,456 | 28,171 | (9.6)% |
| Per Share Data (\$) | | | | | | |
| Basic earnings (loss) | 0.34 | 0.34 | — % | 0.83 | 0.19 | 336.8 % |
| Diluted earnings | 0.34 | 0.34 | — % | 0.83 | 0.19 | 336.8 % |
| Funds from operations * | 0.38 | 0.38 | — % | 0.76 | 0.84 | (9.5)% |

| As at (\$000s except as noted) | 30-Sept-18 | 31-Dec-17 | Change |
|--------------------------------|------------------|-----------|--------|
| Shareholders' equity | 1,028,130 | 1,008,590 | 1.9 % |
| Total assets | 2,016,090 | 1,990,983 | 1.3 % |
| Per Share Data (\$) | | | |
| Book value * | 30.78 | 30.21 | 1.9 % |

*See non-standard measures for calculation.

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 down 1% compared to 2017 at \$147.45 million. Q3-2018 revenue was down 4% as a result of decreased revenue generated from single-family lot sales in our Canadian markets.
- Year to date FFO was down 10% to \$25.46 million due to taxes owing relating to the sale to the REIT in Q1-2018. Excluding this item, FFO increased by \$0.96 million or 3% over 2017. FFO in the quarter was relatively stable over Q3-2017 at \$12.84 million.
- 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 has transferred 45,897 sf year to date to our Investment Properties division and has a further 117,800 sf of commercial properties currently under construction.
- Our income-producing divisions (Investment Properties and REIT) continue to yield stable results, with year to date revenue of \$76.47 million compared with \$76.23 million in 2017.
- 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.
- On September 26, 2018 we purchased a 130,400 sf office property consisting of 2 buildings in Glendale, Arizona for \$24.53 million (US\$18.91 million) including transaction costs.
- During the quarter we purchased 129.49 acres of land for \$3.70 million. Year to date we have purchased 131.13 acres of land at a cost of \$4.77 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.

- We continue to return value to our shareholders and unitholders:
 - We paid a quarterly dividend of \$0.13 per share on September 29, 2018. The REIT paid distributions of \$0.05625 per trust unit in July, August and September for a quarterly payout ratio of 105% and 99% year to date. The REIT's payout ratio was negatively impacted by undeployed cash due in part to the sale of two buildings earlier in the year.
 - On November 6, 2018 we declared a quarterly dividend of \$0.13 per share, payable on December 28, 2018 to shareholders of record on December 14, 2018. The dividend is an eligible dividend for Canadian tax purposes.

Revenue & Margins:

Revenue for the quarter was down 4% to \$60.25 million compared with \$62.80 million in Q3-2017. Year to date, revenue was down 1% compared to 2017. Community Development division revenue for the nine month period was up 1% over 2017 however Q3-2018 revenue was down 6%. Revenue derived from single-family lot sales in our Canadian markets was down as a greater portion of sales were in joint venture communities. This was partially offset by US sales of 140 lots during the quarter, which generated revenue of \$4.35 million (US\$3.33 million). Year to date revenue on lots sold in the US added \$9.09 million (US\$7.07 million) to revenue in Community Development. Raw land, commercial, and multi-family 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 improved 2% to 47%. The strong margin on the US lots sold, at 57%, contributed to an improved Community Development gross margin, up 4% in the quarter and 5% year to date at 39%. Gross margin is impacted by the mix of product sold in a given period.

Revenue and margins on our Investment Properties and REIT operating divisions remain stable. In Q3-2018, these divisions contributed revenue of \$25.18 million at 60% gross margin compared with revenue of \$25.26 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 | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | 30-Sept-18 | 30-Sept-17 | 30-Sept-18 | 30-Sept-17 |
| Net income for the period | 11,469 | 11,517 | 27,747 | 6,441 |
| Amortization of operating lease incentives | 1,752 | 1,480 | 5,007 | 4,635 |
| Fair value adjustment on investment properties | 25 | (106) | (258) | 12,751 |
| Depreciation on property and equipment | 518 | 517 | 1,170 | 1,175 |
| Stock based compensation expense | 111 | 93 | 323 | 305 |
| Non-cash finance costs | 491 | (294) | 1,698 | (123) |
| Gain on sale of asset | (1) | (21) | (6) | (35) |
| Deferred income taxes | 58 | (287) | (4,839) | (1,327) |
| Fair value adjustment on REIT units | (1,582) | (112) | (5,386) | 4,349 |
| FFO | 12,841 | 12,787 | 25,456 | 28,171 |
| FFO per share | 0.38 | 0.38 | 0.76 | 0.84 |

FFO was stable in the quarter at \$12.84 million, compared with \$12.79 million in Q3-2017. 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 \$0.96 million or 3% over 2017. Stable performance in all our operating divisions accounts for the stability seen in FFO.

