

MANAGEMENT'S DISCUSSION & ANALYSIS

March 13, 2019

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The following discussion of Melcor's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2018.

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.

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

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on March 13, 2019.

OTHER INFORMATION

Additional information about the REIT, including our annual information form, 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".

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 or 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 2019 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.

OUR BUSINESS

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

For 95 years, our focus has been the business of real estate. We've built over 140 communities across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage 4.13 million square feet (sf) in commercial real estate assets and 609 residential rental units. We are celebrating our 50th year as a public company (TSX:MRD).

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 office, retail, industrial and residential assets (Melcor Real Estate Investment Trust or the REIT, formed May 1, 2013 through an IPO. We retain a controlling 53.0% effective interest in the REIT and continue to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement.)

In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreation 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.

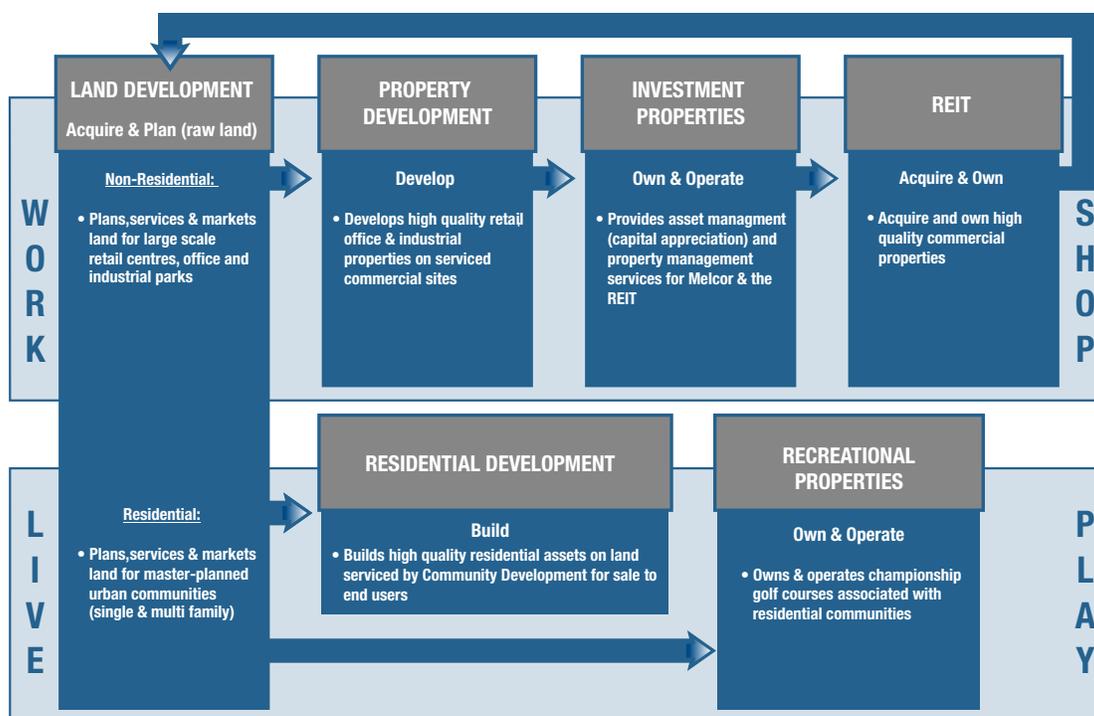
In addition to extending the value of our asset base, these diversified operating divisions enable us to manage our business through real estate cycles (both general market conditions and the seasonality associated with construction and development) and diversify our revenue base.

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

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

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

The sections titled OUR BUSINESS & STRATEGY contain forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Please refer to Forward-looking Statements on page 9.



STRATEGY

Our fundamental goals are to:

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

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

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

In 2018, we remained cautious about developing residential lots in Canada and focused on selling lots early in the year and reducing overall lot inventory. Commercial property development progressed as pre-leasing thresholds were met. Throughout the past few years,

we have shifted the product type in our residential developments to meet changes in market demand. Our diversification strategies, which include both revenue type diversification and geographic diversification, served to offset the softness in Canadian residential development. Our commercial property divisions now manage 4.13 million sf of income-generating assets, which tend to be more stable throughout the year. With the development of our first new community in the US in many years as well as strategic finished lot purchases and sales, the US sold 30% of our single-family lots in 2018.

We have 95 years of experience in Alberta's cyclical economy. Throughout this time, we have managed through many downturns and have learned to not only weather the cycle, but to make our business stronger by recognizing and taking advantage of opportunities while balancing our risk and exposure.

The following diagram illustrates the pillars of our strategy, which are to **grow** by acquiring strategic land and property and exploring strategic opportunities to increase capital resources; to **sustain** by remaining disciplined in monitoring and managing our key performance drivers and our reputation; to **diversify** by developing real estate assets for revenue, earnings and cash flow growth and by increasing our presence in the United States. **People** are the heart of our strategy, and we commit to protecting our culture and values and taking care of our exceptional team.



SUSTAIN

- Financial discipline
- Reputation



GROW

- Land harvesting
- Commercial assets



OUR PEOPLE

- Culture
- Values



DIVERSIFY

- Business lines
- Geographic

ASSETS

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

DIVISION	ASSETS	STRATEGY
COMMUNITY DEVELOPMENT	10,334 acres of raw land inventory in strategic growth corridors	Maintain right mix of inventory, available at the right time to meet market needs
		Increase market share by maintaining best in class design and community amenities
PROPERTY DEVELOPMENT	Prospects for over 6.5 million sf of new development based on existing plans	Plan, build and lease retail, office, industrial and multi-family residential real estate projects
	Completed and transferred 65,990 sf (5 buildings) in 2018	Maintain 3-5 year inventory of developable assets
	A further 121,800 sf is under development	Maximize value of existing assets through vertical development or re-development
INVESTMENT PROPERTIES & REIT	4.13 million sf of commercial property and 609 residential units under management, diversified across 4 asset classes in 3 provinces and 2 states	Improve existing assets with value-added investments to achieve higher occupancy rates and increase rent per square foot
	New buildings coming online as Property Development projects are completed	Be the landlord of choice by providing consistent, high-quality service
RECREATIONAL PROPERTIES	4 championship golf courses	Maintain strong reputation through consistent course quality and player experience
		Grow revenue from food and beverage operations

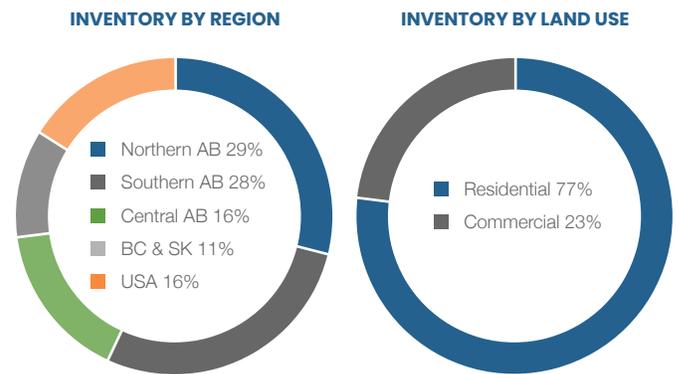
DIVERSIFICATION

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

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

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

Melcor has been planning and developing innovative communities since the 1950s. We have developed over 40,000 lots in over 140 communities across Alberta, BC and the United States.

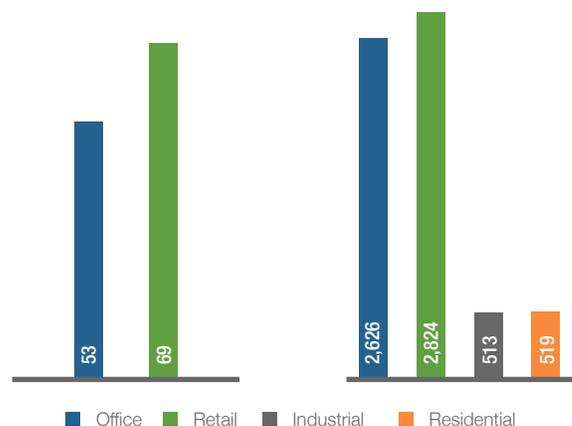


Property Development adds value to raw land by developing retail, office, industrial and multi-family residential properties in Alberta.