Divisional Results

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

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office and industrial income-producing properties on serviced commercial sites developed by Community Development or acquired from third parties;
- 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 September 30 | | Three months ended September 30 | | Three months ended September 30 | | Three months ended September 30 | | Three months ended September 30 | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| (\$000s except as noted) | | | | | | | | | | |
| Revenue | 33,469 | 35,673 | 131 | 5,120 | 7,899 | 8,464 | 17,283 | 16,791 | 3,779 | 4,093 |
| Portion of total revenue | 56% | 57% | —% | 8% | 13% | 13% | 29% | 27% | 6% | 7% |
| Cost of sales | (20,471) | (23,257) | — | (5,100) | (3,198) | (3,529) | (6,855) | (6,424) | (2,405) | (2,407) |
| Gross profit | 12,998 | 12,416 | 131 | 20 | 4,701 | 4,935 | 10,428 | 10,367 | 1,374 | 1,686 |
| Gross margin % | 39% | 35% | 100% | —% | 60% | 58% | 60% | 62% | 36% | 41% |
| Portion of total profit | 46% | 44% | —% | —% | 17% | 18% | 37% | 37% | 5% | 6% |
| General and administrative expense | (2,216) | (2,214) | (578) | (526) | (639) | (682) | (702) | (624) | (744) | (708) |
| Fair value adjustment on investment properties | — | — | 1,567 | (190) | (613) | (395) | (1,746) | 79 | — | — |
| Gain on sale of assets | — | — | — | — | — | — | — | — | 2 | 21 |
| Interest income | 242 | 236 | 8 | 1 | 2 | 4 | 40 | 20 | — | — |
| Segment Earnings | 11,024 | 10,438 | 1,128 | (695) | 3,451 | 3,862 | 8,020 | 9,842 | 632 | 999 |

| | Community Development | | Property Development | | Investment Properties | | REIT | | Recreational Properties | |
|--|--------------------------------|----------|--------------------------------|---------|--------------------------------|----------|--------------------------------|----------|--------------------------------|---------|
| | Nine months ended September 30 | | Nine months ended September 30 | | Nine months ended September 30 | | Nine months ended September 30 | | Nine months ended September 30 | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| (\$000s except as noted) | | | | | | | | | | |
| Revenue | 72,910 | 72,509 | 20,174 | 5,250 | 23,632 | 25,882 | 52,837 | 50,350 | 7,714 | 7,957 |
| Portion of total revenue | 49% | 49% | 14% | 4% | 16% | 17% | 36% | 34% | 5% | 5% |
| Cost of sales | (44,279) | (47,996) | (19,850) | (5,100) | (9,530) | (10,420) | (21,117) | (19,767) | (4,995) | (4,909) |
| Gross profit | 28,631 | 24,513 | 324 | 150 | 14,102 | 15,462 | 31,720 | 30,583 | 2,719 | 3,048 |
| Gross margin % | 39% | 34% | 2% | 3% | 60% | 60% | 60% | 61% | 35% | 38% |
| Portion of total profit | 40% | 36% | —% | —% | 20% | 22% | 44% | 44% | 4% | 4% |
| General and administrative expense | (7,009) | (6,527) | (1,784) | (1,488) | (1,819) | (1,953) | (2,157) | (1,938) | (1,947) | (1,866) |
| Fair value adjustment on investment properties | — | — | 6,370 | 2,513 | (4,344) | (1,165) | (5,161) | (16,629) | — | — |
| Gain on sale of assets | — | — | — | — | — | — | — | — | 14 | 35 |
| Interest income | 758 | 819 | 19 | 14 | 6 | 6 | 104 | 40 | — | — |
| Segment Earnings | 22,380 | 18,805 | 4,929 | 1,189 | 7,945 | 12,350 | 24,506 | 12,056 | 786 | 1,217 |

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

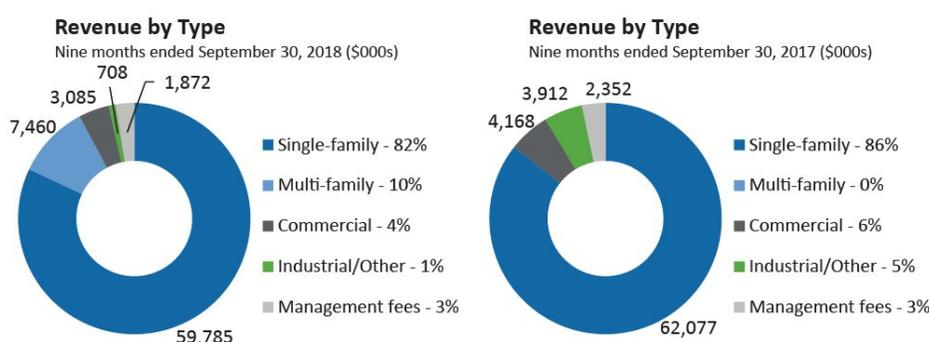
Community Development

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 | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | 30-Sept-18 | 30-Sept-17 | 30-Sept-18 | 30-Sept-17 |
| Canada Sales data: (including joint ventures at 100%) | | | | |
| Single-family sales (number of lots) | 335 | 320 | 536 | 541 |
| Gross average revenue per single-family lot (\$) | 138,700 | 141,800 | 149,700 | 149,000 |
| Multi-family sales (acres) | — | — | 5.57 | — |
| Gross average revenue per multi-family acre (\$) | — | — | 1,558,900 | — |
| Commercial sales (acres) | — | — | 5.25 | 8.80 |
| Gross average revenue per commercial land acre (\$) | — | — | 978,100 | 947,200 |
| Industrial sales (acres) | — | — | 1.48 | — |
| Gross average revenue per industrial land acre (\$) | — | — | 345,300 | — |
| Other land sales - Raw, Other (acres) | 5.18 | 4.18 | 5.18 | 22.73 |
| Gross average revenue per other land acre (\$) | 95,000 | 95,000 | 95,000 | 180,100 |
| US Sales data: (including joint ventures at 100%) | | | | |
| Single-family sales (number of lots) | 140 | — | 294 | — |
| Gross average revenue per single-family lot (\$) | 43,100 | — | 40,400 | — |
| Divisional results: (including joint ventures at Melcor's interest) | | | | |
| Revenue (\$000s) | 33,469 | 35,673 | 72,910 | 72,509 |
| Earnings (\$000s) | 11,024 | 10,438 | 22,380 | 18,805 |

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

Year to date Community Development revenue was \$72.91 million, up 1% over 2017. Revenue for the quarter was down 6% to \$33.47 million due to lower revenue from single-family lots as a greater portion of sales came from joint venture communities where Melcor earns only its proportionate revenue (varying from 33%-60%). Year to date, revenue generated from multi-family and non-residential land sales was \$11.25 million compared to \$8.08 million in 2017. These types of sales typically fluctuate from quarter to quarter.

Single-family lot sales were up 5% to 335 lots sold in Canada in the quarter. We also sold 140 lots in the US in the quarter, demonstrating the value of our strategic initiative to diversify geographically.

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. Year to date we have collected \$4.14 million (at JV%) owing from this builder through court settled transactions. This brought the remaining agreements receivable down to \$0.33 million (at JV%), which is overdue as of September 30, 2018. There have been 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 <i>(including joint ventures at 100%)</i> | Three months ended September 30, 2018 | | | Three months ended September 30, 2017 | | |
|--|--|-------------------------|--------------------------------|--|-------------------------|--------------------------------|
| | Single- family (Lots) | Multi-family (Acres) | Non- Residential (Acres) | Single- family (Lots) | Multi-family (Acres) | Non- Residential (Acres) |
| Edmonton Region | 137 | — | — | 188 | — | — |
| Red Deer Region | 102 | — | — | 20 | — | — |
| Calgary Region | 79 | — | — | 92 | — | — |
| Lethbridge | 16 | — | — | 12 | — | — |
| Kelowna | 1 | — | — | 8 | — | — |
| United States | 140 | — | — | — | — | — |
| | 475 | — | — | 320 | — | — |

| Regional Sales Analysis <i>(including joint ventures at 100%)</i> | Nine months ended September 30, 2018 | | | Nine months ended September 30, 2017 | | |
|--|---|-------------------------|--------------------------------|---|-------------------------|--------------------------------|
| | Single- family (Lots) | Multi-family (Acres) | Non- Residential (Acres) | Single- family (Lots) | Multi-family (Acres) | Non- Residential (Acres) |
| Edmonton Region | 274 | 1.98 | 5.58 | 310 | — | 8.80 |
| Red Deer | 122 | — | — | 62 | — | — |
| Calgary Region | 119 | 3.59 | 1.15 | 116 | — | — |
| Lethbridge | 17 | — | — | 31 | — | — |
| Kelowna | 4 | — | — | 22 | — | — |
| United States | 294 | — | — | — | — | — |
| | 830 | 5.57 | 6.73 | 541 | — | 8.80 |

Single-family lot sales may vary significantly quarter over quarter as plan registrations typically occur in the third and fourth quarters. Lot sales were down in most Canadian regions, which were offset by lot sales in the US. Our community development business in the US became active in 2017, resulting in revenue from 294 lots sold in Arizona year to date. We expect US results to continue to be lumpy, but to grow over the next few years.