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

Melcor has been developing commercial properties since the 1970s and has built over 2 million sf. Our future development pipeline is 6.5 million sf based on development plans.

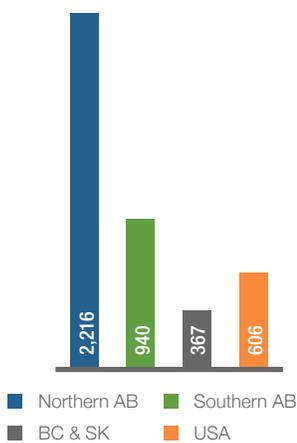
CURRENT DEVELOPMENT SF (000S) FUTURE DEVELOPMENT SF (000S)



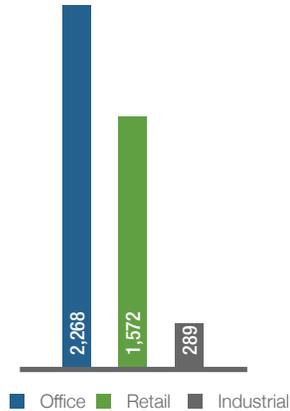
KEY PERFORMANCE DRIVERS

Investment Properties manages 4.13 million sf of geographically diversified income-producing assets - including those owned by the REIT - to provide consistent annuity income and cash flow. Our total portfolio under management is well diversified across asset class, property mix and region. The regional asset mix is primarily commercial in western Canada, with the majority of these assets owned by the REIT. With a number of commercial acquisitions and residential dispositions completed since 2014, our US portfolio is a blend of residential and commercial properties. The goals of the Investment Properties division are to be the landlord of choice by providing exceptional customer care and to continually enhance and improve existing properties through capital investment to maximize occupancy, rental rates and tenant retention and prepare properties for vend-in to the REIT.

SF BY REGION (000s)

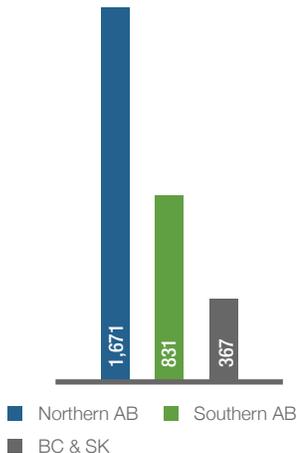


SF BY ASSET CLASS (000s)

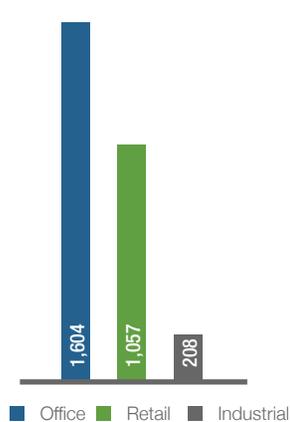


The REIT owns 2.87 million sf of income-producing assets that are managed by Investment Properties. The REIT is a vehicle for realizing the value created throughout the Melcor value chain as raw land is developed for commercial use (Community Development) and commercial properties are built (Property Development) or redeveloped (Investment Properties) and sold to the REIT. The REIT will continue to seek and execute acquisitions to grow its portfolio, both through the Property Development pipeline and third party acquisitions. To date, the REIT has acquired over 1 million sf from Melcor.

SF BY REGION (000s)



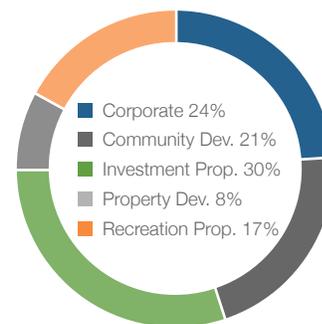
SF BY ASSET CLASS (000s)



A HIGH PERFORMANCE TEAM

A strong and engaged workforce is a key component of achieving our growth objectives. Our team fuels our success by profitably managing residential and commercial developments, continually moving future projects through the municipal approval process, managing our assets and ensuring tenant satisfaction, and developing strong relationships with our suppliers, contractors, builders, tenants and other stakeholders. The average tenure of our team is 8.25 years and we have 22 team members (11 active) in Melcor's Quarter Century Club.

EMPLOYEES BY DIVISION



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

Our culture is based on over nine decades of strong corporate values. We offer rewarding career and development opportunities, competitive compensation and benefits, and employer-matched RRSP and employee share purchase programs (ESPP). Managers and the executive team also receive restricted share units (RSUs) and stock options to ensure alignment with company goals.

REAL ESTATE INVENTORY

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

- 10,334 acres of developable land
- 4,128,914 sf of leasable commercial property and 609 residential units under management in 3 provinces and 2 states
- Potential to develop over 6.5 million sf of new commercial property (based on existing planned development)

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

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

DEVELOPED LOT INVENTORY

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

	December 31, 2018			
	Canada			US
	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)
<i>(including joint arrangements at 100%)</i>				
Open	1,187	68.56	136.13	294
Transfers	—	—	2.50	—
Finished lot purchase	—	—	—	—
New developments	1,198	13.99	9.17	309
Internal sales	—	—	(5.25)	—
Sales	(1,073)	(23.55)	(12.11)	(467)
Year end	1,312	59.00	130.44	136

	December 31, 2017			
	Canada			US
	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)
<i>(including joint arrangements at 100%)</i>				
Open	1,004	64.61	142.37	—
Transfers	—	(3.65)	3.65	—
Finished lot purchase	—	—	—	294
New developments	1,588	10.42	3.04	94
Internal sales	—	—	(4.15)	—
Sales	(1,405)	(2.82)	(8.78)	(94)
Year end	1,187	68.56	136.13	294

We remained cautious with development in our Canadian markets in 2018, with new lot development down by 25%. Single-family lot sales in Canada were down by 24% compared to 2017, contributing to a 11% increase in ending inventory. We developed 309 single-family lots in Harmony, our new community outside of Denver, CO in 2018 and sold 173 of these in the year. In addition, we sold the 294 single-family lots that we bought in finished form in 2017. We continue to develop in Harmony to meet market demand.

RAW LAND INVENTORY

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

Following is a summary of land acquisitions during the year:

<i>Land purchases (in acres, net of joint arrangement interests)</i>	2018	2017	Total Land Holdings
Edmonton & Region	134.63	107.84	2,997
Red Deer & Region	0.45	14.04	1,633
Calgary & Region	2.50	31.32	2,285
Lethbridge	—	59.40	587
British Columbia	0.63	43.06	570
Saskatchewan	—	—	616
United States	62.00	515.78	1,646
	200.21	771.44	10,334

We acquired 200.21 acres of land in strategic growth corridors in 2018 and continue to seek investment opportunities. Major land acquisitions in the US and in the Edmonton region are adjacent to land that is currently in inventory to build strategic position.

The majority of land acquired in 2017 was in the United States to advance our geographic diversification strategy.

FINANCIAL RESOURCES

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

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

We primarily use fixed rate, long-term mortgage financing on our income-producing assets to raise capital for acquisitions, development activities, and other business expenditures. As such, most of our borrowings are in the form of long-term, property specific financings such as mortgages or project financings secured by specific assets. At the end of 2018, Melcor also had project specific financings on two residential and three commercial projects totaling \$62.64 million.

The REIT is expected to be an important financial resource going forward as it exercises its option to purchase assets developed by our Property Development division, thus monetizing the value of our Investment Property assets. On January 12, 2018, the REIT acquired five commercial properties (172,629 sf) for \$80.88 million from Melcor (the Melcor Acquisition). Subsequent to the closing of the Melcor Acquisition our effective ownership in the REIT is 53.0% (December 31, 2017 - 56.7%).

Our operations are supported by a syndicated operating line of credit with total availability of \$200.10 million, which margins our land development assets (raw land inventory, land under development and agreements receivable). With a strong focus on collecting on receivables and reducing overall leverage throughout 2018, Melcor is well positioned to take advantage of acquisition and growth opportunities.