Inventory

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

| Developed Inventory <i>(including joint ventures at 100%)</i> | Nine months ended September 30, 2018 | | | Nine months ended September 30, 2017 | | |
|--|---|-------------------------|--------------------------------|---|-------------------------|--------------------------------|
| | 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 | 870 | 4.53 | — | 12 | — | — |
| Internal sales | — | — | (5.25) | — | — | (4.15) |
| Sales | (830) | (5.57) | (1.48) | (221) | — | (4.65) |
| | 1,321 | 67.52 | 130.34 | 1,089 | 64.61 | 133.57 |

Our primary market is Alberta. Market conditions are uncertain throughout the province and 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 129.04 acres of raw land in our Edmonton region for \$3.50 million. We also purchased an additional 0.45 acres in one of our Joint Ventures for \$0.20 million (at JV%) on land adjacent to our current development.

In Q3-2017, we purchased 10.00 acres in our Red Deer region, and 14.55 acres in our Edmonton region.

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, 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 | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | 30-Sept-18 | 30-Sept-17 | 30-Sept-18 | 30-Sept-17 |
| Total revenue | 131 | 5,120 | 20,174 | 5,250 |
| Revenue from property transfers | — | 5,100 | 19,850 | 5,100 |
| Management fees | 131 | 20 | 324 | 150 |
| Gross margin (%) on property transfers | —% | 33% | 11% | 0.33 |
| Square footage transferred (sf, at 100%) | — | 20,875 | 45,897 | 20,875 |
| Number of buildings transferred | — | 2 | 3 | 2 |
| Fair value adjustment on investment properties | 1,567 | (190) | 6,370 | 2,513 |

Development progressed at The Shoppes at Jagare Ridge and Jensen Lakes Crossing, however no buildings were transferred to Investment Properties this quarter. Transfers occur once certain leasing and construction thresholds have been met. Year to date, 3 buildings have transferred, representing 45,897 sf for total revenue of \$19.85 million. The Property Development division currently has approximately 117,800 sf under active development.

Regional Highlights

| (\$000s except as noted) | Three months ended | | Nine months ended | |
|---|--------------------|------------|-------------------|------------|
| | 30-Sept-18 | 30-Sept-17 | 30-Sept-18 | 30-Sept-17 |
| <i>Fair value adjustments by region</i> | | | | |
| Northern Alberta | 1,567 | (458) | 6,370 | 1,298 |
| Southern Alberta | — | 268 | — | 1,215 |
| | 1,567 | (190) | 6,370 | 2,513 |

Northern Alberta: We continue to develop The Shoppes at Jagare Ridge and recorded fair value gains of \$2.58 million (\$1.29 million at JV%) during the quarter bringing year to date fair value gains up to \$5.09 million (\$2.55 million at JV%). Development also continued on our Jensen Lakes Crossing site with gains of \$0.28 million being recorded in the quarter.

The office building at The Village at Blackmud Creek is near completion and is expected to transfer to Investment Properties in 2019.

Southern Alberta: We continue to actively construct a 6,400 sf CRU in Southern Alberta and have an additional two CRUs (18,500 sf) awaiting permitting.

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 | <i>Regional business / industrial park</i> | 2,250,000 | 494,400 | — |
| West Henday Promenade | West Edmonton | <i>Regional mixed use centre</i> | 726,000 | 116,300 | — |
| The Village at Blackmud Creek | South Edmonton | <i>Regional business park</i> | 725,000 | 56,800 | 52,800 |
| Telford Industrial | Leduc | <i>Industrial Park</i> | 500,000 | 143,100 | — |
| Kingsview Market | Airdrie | <i>Regional shopping centre</i> | 331,000 | 181,900 | — |
| Chestermere Station | Chestermere | <i>Neighbourhood shopping centre</i> | 297,400 | 241,600 | — |
| Jensen Lakes Crossing | St. Albert | <i>Neighbourhood shopping centre</i> | 150,000 | 35,400 | 18,700 |
| Campsite Industrial | Spruce Grove | <i>Industrial Park</i> | 170,000 | 13,700 | — |
| Clearview Market | Red Deer | <i>Neighbourhood shopping centre</i> | 150,100 | 150,100 | — |
| The Shoppes at Jagare Ridge | South Edmonton | <i>Neighbourhood shopping centre</i> | 57,100 | 10,500 | 46,300 |

| Expected Future Projects | | | | | |
|--------------------------|---------------|--------------------------------------|------------|--------------------|-----------------------|
| Project | Location | Type | Total SF * | Ownership Interest | Expected Start (year) |
| Greenwich | West Calgary | <i>Regional mixed use centre</i> | 395,000 | 100% | 2019 |
| Rollyview | Leduc | <i>Neighbourhood shopping centre</i> | 150,000 | 100% | 2019 |
| Woodbend Market | Leduc | <i>Neighbourhood shopping centre</i> | 140,000 | 100% | 2019 |
| Laredo | Red Deer | <i>Neighbourhood shopping centre</i> | 15,000 | 100% | 2019 |
| Clearview Market 2 | Red Deer | <i>Neighbourhood shopping centre</i> | 80,000 | 33% | 2019 |
| Mattson | Edmonton | <i>Neighbourhood shopping centre</i> | 78,000 | 50% | 2020 |
| Vista Ridge | Sylvan Lake | <i>Neighbourhood shopping centre</i> | 15,000 | 50% | 2019 |
| Secord/Rosenthal | Edmonton | <i>Neighbourhood shopping centre</i> | 120,000 | 100% | 2020 |
| The Shoppes at Canyons | Lethbridge | <i>Neighbourhood shopping centre</i> | 105,000 | 100% | 2020 |
| Keystone Common | North Calgary | <i>Regional power centre</i> | 775,000 | 100% | 2022+ |
| West Pointe Marketplace | Lethbridge | <i>Regional power centre</i> | 750,000 | 100% | 2022+ |
| Westview Commercial | West Calgary | <i>Neighbourhood shopping centre</i> | 150,000 | 100% | 2022+ |

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

Investment Properties

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

Our Investment Properties division manages 4,050,649 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 | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | 30-Sept-18 | 30-Sept-17 | 30-Sept-18 | 30-Sept-17 |
| Commercial properties GLA under management (sf, total) | 4,050,649 | 3,904,282 | 4,050,649 | 3,904,282 |
| Properties owned and managed (sf) | 841,805 | 832,462 | 841,805 | 832,462 |
| Properties managed (sf) | 3,208,844 | 3,071,820 | 3,208,844 | 3,071,820 |
| Revenue (total) | 7,899 | 8,464 | 23,632 | 25,882 |
| Canadian properties | 2,857 | 3,538 | 8,301 | 10,620 |
| US properties | 3,479 | 3,391 | 10,506 | 10,587 |
| Management fees | 1,245 | 1,195 | 3,857 | 3,607 |
| Parking lots and other assets | 318 | 340 | 968 | 1,068 |
| Net operating income (NOI) * | 4,777 | 4,884 | 14,028 | 15,604 |
| Funds from operations * | 4,334 | 4,424 | 13,101 | 14,038 |
| Funds from operations per share * | 0.13 | 0.13 | 0.39 | 0.42 |

* 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 (\$1.52 million in Q3-2017). 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. Over the past twelve months, Property Development has transferred five buildings representing 63,434 sf (at 100%). Revenue generated on assets acquired from Property Development and held through the year was \$1.84 million (2017 - \$0.06 million). This portfolio growth was offset by the transfers to the REIT discussed above.

Occupancy on Canadian properties was 98% at September 30, 2018, up 8% over Q2-2018 and up 7% since year end. Weighted average base rents (WABR) were \$23.16 per SF, down 8% since Q2-2018 and 10% since year end as a result of lease ups on our industrial property and more tenants on rent-free periods. The properties transferred to the REIT had a WABR of \$28.08 per SF 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 per SF. This transfer pulled down Investment Properties WABR, however resulted in an increase in WABR in the REIT from \$15.88 per SF to \$16.58 per SF year to date.

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

| (\$000s except as noted) | Three months ended | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | 30-Sept-18 | 30-Sept-17 | 30-Sept-18 | 30-Sept-17 |
| Same asset NOI * | 1,639 | 1,590 | 4,697 | 4,481 |
| Properties transferred from PD | 422 | 14 | 834 | 29 |
| Properties transferred to REIT | — | 1,059 | 61 | 3,202 |
| NOI * | 2,061 | 2,663 | 5,592 | 7,712 |
| Amortization of operating lease incentives | (63) | (79) | (229) | (241) |
| Straight-line rent adjustment | 221 | (23) | 863 | 184 |
| Gross profit | 2,219 | 2,561 | 6,226 | 7,655 |

* 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.

Gross profit was down 13% to \$2.22 million in the quarter and down 19% to \$6.23 million year to date as a result of the sale to Melcor REIT in Q1-2018. NOI on properties sold to the REIT was \$3.20 million in the comparative period (Q3-2018 - \$0.06 million).

Same asset NOI was up 3% for the quarter at \$1.64 million (Q3-2017 - \$1.59 million). Year to date, same asset NOI was up 5% to \$4.70 million (Q3-2017 - \$4.48 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 \$3.48 million compared with \$3.39 million in Q3-2017. In Q1-2018 we disposed of two residential units at one of our properties in Arizona for \$0.52 million (US\$0.41 million).

On September 26, 2018 we purchased a 130,400 sf office property consisting of 2 buildings in Glendale, Arizona for \$24.53 million (US\$18.91 million) including transaction costs. The property was 85% occupied at September 30, 2018.

Occupancy was 84%, down 3% over year end and 4% over the prior quarter. Weighted average rental rates on our US commercial properties were down over year end at US\$16.03 per SF, from US\$18.43 per SF, the result of the timing of rent-free periods.