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

2018 HIGHLIGHTS

(\$000s except as noted)	2018	2017	Change
Revenue	267,434	257,950	3.7%
Gross margin (%) *	46.8%	45.3%	3.3%
Fair value adjustment on investment properties	863	(8,828)	109.8%
Net income	64,273	38,525	66.8%
Net margin (%) *	24.0%	14.9%	61.1%
Funds from operations *	56,127	59,021	(4.9)%
Shareholders' equity	1,067,565	1,008,590	5.8%
Total assets	2,023,076	1,990,983	1.6%
Per Share Data			
Basic earnings	1.92	1.15	67.0%
Diluted earnings	1.92	1.15	67.0%
Funds from operations *	1.68	1.77	(5.1)%
Book value *	32.01	30.21	6.0%

* See non-standard measures for definitions and calculations.

2018 results were positively impacted by our diversification strategy as we sold our first lots in our new community of Harmony outside of Denver, CO and expanded our portfolio of office properties in Scottsdale, AZ via a third party acquisition. Our Property Development team also had a productive construction season, adding new retail properties to our portfolio of income-producing assets. These positive influences on our 2018 results were offset by softness in the Canadian residential market, with single-family lot sales down 24% compared to 2017. Development of new single-family lots in Canada also declined by 25% over last year as we focused on inventory management throughout the year. Promotions were in place throughout 2018 in two communities to move inventory. We continue to monitor demand and inventory in all communities to ensure inventory levels remain appropriate.

Occupancy in our income-producing assets (including REIT properties) were slightly lower at 89% compared to 92% in 2017. New properties with higher occupancy partially offset lower occupancy in Edmonton office properties and lower occupancy on the US office building acquired in the third quarter. Investment Properties manages 4.13 million sf of commercial properties, up 5% as a result of third party acquisitions and new properties developed by the Property Development division. They also manage 609 residential units. The increase in GLA was partially offset by sales in the year (two properties, 50,652 sf). Revenue from our income-producing portfolio increased modestly by 1% over 2017 while the Community Development division saw an increase of 6%.

Diversity in the Community Development division's product types and geographical focus contributed to steady activity in a challenging market and contributed \$8.81 million to earnings in the year towards Funds from operations (FFO). FFO decreased by 5% due to the \$3.67 million reclassification between current and deferred taxes triggered by sale of assets to the REIT. Excluding this reclassification, FFO increased 1% in the year. Our income-producing properties also remain a steady source of FFO and help to stabilize overall income.

Throughout the year, we maintained our conservative and disciplined approach to investment and development activities and the management of our assets and liabilities.

INVESTING FOR GROWTH

We continued to invest in land inventory and increased our land holdings by 200.21 acres in strategic growth corridors. The acquired land is primarily allocated to residential development and includes 62.00 acres acquired in the US. We continue to move land use approvals through the municipal approval process to increase our supply of shovel ready assets.

Our Property Development division completed and transferred 5 buildings (65,990 sf) in 2018 with a further 121,800 sf under development at year end. Revenue was up 179% over 2017 as 73% more GLA was completed and transferred compared to last year. Revenue from the Property Development division is eliminated on consolidation. Transfers to Investment Properties will positively impact results in future years as we continue to grow our income-producing assets for long-term holding or for sale to the REIT. We continued to progress commercial land through the development, approvals and lease-up process and have an additional 11 buildings in 7 developments expected to be completed and transferred to Investment Properties in 2019.

We completed the following Investment Property acquisitions during the year:

- a 130,400 sf office property consisting of two buildings on 8.5 acres for \$24.53 million (US\$18.91 million) in Glendale, AZ on September 26, 2018.
- two investment properties in Lethbridge, AB. An office building at a purchase price of \$6.32 million (purchased by the REIT) and a commercial building at a purchase price of \$2.69 million (purchased by Melcor) on December 3, 2018.

We completed the following dispositions during the year:

- a retail property in Leduc, AB which was originally developed by Melcor and owned since 1974, was sold for \$6.73 million by the REIT on January 31, 2018.
- a retail property in Edmonton, AB which was originally developed by Melcor and owned since 2009, was sold for \$13.80 million by the REIT on April 16, 2018.
- two residential condo units in the US for \$0.52 million (US\$0.41 million).

We completed the following transaction during the year:

- we sold five commercial properties (172,629 sf of owned GLA) to the REIT for \$80.88 million on January 12, 2018. This represents our fourth asset sale to the REIT and demonstrates how our value chain enables the monetization of value created through the development of commercial properties. Concurrent with the transaction, the REIT generated cash of \$17.30 million from the issuance of trust units.

RETURN TO SHAREHOLDERS

We continue to distribute profits to our shareholders. During 2018, we paid dividends of \$0.52 per share, consistent with 2017.

We declared a \$0.13 per share dividend on March 13, 2019 payable on March 29, 2019 to shareholders of record on March 22, 2019. The dividend is an eligible dividend for Canadian tax purposes.

We have been paying dividends since 1969.

REVENUE & MARGINS

Revenue grew by 4% to \$267.43 million in 2018 as a result of the 6% increase in Community Development division revenue. In 2018 our Community Development division sold 467 single-family lots in the US (Arizona and Colorado) generating revenue of \$31.52 million (US\$24.06 million). Revenue from our income-producing portfolio (including REIT properties) remained stable over 2017. Property Development transfer revenue (up 179%) is eliminated on consolidation but will contribute to future growth in our income-producing portfolio.

Gross margin was up 2% to 47% in 2018. This increase was also led by Community Development, which had gross margin of 41% compared to 37% in 2017 as fewer promotions were in place. Margins in Community Development are affected by a number of factors, including the lot type sold, development costs, the timing of the original land purchase and the relative real-estate market strength at the time of sale. Land that has been in inventory for many years typically generates higher margin on sale. The 60% gross margin on income properties (Investment Properties and the REIT combined) is more stable in nature and serves to neutralize volatility in Community Development margin.

Net margin improved to 24% from 15% in 2017. Net margin is impacted by swings in fair value adjustments recorded on our investment properties and REIT units. Net income was \$64.27 million, up from \$38.53 million in 2017.

Fair value gains of \$0.86 million were recorded in 2018 compared to fair value losses of \$8.83 million in 2017. The following contributed to this swing:

- the transfer of land inventory (measured at cost) to Property Development where it is classified as investment properties on the balance sheet (measured at fair value), resulting in fair value gains of \$1.02 million (2017: \$0.34 million);
- leasing activity and completion of construction on Property Development projects resulting in fair value gains of \$7.36 million (2017: \$3.31 million); and
- net fair value losses recorded in our Investment Properties and REIT divisions, driven primarily by increased vacancy on certain Edmonton office properties and our Red Deer retail property (Northern Alberta) in conjunction with spending on tenant incentives and capital projects.

FUNDS FROM OPERATIONS

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

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

Below is a reconciliation of net income to FFO:

(\$000s)	Year Ended	
	2018	2017
Net income for the year	64,273	38,525
Amortization of operating lease incentives	6,710	6,304
Fair value adjustment on investment properties	(863)	8,828
Depreciation on property and equipment	1,417	1,436
Stock based compensation expense	450	408
Non-cash financing costs	1,466	414
Gain on sale of asset	(6)	(17)
Deferred income taxes	(3,493)	2,565
Fair value adjustment on REIT units	(13,827)	558
FFO *	56,127	59,021
Per Share Data		
FFO per share *	1.68	1.77

* See non-standard measures for definitions and calculations.

FFO decreased by 5% to \$56.13 million from \$59.02 million in 2017. FFO was negatively impacted in 2018 by a \$3.67 million reclassification between current and deferred taxes recognized in the first quarter as a result of the asset sale to the REIT. Excluding this reclassification, FFO would have increased 1% in the year. With strong 2018 results, Community Development contributed an additional \$8.81 million to earnings in the year and was the biggest contributor to this increase in FFO. Our income properties (Investment Properties and REIT divisions, excluding fair value adjustments) remain a steady source of FFO and help to stabilize overall income.

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, industrial and multi-family residential revenue-producing properties on serviced commercial sites developed by Community Development or purchased 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 37 income-producing properties; and
- **Recreational Properties**, which owns and operates championship golf courses associated with Melcor residential communities.