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

| (\$000s except as noted) | Three months ended | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | 30-Sept-18 | 30-Sept-17 | 30-Sept-18 | 30-Sept-17 |
| Same asset NOI | 1,147 | 1,033 | 3,793 | 3,446 |
| Third party acquisitions | 35 | — | 35 | — |
| NOI * | 1,182 | 1,033 | 3,828 | 3,446 |
| Foreign currency translation | 361 | 257 | 1,095 | 1,052 |
| Amortization of operating lease incentives | (206) | (110) | (582) | (368) |
| Straight-line rent adjustment | (27) | 125 | 23 | 257 |
| Gross profit | 1,310 | 1,305 | 4,364 | 4,387 |

* See non-standard measures for definition.

Same asset NOI was up \$0.35 million over Q3-2017.

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 \$1.25 million in the quarter, compared with \$1.20 million in Q3-2017. Revenue from our 516 parking stalls and other assets was \$0.32 million in Q3-2018 (Q3-2017 - \$0.34 million). These revenues can fluctuate from period to period.

FFO was steady at \$4.33 million for the quarter (Q3-2017 - \$4.42 million). Year to date FFO was down 21% to \$13.10 million as a result of the sale of properties to the REIT in Q1-2018.

REIT

The REIT owned 36 income-producing office, retail and industrial properties, comprising 2,835,228 sf of gross leasable area (GLA) at September 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 | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | 30-Sept-18 | 30-Sept-17 | 30-Sept-18 | 30-Sept-17 |
| Rental revenue | 17,283 | 16,791 | 52,837 | 50,350 |
| Net operating income (NOI) * | 10,845 | 10,557 | 32,977 | 31,864 |
| Same asset NOI * (see calculation following) | 9,553 | 10,276 | 29,152 | 30,864 |
| Fair value adjustment on investment properties | (1,746) | 79 | (5,161) | (16,629) |
| Gross leasable area (GLA) (sf) | 2,835,228 | 2,711,847 | 2,835,228 | 2,711,847 |
| Occupancy % (weighted by GLA) | 90.3% | 92.7% | 90.3% | 92.7% |
| Fair value of portfolio | 702,843 | 636,717 | 702,843 | 636,717 |
| Funds from operations * | 10,529 | 10,473 | 31,955 | 30,966 |
| Funds from operations per share * | 0.32 | 0.31 | 0.96 | 0.93 |

* See non-standard measures for definition and calculation.

Rental revenue for the period increased by \$0.49 million or 3% over Q3-2017. The increase in revenue was a result of the Melcor Acquisition completed on January 12, 2018, partially offset by the sale of two properties over the past twelve months and lower same-asset revenue. Q3-2018 rental revenue from the Melcor Acquisition properties was \$1.83 million and \$5.25 million year to date. During the nine-month period we also recognized \$0.38 million of rental revenue from properties sold within the last twelve months (2017 - \$0.39 million in the quarter and \$1.33 million year to date). Same-asset revenues were down in the quarter and year to date due to lower same-asset occupancy, impacting base rents as well as our recovery ratio.

Year to date we completed 255,954 sf of lease renewals (including holdovers) and had 73,843 sf in new leases commence for steady occupancy at 90.3%. During 2018, 91 leases representing 437,397 sf or 15.2% of our portfolio are up for renewal. We have retained 76.0% of expiring leases (representing 336,679 sf) as at September 30, 2018 in spite of challenging market conditions in our Northern Alberta portfolio. We remain committed to our proactive leasing program to both retain tenants and attract new tenants.

Weighted average base rent was \$16.58, up \$0.70 compared to December 31, 2017 and \$0.86 over Q3-2017 due to the Melcor Acquisition, 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 led to a 2% decrease in same-asset operating expenses to date in 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 3% increase in NOI over Q3-2017. On a same-asset basis, third quarter NOI was down 7% as a result of lower occupancy and weighted average base rates. Same-asset NOI was down 3% compared to Q2-2018.

The calculation of REIT same asset NOI is as follows:

| (\$000s except as noted) | Three months ended | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | 30-Sept-18 | 30-Sept-17 | 30-Sept-18 | 30-Sept-17 |
| Same asset NOI * | 9,553 | 10,276 | 29,152 | 30,864 |
| Acquisitions | 1,293 | — | 3,545 | — |
| Disposals/Held for Sale | (1) | 281 | 280 | 1,000 |
| NOI * | 10,845 | 10,557 | 32,977 | 31,864 |
| Amortization of operating lease incentives | (763) | (710) | (2,288) | (2,281) |
| Straight-line rent adjustment | 346 | 520 | 1,031 | 1,000 |
| Gross profit | 10,428 | 10,367 | 31,720 | 30,583 |

* See non-standard measures for definition and calculation.