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

The following table summarizes operating division results:

	Year Ended December 31									
	COMMUNITY DEVELOPMENT		PROPERTY DEVELOPMENT		INVESTMENT PROPERTIES		REIT		RECREATIONAL PROPERTIES	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
(\$000s except as noted)										
Revenue	168,336	158,285	30,751	11,015	32,545	34,792	70,173	66,613	8,391	8,650
Portion of total revenue	54%	57%	10%	4%	10%	12%	23%	24%	3%	3%
Cost of sales	(99,765)	(99,114)	(30,350)	(10,700)	(13,236)	(13,876)	(28,097)	(26,500)	(6,013)	(5,889)
Gross profit	68,571	59,171	401	315	19,309	20,916	42,076	40,113	2,378	2,761
Gross margin (%)	41%	37%	1%	3%	59%	60%	60%	60%	28%	32%
Portion of total gross profit	52%	48%	—%	—%	15%	17%	32%	33%	2%	2%
General and administrative expense	(9,501)	(8,908)	(2,406)	(2,065)	(2,439)	(3,197)	(2,884)	(2,718)	(2,298)	(2,183)
Fair value adjustment on investment properties	—	—	7,356	3,308	447	(2,668)	(11,385)	(12,800)	—	—
Gain on sale of assets	—	—	—	—	—	—	—	—	14	35
Interest income	905	906	27	16	8	33	137	62	—	—
Segment Earnings	59,975	51,169	5,378	1,574	17,325	15,084	27,944	24,657	94	613

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 parcels are sold to homebuilders who share our passion for quality and with whom we have long-standing relationships.

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

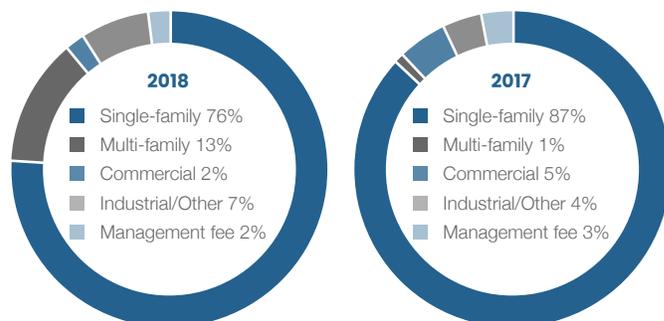
As at December 31, 2018 we held 10,334 acres of raw land for future development which positions the division well for future growth. Our developed land inventory at December 31, 2018 included 1,312 single-family lots, 59 acres for multi-family development, and 130 commercial and industrial acres.

SALES ACTIVITY

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

With the development of a new community in the Denver, CO area and the sales of finished lots in Arizona, our Community Development operations in the US contributed to growth in the year, while our Alberta and BC markets experienced continued softness.

REVENUE BY TYPE



The following table summarizes our Community Development activity:

CONSOLIDATED	2018	2017
Canada sales data (including joint ventures at 100%)		
Single-family sales (number of lots)	1,073	1,311
Gross average revenue per single family lot (\$)	131,700	138,600
Multi-family sales (acres)	23.55	2.82
Gross average revenue per multi-family acre (\$)	922,700	800,000
Commercial sales (acres)	5.25	12.93
Gross average revenue per commercial land acre (\$)	978,100	1,087,800
Other land sales - Industrial, Other (acres)	18.10	33.26
Gross average revenue per other land acre (\$)	674,000	176,800
US sales data (including joint ventures at 100%)		
Single-family sales (number of lots)	467	94
Gross average revenue per single family lot (\$)	74,600	106,700
Financial results: (including joint ventures at Melcor's interest)		
Revenue (\$000s)	168,336	158,285
Earnings (\$000s)	59,975	51,169

REGIONAL HIGHLIGHTS

EDMONTON & REGION	2018	2017
Sales data (including joint ventures at 100%)		
Single-family sales (number of lots)	599	828
Multi-family sales (acres)	11.62	2.82
Commercial sales (acres)	4.10	11.84
Other land sales - Industrial, Other (acres)	7.47	4.18
Financial results: (including joint ventures at Melcor's interest)		
Revenue (\$000s)	70,929	85,239
Earnings (\$000s)	27,321	28,318

The market for residential homes in the Edmonton region was soft in 2018, however we did see a 12% increase in the average selling price of single-family lots in this region. This increase is due to traction in one of our newer communities, Jensen Lakes, which offers a wide range of product offerings including lake backing estate and semi-estate lots which are highly coveted and a focus on reducing estate inventory in Jagare Ridge. We continue to adapt to market conditions and offer lower priced options in all neighbourhoods, such as duplexes, townhomes, detached garage homes and zero lot-line housing. Throughout 2018, we actively marketed and sold lots to the public, including a focus on Jagare Ridge. This helped to drive momentum in an otherwise lagging market.

We expect to focus on clearing out existing inventory held by Melcor and by our builders in 2019 and have active marketing programs to support this objective.

Single-family lot sales were down 28% in 2018. Multi-family sales were up at 11.62 acres, contributing revenue of \$8.51 million at JV%. We also sold 4.10 acres of commercial land to Property Development for \$4.10 million (\$2.05 million at JV%) for continued development of The Shoppes at Jagare Ridge in southwest Edmonton. The Edmonton region sold an additional 7.47 acres of raw and industrial land during the year to third parties, contributing an additional \$1.16 million.

RED DEER & REGION	2018	2017
Sales data (including joint ventures at 100%)		
Single-family sales (number of lots)	164	83
Other land sales - Industrial, Other (acres)	—	10.53
Financial results: (including joint ventures at Melcor's interest)		
Revenue (\$000s)	11,485	12,406
Earnings (\$000s)	3,751	5,647

The central Alberta residential market continued to be constrained in 2018 by the economic conditions impacting the province. 2018 results met our expectations and were bolstered by two new projects that were well received by our builder partners and home buyers. The first phase of Evergreen in Red Deer achieved 86 lot sales. The neighbourhood has strong momentum and experienced over 20 home starts by year end and the first showhome opened recently. Phase three of the Vista in Ryders Ridge in Sylvan Lake also achieved 52 single-family lot sales.

We utilized a variety of incentive and rebate programs to help support sales of existing spec inventory for our builders and are comfortable that we have appropriate inventory levels heading into 2019. While the market, in terms of permits issued, contracted in Red Deer in 2018 - Melcor's market share increased close to 70%.

We expect that 2019 will remain slow, however we are well placed to respond to stronger market conditions when they return. We have excellent raw land holdings in the region and our existing neighbourhoods continue to see strong builder and consumer support.

CALGARY & REGION	2018	2017
Sales data (including joint ventures at 100%)		
Single-family sales (number of lots)	274	296
Multi-family sales (acres)	3.59	—
Commercial sales (acres)	1.15	1.09
Other land sales - Industrial, Other (acres)	10.63	18.55
Financial results: (including joint ventures at Melcor's interest)		
Revenue (\$000s)	43,284	31,903
Earnings (\$000s)	15,078	11,404

Overall home sales in the Calgary Metropolitan Area were softer than 2017, reflected in the 7% decrease in our single-family lot sales. Despite this, we maintained single-family lot inventory within our target range due to a moderated lot development program in 2018. We sold 3.59 acres of multi-family land in our Greenwich community, and through internal transfers to Property Development and sales to third parties, we sold an additional 11.78 acres of non-residential land in Kingsview Market and The District.

We completed development on single-family lots in Sunset Ridge, Westmere and Kings Heights. We partially serviced two non-residential phases, one in The District and one in Greenwich, with the balance of construction on those phases to occur in 2019. These non-residential phases will provide inventory for both sales to third parties and transfer to our Property Development division.

We also continue to advance land through the municipal approval process and received two land use approvals in 2018; one for a future commercial development called The Annex in Northeast

Calgary and the second for a revised commercial mixed-use in Greenwich. We also received approval on amendments to the South Shepard and Keystone Area Structure Plans that will allow us to proceed with land use and outline plan approvals.

We anticipate consistent sales activity in 2019 and have sufficient land with various levels of approval to meet market demands in the short and medium term.

LETHBRIDGE	2018	2017
Sales data (including joint ventures at 100%)		
Single-family sales (number of lots)	31	79
Multi-family sales (acres)	8.34	—
Financial results: (including joint ventures at Melcor's interest)		
Revenue (\$000s)	8,847	7,753
Earnings (\$000s)	3,635	1,725

Lethbridge benefited from two multi-family sites that closed in the latter half of 2018, generating revenue of \$5.20 million and driving the increase in revenue and earnings. The market continues to be softer in 2018 as a result of oversupply. We completed construction of a central park amenity in Garry Station to drive momentum in that neighbourhood.

KELOWNA	2018	2017
Sales data (including joint ventures at 100%)		
Single-family sales (number of lots)	5	25
Financial results: (including joint ventures at Melcor's interest)		
Revenue (\$000s)	1,775	10,953
Earnings (\$000s)	(268)	388

The Kelowna market softened considerably in 2018 as a result of a combination of provincial and federal policy announcements and market activity for single-family lots was down in all communities. We continued to focus on inventory management and preparation for market improvements by advancing construction at both BlueSky and North Clifton Estates. Inventory will be ready to bring on in a short time frame at BlueSky once market activity resumes. We anticipate the first phase of North Clifton Estates to be ready by late summer 2019. This new lake-front neighbourhood (owned with a joint venture partner) has received a lot of interest and we anticipate it to be absorbed at a quicker rate. We also continue to move a third development, Thomson Flats, through the planning process and expect area plan approval in 2019.

UNITED STATES	2018	2017
Sales data (including joint ventures at 100%)		
Single-family sales (number of lots)	467	94
Financial results: (including joint ventures at Melcor's interest)		
Revenue (\$000s)	31,516	10,031
Earnings (\$000s)	10,030	3,687

Community development activity grew in the US activity in 2018, resulting in a 214% increase in revenue. We sold 467 lots, including 294 serviced lots in Casa Grande, AZ to two separate builders and 173 serviced lots in Aurora, CO to 3 separate builders and have another 86 lots under builder contract. We completed development of 309 serviced lots in Harmony, our master-planned community in Aurora, CO. We received final approvals on the next phase of Harmony which contains 181 lots.

We have also progressed development on many of our Arizona land holdings. We received final plan approvals on Paseo Place, a 120 acre land holding in Goodyear, AZ. We also received pre-approval on La Privada, a 198 acre land holding in Goodyear, AZ (adjacent to Paseo Place) which resulted in a lot yield increase of 24 lots to the overall project (602 total lots).

We continue to seek land acquisition opportunities in AZ and CO and to advance planning and approvals on all land holdings. During the year we acquired 60 acres in Buckeye, AZ, located 10 miles west of our La Privada and Paseo Place land holdings.

PROPERTY DEVELOPMENT

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

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

The Property Development division increases the value of land assets and delivers long-term sustainable returns with high profile anchor tenants such as ATB, Bank of Montreal, Canadian Tire, Canadian Western Bank, Cara, CIBC, Home Depot, Loblaw's, 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 to Investment Properties at fair market value (based on third party appraisals) once construction and leasing activities near completion. The transfer revenue and related costs are eliminated on consolidation and do not impact overall earnings.

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

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

DIVISION HIGHLIGHTS

(\$000s and at JV%, except as noted)	2018	2017
Total revenue	30,751	11,015
Revenue from property transfers	30,350	10,700
Management fees	401	315
Margin (%) on property transfers	20%	31%
Square footage transferred (sf, at 100%)	65,990	38,199
Number of buildings transferred	5	4
Fair value gains on investment properties	7,356	3,308

Property Development completed and transferred 5 buildings (65,990 sf) to Investment Properties during 2018. A further 121,800 sf remains under development and we continue to move new projects through the planning and development approval process. 2019 is projected to be another active construction year for the division, with an additional 186,500 sf in development expected to commence construction during the year.

REGIONAL HIGHLIGHTS

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

(\$000s)	2018	2017
Northern Alberta	7,289	2,094
Southern Alberta	67	1,214
	7,356	3,308

Northern Alberta transferred 65,990 sf (5 buildings) to Investment Properties. Notable activity during 2018 includes:

- **Jensen Lakes Crossing:** We completed construction of Landmark Cinemas Canada (35,365 sf), our anchor tenant at our new neighbourhood shopping centre in St. Albert, AB. We also completed construction on an additional CRU (8,857 sf) in the fourth quarter. During 2019, we expect to complete construction and leasing on three additional CRUs and one land lease property.
- **The Shoppes at Jagare Ridge:** We completed construction on two CRUs and a gas station in 2018 (21,768 sf) in this south Edmonton neighbourhood shopping centre. The development realized fair value gains of \$6.20 million (\$3.10 million at JV%) in 2018. We also commenced construction on an additional two CRUs.

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

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

FUTURE DEVELOPMENT OPPORTUNITIES

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

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

Current Projects					
Project	Location	Type	Total SF *	Developed to Date*	SF Under Development
The Village at Blackmud Creek	South Edmonton	Regional business park	725,000	56,800	52,800
Telford Industrial	Leduc	Industrial Park	500,000	143,100	—
West Henday Promenade	West Edmonton	Regional mixed use centre	726,000	116,300	—
Kingsview Market	Airdrie	Regional shopping centre	331,000	181,900	18,500
Chestermere Station	Chestermere	Neighbourhood shopping centre	278,100	241,600	—
Clearview Market	Red Deer	Neighbourhood shopping centre	230,100	150,100	—
The District at North Deerfoot	North Calgary	Regional business / industrial park	2,250,000	522,250	6,400
Campsite Industrial	Spruce Grove	Industrial Park	170,000	13,700	—
The Shoppes at Jagare Ridge	South Edmonton	Neighbourhood shopping centre	105,000	20,500	35,200
Jensen Lakes Crossing	St. Albert	Neighbourhood shopping centre	150,000	45,700	8,900

* 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.

Expected Future Projects					
Project	Location	Type	Total SF *	Ownership Interest	Expected Start (year)
The Shoppes at Canyons	Lethbridge	Neighbourhood shopping centre	105,000	100%	2020
Greenwich	West Calgary	Regional mixed use centre	325,000	100%	2019
Rollyview	Leduc	Neighbourhood shopping centre	150,000	100%	2021
Woodbend Market	Leduc	Neighbourhood shopping centre	140,000	100%	2019
Laredo	Red Deer	Neighbourhood shopping centre	30,000	100%	2020
Mattson	Edmonton	Neighbourhood shopping centre	78,000	50%	2021
Vista Ridge	Sylvan Lake	Neighbourhood shopping centre	25,000	50%	2020
Secord/Rosenthal	Edmonton	Neighbourhood shopping centre	120,000	55%	2021
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 oversees 4.13 million sf of income-producing commercial GLA and 609 residential units.

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

Our US properties provide the division with a stable income stream that diversifies our exposure to the western Canadian resource economy. We also own 6 parking lots and other assets which are held for the long-term, providing current stable income and future re-development opportunities.

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

OPERATING RESULTS

(\$000s except as noted)	2018	2017
Commercial properties GLA under management (sf, total)	4,128,914	3,920,092
Properties owned and managed (sf)	880,779	842,385
Properties managed (sf)	3,248,135	3,077,707
Revenue (total)	32,545	34,792
Canadian properties	11,327	14,359
US properties	14,807	14,266
Management fees	5,083	4,767
Parking lots and other assets	1,328	1,400
Net operating income (NOI) *	19,295	21,051
Funds from operations *	18,016	18,550
Funds from operations per share *	0.54	0.56

* See non-standard measures for calculation.

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

CANADIAN PROPERTIES

Our Canadian property portfolio grew in 2018 via our Property Development activities and a third party acquisition completed in December 2018. Over the past twelve months, the Property Development division completed and transferred five buildings, adding 65,990 sf to owned and managed GLA and generating an increase in commercial property revenue and NOI over 2017. In 2017, four buildings were transferred from Property Development, adding 38,199 sf of GLA. With 121,800 sf of GLA under active development in the Property Development division, we expect continued growth.

On January 12, 2018, we sold five newly-constructed commercial properties to the REIT representing 172,629 sf of owned GLA. Revenue generated on assets sold to the REIT was \$0.40 million in 2018 compared to \$6.27 million in 2017.

Revenue generated on assets acquired from Property Development and held through the period was \$2.68 million in 2018 (2017 - \$4.72 million).

Occupancy on properties owned by Investment Properties was 96% at December 31, 2018 (2017 - 91%). The increase in occupancy is due to new properties transferred from the Property Development division as well as lease ups on one of our industrial properties. Weighted average base rental rates were \$23.36 (2017 - \$25.86), down 10% due to the acquisition of Stafford Common and higher industrial occupancy both of which have lower weighted average base rents.