Funds from operations

FFO was up in the third quarter at \$10.53 million compared with \$10.47 million in the prior year. The increase in FFO was driven by the properties purchased 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 \$7.71 million year to date, a decrease of 3% over 2017. Adverse weather conditions significantly impacted activity at our Alberta courses throughout the season. In spite of rounds of golf being down 8% compared to 2017, food and beverage sales remained stable.

Black Mountain was named the Golf Facility of the Year by the PGA of BC in October.

| | Ownership interest | Season opened 2018 | Rounds of Golf | Season opened 2017 | Rounds of Golf |
|----------------------------------|--------------------|--------------------|----------------|--------------------|----------------|
| <i>Managed by Melcor:</i> | | | | | |
| Lewis Estates (Edmonton) | 60% | April 27 | 22,610 | April 6 | 26,316 |
| The Links (Spruce Grove) | 100% | April 27 | 19,605 | April 7 | 21,836 |
| Black Mountain (Kelowna) | 100% | April 6 | 27,162 | April 1 | 28,833 |
| <i>Managed by a Third Party:</i> | | | | | |
| Jagare Ridge (Edmonton) | 50% | May 1 | 20,929 | April 29 | 21,616 |

General and Administrative Expense

General and administrative expenses (G&A) were consistent with the comparable period. Corporate G&A decreased by \$0.15 million, to \$1.85 million in the quarter as we continue to prudently monitor our controllable expenses. Our other operating divisions remained fairly steady over Q3-2017. Year to date G&A in 2017 was impacted by the accrual of a one-time retirement allowance.

Income Tax Expense

The statutory tax rate is 27% for the three and nine months ended September 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 September 30, 2018, compared with December 31, 2017.

| As at (\$000s except as noted) | 30-Sept-18 | 31-Dec-17 |
|--|------------|-----------|
| Cash & cash equivalents | 38,304 | 42,505 |
| Restricted cash | — | 16,956 |
| Accounts receivable | 11,037 | 17,384 |
| Agreements receivable | 99,006 | 129,949 |
| Revolving credit facilities | 54,212 | 76,529 |
| Accounts payable and accrued liabilities | 42,743 | 51,979 |
| Total assets | 2,016,090 | 1,990,983 |
| Total liabilities | 987,960 | 982,393 |
| Debt to equity ratio* | 0.96 | 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 September 30, 2018, our total general debt outstanding was \$677.62 million. A summary of our debt is as follows:

| As at (\$000s) | 30-Sept-18 | 31-Dec-17 |
|--|----------------|----------------|
| Melcor - revolving credit facilities | 54,212 | 76,529 |
| REIT - revolving credit facility | — | — |
| Project specific financing | 68,987 | 20,926 |
| Secured vendor take back debt on land inventory | 41,181 | 64,891 |
| Debt on investment properties and golf course assets | 457,735 | 444,807 |
| REIT - convertible debentures | 55,500 | 54,775 |
| Total general debt | 677,615 | 661,928 |
| Less: Liabilities held for sale | — | 3,670 |
| General debt | 677,615 | 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 September 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 September 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 | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | 30-Sept-18 | 30-Sept-17 | 30-Sept-18 | 30-Sept-17 |
| Cash flows from (used in) operating activities | 3,923 | (3,139) | 2,179 | 8,229 |
| Cash flows used in investing activities | (29,753) | (11,371) | (25,492) | (16,734) |
| Cash flows from financing activities | 32,587 | 30,122 | 18,720 | 12,553 |

We generated \$3.92 million from operating activities in Q3-2018. Net income adjusted for non-cash items contributed \$12.41 million in cash during the quarter compared with \$12.10 million in Q3-2017. Community development activities used \$22.55 million and we spent \$1.08 million on land purchases in the quarter. We continue to focus on tenant retention and leasing and spent \$2.60 million on lease incentives and direct leasing costs, an increase of \$1.17 million over the comparative period. Collections on agreements receivable contributed \$9.91 million and changes in our operating assets and liabilities also contributed \$7.84 million to cash from operations.

We spent \$29.75 million in investing activities in Q3-2018 compared with \$11.37 million during Q3-2017. Additions to Investment Properties of \$4.89 million includes the costs of developing assets in our Property Development division as well as improvements on existing assets in the Investment Properties division. We continue to develop commercial properties and invest in enhancements to our existing portfolio. Our year to date spend was \$17.22 million, compared with \$23.47 million in 2017. On September 26, 2018 we purchased a commercial building in Glendale, Arizona for \$24.53 million.

Cash flows from financing activities were \$32.59 million during the quarter, down by \$2.47 million compared to Q3-2017. Proceeds from general debt of \$65.81 million include \$39.00 million in refinancing on an investment property with the balance related 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 \$22.32 million year to date. In the quarter, we paid a \$0.13 per share dividend for a total of \$4.34 million (Q3-2017 - \$0.13 per share). Year to date dividend payments are \$13.03 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 September 30, 2018 there were 33,403,651 common shares issued and outstanding and 955,847 options, each convertible to one common share upon exercise or exchange. There is only one class of common shares issued. As at September 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 September 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.