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

(\$000s except as noted)	2018	2017
Same asset NOI *	6,221	5,955
Third party acquisition	12	—
Properties transferred from PD	1,274	45
Properties transferred to REIT	213	4,553
NOI	7,720	10,553
Amortization of operating lease incentives	(330)	(338)
Straight-line rent adjustment	1,056	247
Gross profit	8,446	10,462

* 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 \$8.45 million down 19% from 2017 as a result of the sale to Melcor REIT in Q1-2018. NOI on properties sold to the REIT was \$4.55 million in 2017 (2018 - \$0.21 million).

Same asset NOI was up 4% over 2017 at \$6.22 million due to higher occupancy.

US PROPERTIES

In the third quarter we acquired a 130,400 sf office property consisting of two buildings in Glendale, Arizona for \$24.53 million (US\$18.91 million). This property was 85% occupied on closing. Our portfolio is concentrated in the Phoenix and Denver areas; regions we view as a hedge to our Canadian resource derived economic exposure.

Revenue increased 4% over 2017, primarily due to the purchase of the Glendale property which generated revenue of \$0.87 million in 2018 (2017 - no acquisitions). Same asset revenue was down 3% over 2017 due to higher vacancy in our Phoenix area commercial properties.

Occupancy on commercial US properties was 84% (2017 - 87%). This decrease is due to the acquisition of Glendale, which had an occupancy rate of 85% as well as tenant rollover and increased vacancy particularly within our Denver portfolio. Rental rates on commercial US properties were \$19.64 (2017 - \$18.43). The

increase in rental rates is due to the acquisition of Glendale, which had a weighted average lease rate of \$21.99.

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

(\$000s except as noted)	2018	2017
Same asset NOI *	4,957	4,718
Third party acquisitions	364	—
NOI	5,321	4,718
Foreign currency translation	1,575	1,398
Amortization of operating lease incentives	(808)	(597)
Straight-line rent adjustment	97	416
Gross profit	6,185	5,935

* See non-standard measures for definition.

Same asset NOI was up 5% over 2017 due to timing of maintenance projects undertaken on our residential assets.

MANAGEMENT FEES & OTHER

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the asset manager. Management fees were up \$0.32 million or 7% compared to 2017, primarily as a result of the movement of property from Investment Properties to the REIT early in the year.

During 2018 we recognized \$1.33 million in revenues on our parking stalls and other assets, down 5% from 2017 revenue of \$1.40 million due to the sale of the Phillips Lofts Parking Lot in September 2017 (28 stalls on 0.17 acres) in Edmonton, Alberta for \$2.99 million (net of transaction costs). These revenues fluctuate from period to period.

FUNDS FROM OPERATIONS

Funds from operations (FFO) decreased by \$0.53 million or 3% over 2017 as a result of the sale of properties to the REIT in the first quarter of 2018. This decrease was partially offset by properties acquired from Property Development during the year as well the third party acquisition made at the end of the third quarter.

FAIR VALUE OF INVESTMENT PORTFOLIO

	2018	2017
Fair value of portfolio (\$000s)	309,688	318,413
Weighted average capitalization rate	6.47%	6.30%
Weighted average terminal cap rate	6.79%	6.61%
Weighted average discount rate	7.43%	7.40%

The fair value of our portfolio decreased by \$8.73 million over 2017. The decrease in fair value was the result of \$87.35 million in buildings sold from Investment Properties to REIT in the first quarter, partially offset by \$29.96 million in transfers of completed properties from Property Development, \$1.31 million in property improvements and third party acquisitions of \$27.28 million. Other changes included fair value gains of \$0.45 million, disposals of \$0.52 million, foreign currency translation loss of \$10.40 million, and changes to tenant improvements and straight line rent.

For the year ended December 31, 2018, Melcor's internal valuation team performed the valuation assessment. Of 32 legal phases assessed, 8 investment properties with a fair value of \$52.59 million were valued by qualified independent external valuation professionals during the year. In 2017, 21 investment properties of 35 legal phases with a fair value of \$295.57 million were valued by qualified independent external valuation professionals during the year.

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

(\$000s)	2018	2017
Alberta - all assets	(554)	2,572
US - residential	225	(2,883)
US - commercial	776	(2,357)
	447	(2,668)

We recognized fair value gains on our US portfolio as a result of the increase in stabilized NOI and a decrease in capitalization rates on certain commercial assets; partially offset by capital and tenant spending which did not result in a significant increase in fair value. Losses on our Alberta assets were primarily due to price adjustments realized on assets sold to the REIT in January 2018. Fair value gains in 2017 were the result of US residential asset dispositions, where the sale price exceeded carrying value. Refer to note 29 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

REIT

The REIT owned 37 income-producing office, retail and industrial properties, representing 2,868,901 sf in GLA and a land lease community at December 31, 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 held a controlling 53.0% effective interest in the REIT through ownership of all Class B LP Units at December 31, 2018 (December 31, 2017 - 56.7%). As we have concluded that Melcor retains control of the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities.

OPERATING RESULTS

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

(\$000s except as noted)	2018	2017
Rental revenue	70,173	66,613
Net operating income (NOI) *	43,983	42,101
Same asset NOI (see calculation following)	38,962	40,803
Fair value adjustments	(11,385)	(12,800)
Occupancy	90%	92%
Funds from operations *	42,426	40,519
Funds from operations per share *	1.27	1.21

* See non-standard measures for definition and calculation.

Rental revenue increased \$3.56 million or 5% over 2017. The increase in revenue within this division was a result of the Melcor Acquisition (Jan-2018) and LFS Building (Dec-2018) purchases, partially offset by property sales and lower same-asset revenue. Rental revenue from the acquired properties was \$7.00 million in 2018. During 2018 we also recognized \$0.38 million of rental revenue from properties sold within the last two years (2017 - \$1.74 million). Same-asset revenues were down over 2017 due to lower same-asset occupancy, impacting base rents as well as our recovery ratio.

We continue to be proactive and strategic in our leasing programs to meet the demands of an evolving market while retaining and attracting new tenants. In 2018 we completed 305,344 sf of lease renewals (including holdovers) and had 72,967 sf in new leases commence for occupancy of 89.9%. We exceeded our retention rate target, with the renewal of 77.4% of expiring leases (representing 57 leases) in spite of challenging market conditions in many of our operating regions.

Weighted average base rent was \$16.51, up \$0.63 compared to December 31, 2017 due to the Melcor Acquisition, which had a weighted average base rate of \$28.08. The increase was partially offset by lower rates on new and renewed leasing completed during the year and third party sales completed in 2018.

Direct operating expenses were up 6% over 2017. Excluding the impact of properties acquired and disposed of over the past twelve months, direct operating expenses were flat. 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.

(\$000s except as noted)	2018	2017
Same asset NOI *	38,962	40,803
Acquisitions	4,740	—
Disposals	281	1,298
NOI before adjustments	43,983	42,101
Amortization of operating lease incentives	(3,097)	(3,062)
Straight-line rent adjustment	1,190	1,074
Net rental income	42,076	40,113

* See non-standard measures for definition and calculation.

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

Portfolio growth over the past year contributed to a 4% increase in NOI (before adjustments). On a same-asset basis, NOI was down 5% over 2017 as a result of lower occupancy and weighted average base rates.

RECREATIONAL PROPERTIES

FUNDS FROM OPERATIONS

FFO within this division increased by 5% over 2017 as a result of the Melcor Acquisition and the third party acquisition completed in the fourth quarter. Stability in FFO demonstrates the REIT's consistency in stabilizing Melcor's overall operating results.

FAIR VALUE OF REIT PORTFOLIO

	2018	2017
Number of properties	37	37
Total GLA (sf)	2,998,938	2,830,368
GLA (REIT owned %) (sf)	2,868,901	2,710,862
Fair value of portfolio (\$000s)	704,339	642,763
Weighted average capitalization rate	6.69%	6.68%
Weighted average terminal cap rate	6.75%	6.79%
Weighted average discount rate	7.70%	7.75%

For the year ended December 31, 2018, Melcor's internal valuation team performed the valuation assessment. In 2018, 24 phases of 50 legal phases with a fair value of \$367.55 million were valued by qualified independent external valuation professionals. Valuations performed during the year resulted in fair value losses of \$11.39 million. In 2017, 27 phases of 46 legal phases with a fair value of \$392.70 million were valued by qualified independent external valuation professionals, resulting in a fair value loss of \$12.80 million. Refer to note 29 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

Phases are a result of the property development process when a larger project is developed over an extended period of time and subdivided into legal phases for increased flexibility.

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

(\$000s)	2018	2017
Northern Alberta	(12,816)	(16,959)
Southern Alberta	33	4,710
Saskatchewan & British Columbia	1,398	(551)
	(11,385)	(12,800)

Fair value losses in Northern Alberta were due to increased vacancy on certain Edmonton office properties and our Red Deer retail property in conjunction with spending on tenant incentives and capital projects. Fair value gains in Southern Alberta were realized on Calgary area retail properties and our office property in Lethbridge where market fundamentals remain strong. Our retail portfolio in Saskatchewan & office assets in British Columbia drove fair value gains in the region with higher NOI and a 25 to 50 basis point decrease in capitalization rates. The remainder of fair value losses across the portfolio were due to capital and tenant incentive spending that did not result in a significant change in the fair value of the related property. Fair value adjustments represent a change of approximately 2% in the fair value of our portfolio.

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

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

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

Black Mountain was named the Golf Facility of the Year by the PGA of BC in October 2018.

OPERATING RESULTS

(\$000s except as noted)	2018	2017
Revenue	8,391	8,650
Gross profit	2,378	2,761
Gross margin (%)	28.3%	31.9%
Earnings	94	613

The financial performance of our golf courses is greatly influenced by the weather conditions during the golf season. Unfavourable weather conditions in Alberta throughout much of the season contributed to a 3% decrease in revenue and 85% decrease in earnings in 2018. The number of rounds played at all four courses was down 6% to 96,930 rounds.

We continue to focus on food and beverage initiatives as part of our strategy for attracting tournaments and stabilizing revenue. In 2018, food and beverage revenue contributed revenue of \$2.74 million compared with \$2.76 million in 2017.

	2018			
	Ownership interest	Season opened	Season closed	Rounds of golf*
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 27	October 30	24,158
The Links (Spruce Grove)	100%	April 27	October 30	21,179
Black Mountain (Kelowna)	100%	April 6	November 8	29,663
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	May 1	October 21	21,930
	2017			
	Ownership interest	Season opened	Season closed	Rounds of golf*
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 6	October 29	27,711
The Links (Spruce Grove)	100%	April 7	October 29	23,047
Black Mountain (Kelowna)	100%	April 1	November 1	31,216
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	April 29	October 22	21,616

* Rounds of golf indicated at 100%

GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expenses decreased by 8% over 2017, primarily due to a one-time retirement allowance accrued in the prior year. Management continues to prudently monitor our administrative expenses.

INCOME TAX EXPENSE

The statutory tax rate for the year ended December 31, 2018 is 27%, consistent with 2017. Significant adjustments that impacted the 2018 effective tax rate include the non-taxable portion of REIT income, the recovery of deferred taxes on the REIT transfer, as well as permanent differences related to revaluation adjustments on investment properties and REIT units.

FINANCING

As at December 31, 2018, our total general debt outstanding was \$659.56 million compared to \$658.26 million in 2017. The financing function is managed by our corporate division and decisions on how to deploy operating and acquisitions funds is a centrally managed corporate decision. We use various forms of financing to fund our development and acquisition activities. We are often able to leverage the assets in one division to fund development opportunities in others.

A summary of our debt is as follows:

As at (\$000s)		2018	2017
Melcor - revolving credit facilities	a	46,529	76,529
REIT - revolving credit facility	b	—	—
Project specific financing	c	62,639	20,926
Secured vendor take back debt on land inventory	d	40,842	64,891
Debt on investment properties and golf course assets	e	454,342	444,807
REIT - convertible debentures	f	55,204	54,775
Less: Liability held for sale		—	(3,670)
		659,556	658,258

a) Melcor - revolving credit facilities

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

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

Under the terms of the facilities, Melcor pledges specific agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral. The facilities that mature on July 31, 2020, are renewable one year in advance of expiry and may be modified.

A summary of the credit facilities is as follows:

As at (\$000s)		2018	2017
Credit limit approved	i)	200,103	205,649
Supportable credit limit	ii)	164,980	162,597
Credit used		(46,529)	(76,529)
Credit available		118,451	86,068

- i. The portion of these loan limits that relate solely to Melcor Developments Ltd. is \$120.00 million (2017 - \$120.00 million) with the remaining balance pertaining to specific joint arrangements.
- ii. Our supportable credit limit is calculated based on a formula and tests as required by the bank. The supportable credit limit is calculated based on agreements receivable balances and land inventory. As such, the supportable limit fluctuates in response to increases or decreases in these balance sheet accounts. Management monitors the supportable credit limit and keeps the bank informed at all times of its current collections and inventory production plans.

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

As at (\$000s)	2018	2017
Total letter of credit facility	72,170	71,810
Letters of credit issued	(31,784)	(40,256)
Available for issue	40,386	31,554

b) REIT - revolving credit facility

The REIT has an available credit limit based on the carrying values of specific investment properties up to a maximum of \$35.00 million for general purposes, including a \$5.00 million swingline sub-facility. An additional \$10.00 million is available by way of an accordion feature, subject to lender approval. Depending on the form under which the new facility is accessed, rates of interest will vary between prime plus 1.25% or bankers' acceptance plus 2.25% stamping fee. The agreement also provides the REIT with \$5.00 million in available letters of credit which bear interest at 2.25%. The facility matures June 1, 2021.

As at December 31, 2018 we had \$nil (December 31, 2017 - \$nil) drawn from the facility; and posted letters of credit of \$0.15 million (December 31, 2017 - \$nil).

c) Project specific financing

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

The composition of our project specific financing is as follows:

As at (\$000s)	2018	2017
Project specific debt on investment properties under development, with interest rates between 4.25% and 4.45% (2017 - 3.50% to 3.70%)	30,811	12,217
Project specific debt on land, with interest rates between 4.95% and 9.48% (2017 - 4.58% to 5.70%)	31,828	8,709
	62,639	20,926
Weighted average effective interest rate	6.67%	4.94%

As at December 31, 2018 \$19,791 (2017 - \$nil) of debt was payable in US dollars (2018 - US \$14,507 and 2017 - US \$nil).

d) Secured vendor take back debt on land inventory

This debt is primarily comprised of loans on the acquisition of land that are held by the land vendor (fixed and variable rate financing with repayments over 3 to 5 years) or from financial institutions (variable rate financing with repayments over 3 to 5 years). Current debts mature from 2019 to 2022.

As at (\$000s)	2018	2017
Agreements payable with interest at the following contractual rates:		
Fixed rates of 3.00% - 5.95% (2017 - 3.00% to 6.00%)	36,460	58,318
Variable rate of 5.95% (2017 - 5.20%)	4,382	6,573
	40,842	64,891
Weighted average effective interest rate	4.69%	5.04%

As at December 31, 2018 \$nil of debt was payable in US dollars (2017 - \$10.62 million).

e) Debt on investment properties and golf course assets

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

Debt on investment properties and golf course assets in the amount of \$454.34 million, excluding fair value adjustments and deferred finance fees, reflects financing placed on investment properties that have a carrying value of \$860.46 million.

Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. New mortgage rates from Canadian lending institutions ranged from 3.58% to 4.15% in 2018.

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

As at (\$000s)	2018	2017
Canadian mortgages at fixed rates	338,549	345,709
Canadian mortgages at variable rates	47,658	49,816
US mortgages at fixed rates	63,316	44,576
US mortgages at variable rates	7,931	7,786
	457,454	447,887
Interest rate ranges	(2.54% - 5.57%)	(2.48% - 6.16%)
Weighted average effective interest rate	3.47%	3.42%

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

Year	Loan renewal amount (\$000s)	Weighted average interest rate	Number of loans
2019	51,695	3.79%	9
2020	53,956	3.34%	8
2021	61,982	3.00%	10
2022	26,096	3.43%	4
2023	67,501	4.10%	6
2024	34,359	3.73%	4
2025	39,686	4.04%	7
2026	34,285	3.61%	5
2027	—	—%	—
2028	17,102	4.07%	3

As at December 31, 2018, \$71.25 million of debt was payable in US dollars (2017: \$52.36 million).

f) REIT - convertible debentures

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

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

These debentures were a source of financing and the funds were used to complete property acquisitions.