In connection with the commencement of the NCIB, we entered into an automatic share purchase plan (ASPP) 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.

During the year and quarter ended September 30, 2018, we did not repurchase any common shares. Subsequent to the quarter, we repurchased 18,158 common shares from the public market under the ASPP agreement at a cost of \$0.25 million.

Quarterly Results

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

| (\$000s) | Three Months Ended | | | | | | | |
|-------------------------|--------------------|-----------|-----------|-----------|------------|-----------|-----------|-----------|
| | 30-Sept-18 | 30-Jun-18 | 31-Mar-18 | 31-Dec-17 | 30-Sept-17 | 30-Jun-17 | 31-Mar-17 | 31-Dec-16 |
| Revenue | 60,245 | 42,793 | 44,414 | 109,633 | 62,795 | 46,955 | 38,567 | 106,391 |
| Net income (loss) | 11,469 | 1,631 | 14,647 | 32,084 | 11,517 | 3,927 | (9,003) | 24,109 |
| FFO | 12,841 | 7,695 | 4,920 | 30,850 | 12,787 | 9,306 | 6,078 | 38,374 |
| <i>Per Share</i> | | | | | | | | |
| Basic earnings (loss) | 0.34 | 0.05 | 0.44 | 0.96 | 0.34 | 0.12 | (0.27) | 0.73 |
| Diluted earnings (loss) | 0.34 | 0.05 | 0.44 | 0.96 | 0.34 | 0.12 | (0.27) | 0.73 |
| FFO | 0.38 | 0.23 | 0.15 | 0.93 | 0.38 | 0.28 | 0.18 | 1.10 |
| Book value | 30.78 | 30.64 | 30.63 | 30.21 | 29.39 | 29.30 | 29.41 | 29.83 |

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 cyclical nature.

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 September 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 | | Nine months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Segment Earnings | 3,451 | 3,862 | 7,945 | 12,350 |
| Fair value adjustment on investment properties | 613 | 395 | 4,344 | 1,165 |
| General and administrative expenses | 639 | 682 | 1,819 | 1,953 |
| Interest income | (2) | (4) | (6) | (6) |
| Amortization of operating lease incentives | 270 | 167 | 812 | 523 |
| Straight-line rent adjustment | (194) | (218) | (886) | (381) |
| Divisional NOI | 4,777 | 4,884 | 14,028 | 15,604 |

REIT

| (\$000s) | Three months ended | | Nine months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Segment Earnings | 8,020 | 9,842 | 24,506 | 12,056 |
| Fair value adjustment on investment properties | 1,746 | (79) | 5,161 | 16,629 |
| General and administrative expenses | 702 | 624 | 2,157 | 1,938 |
| Interest income | (40) | (20) | (104) | (40) |
| Amortization of operating lease incentives | 763 | 710 | 2,288 | 2,281 |
| Straight-line rent adjustment | (346) | (520) | (1,031) | (1,000) |
| Divisional NOI | 10,845 | 10,557 | 32,977 | 31,864 |

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 | | Nine months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Net income for the period | 11,469 | 11,517 | 27,747 | 6,441 |
| Amortization of operating lease incentives | 1,752 | 1,480 | 5,007 | 4,635 |
| Fair value adjustment on investment properties | 25 | (106) | (258) | 12,751 |
| Depreciation on property and equipment | 518 | 517 | 1,170 | 1,175 |
| Stock based compensation expense | 111 | 93 | 323 | 305 |
| Non-cash finance costs | 491 | (294) | 1,698 | (123) |
| Gain on sale of asset | (1) | (21) | (6) | (35) |
| Deferred income taxes | 58 | (287) | (4,839) | (1,327) |
| Fair value adjustment on REIT units | (1,582) | (112) | (5,386) | 4,349 |
| FFO | 12,841 | 12,787 | 25,456 | 28,171 |

Investment Properties

| (\$000s) | Three months ended | | Nine months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Segment Earnings | 3,451 | 3,862 | 7,945 | 12,350 |
| Fair value adjustment on investment properties | 613 | 395 | 4,344 | 1,165 |
| Amortization of operating lease incentives | 270 | 167 | 812 | 523 |
| Divisional FFO | 4,334 | 4,424 | 13,101 | 14,038 |

REIT

| (\$000s) | Three months ended | | Nine months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Segment Earnings | 8,020 | 9,842 | 24,506 | 12,056 |
| Fair value adjustment on investment properties | 1,746 | (79) | 5,161 | 16,629 |
| Amortization of operating lease incentives | 763 | 710 | 2,288 | 2,281 |
| Divisional FFO | 10,529 | 10,473 | 31,955 | 30,966 |

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