LIQUIDITY & CAPITAL RESOURCES

The following table represents selected information as at December 31, 2018, compared to December 31, 2017.

<i>As at (\$000s except as noted)</i>	2018	2017
Cash & cash equivalents	26,727	42,505
Restricted cash	—	16,956
Accounts receivable	10,849	17,384
Agreements receivable	126,490	129,949
Revolving credit facilities	46,529	76,529
Accounts payable and accrued liabilities	44,825	51,979
Total assets	2,023,076	1,990,983
Total liabilities	955,511	982,393
Debt to equity ratio *	0.90	0.97

*See non-standard measures for definition

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

- Fund recurring expenses;
- Meet debt service requirements;
- Make dividend payments;
- Make distributions to unitholders of the REIT;
- Fund land development; and
- Fund investing activities such as the discretionary purchase of land inventory and/or investment property purchases.

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

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

On January 12, 2018, we sold the REIT five commercial properties for a total purchase price of \$80.88 million. The purchase price was settled through assumption of \$31.04 million in mortgages payable; issuance of 1,331,202 Class C LP Units, representing \$13.31 million in Retained Debt by Melcor; issuance of 283,447 Class B LP Units at a price of \$8.82, representing \$2.50 million; and cash of \$34.03 million. Concurrent with closing of this sale, the REIT issued 2,035,000 trust units in exchange for subscription receipts previously issued and outstanding and the maturity date of the 2017 Debentures was extended to December 31, 2022. Melcor's interest in the REIT on closing the Melcor Acquisition is approximately 53.0%.

We do not currently have any other plans to raise additional capital through the issuance of common shares, trust units, preferred shares or convertible debentures; however, under certain circumstances, we would consider these means to facilitate growth through acquisition or to reduce the utilized level on our credit facility.

CASH REQUIREMENTS

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

Contractual obligations include:

	Total	Payments due by period			
		Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt on investment properties and golf course assets	457,454	67,145	140,794	110,059	139,456
Revolving credit facilities	46,529	46,529	—	—	—
Secured vendor take back debt on land inventory	40,842	20,377	20,106	359	—
Project specific financing	62,639	62,639	—	—	—
REIT debenture	57,500	34,500	—	23,000	—
Interest expense	65,012	9,408	23,983	16,586	15,035
Operating leases	759	170	361	228	—
Total contractual obligations	730,735	240,768	185,244	150,232	154,491

We also have a contractual obligation of \$98.37 million on the non-controlling interest portion of REIT units as they are redeemable at the option of the holder.

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:

<i>(\$000s)</i>	2018	2017
Cash flows from operating activities	30,827	7,406
Cash flows used in investing activities	(38,826)	(29,341)
Cash flows from (used in) financing activities	(8,909)	26,694

Cash from operations was \$23.42 million higher in 2018. Net income, adjusted for non-cash items, contributed \$54.07 million to cash from operations compared to \$57.58 million in 2017. In 2018 we purchased 200 acres of land inventory for \$7.82 million compared with 771 acres and 294 lots for \$42.58 million in 2017 (net of vendor financing). Included in the 200 acres of land purchased in the year was 62 acres of land purchased in Buckeye, Arizona (US) for \$2.80 million (US\$2.05 million) as we continue to focus on diversifying our land holdings. Development ramped up on our Colorado (US) land holdings, which contributing \$9.74 million to the \$22.64 million in development activities in 2018. This compares with US land development costs of \$3.71 million in 2017.

At the end of 2017, we had \$5.03 million due from one of our registered builders that was in receivership. These funds were all collected in 2018, with accrued interest, contributing to the decrease in our agreements receivable balance in 2018 compared with the prior year. We also incurred \$8.28 million in tenant incentives and direct leasing costs in 2018 to renew and secure new leases.

OFF BALANCE SHEET ARRANGEMENTS

Cash used in investing activities was \$38.83 million, an increase of \$9.49 million over 2017. On September 26, 2018, we purchased an office property consisting of two buildings in Glendale, Arizona (US) for \$24.53 million (US\$18.91 million). We also purchased two buildings in Lethbridge, AB on December 3, 2018 for \$9.01 million.

Cash used in investing activities was partially offset by strategic dispositions made during the year. On January 31, 2018 we disposed of an industrial property classified as held for sale at the end of 2017 for proceeds of \$6.73 million. This sale price was settled through mortgage assumption of \$3.66 million and cash of \$3.07 million. On April 16, 2018 we sold an investment property for \$13.32 million. Concurrent with the sale we paid off the associated mortgage liability which had a balance of \$6.95 million. We also sold two units during the year at one of our US residential properties for proceeds of \$0.52 million.

We continue to invest in improving our asset base through value enhancing projects. Additions to investment properties include development activities in Property Development and enhancements to properties held in the Investment Properties and REIT operating divisions. In 2018 we invested \$21.42 million in properties under development, property improvements and capitalized borrowing costs, compared with \$36.15 million in 2017.

Cash from financing activities was down \$35.60 million over 2017 largely a result of repayments on our revolving credit facilities of \$30.00 million. In 2018, the revolving credit facilities made net repayments of \$30.00 million compared to net draws of \$26.48 million in 2017. General debt contributed to a net cash inflow of \$21.72 million through financings received and repayments made, compared to a net cash outflow of \$4.50 million in 2017.

During the year, we repurchased 57,156 shares which were canceled and returned to treasury for \$0.76 million. No purchases were made under the NCIB in 2017.

In 2018, we paid dividends of \$0.52 per share (2017 - \$0.52 per share), for a total cash outflow of \$17.36 million, comparable to amounts paid in 2017.

SHARE DATA

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at December 31, 2018 there were 33,346,495 common shares issued and outstanding, 1,040,647 stock options, and 67,400 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of shares issued. As at March 13, 2019 there were 33,301,611 common shares issued and outstanding, 1,028,947 stock options, and 67,400 restricted share units.

Please refer to note 17 to the consolidated financial statements for information pertaining to our outstanding shares and options.

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

A discussion of our letter of credit facility arrangement can be found in the Financing section. Refer to note 20 to the consolidated financial statements for information pertaining to our guarantees and letters of credit.

QUARTERLY RESULTS

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

(\$000s)	2018			
	Q4	Q3	Q2	Q1
Revenue	119,982	60,245	42,793	44,414
Net income	36,526	11,469	1,631	14,647
FFO	30,671	12,841	7,695	4,920
Per Share				
Basic earnings	1.09	0.34	0.05	0.44
Diluted earnings	1.09	0.34	0.05	0.44
FFO basic	0.92	0.38	0.23	0.15
FFO diluted	0.92	0.38	0.23	0.15
Book value *	32.01	29.39	29.30	29.41

(\$000s)	2017			
	Q4	Q3	Q2	Q1
Revenue	109,633	62,795	46,955	38,567
Net income	32,084	11,517	3,927	(9,003)
FFO	30,850	12,787	9,306	6,078
Per Share				
Basic earnings	0.96	0.34	0.12	(0.27)
Diluted earnings	0.96	0.34	0.12	(0.27)
FFO basic	0.93	0.38	0.28	0.18
FFO diluted	0.93	0.38	0.28	0.18
Book value *	30.21	29.39	29.30	29.41

*See non-standard measures for definition

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

FOURTH QUARTER

Three months ended (\$000s except as noted)	2018	2017
Revenue	119,982	109,633
Cost of sales	(66,510)	(61,634)
Gross profit	53,472	47,999
General and administrative expense	(5,674)	(7,348)
Fair value adjustment on investment properties	605	3,923
Adjustments related to REIT units	6,216	1,909
Loss on sale of assets	—	(18)
Operating earnings	54,619	46,465
Interest income	241	194
Foreign exchange gain (loss)	166	(26)
Finance costs	(6,129)	(5,938)
Net finance costs	(5,722)	(5,770)
Income before income taxes	48,897	40,695
Income tax expense	(12,371)	(8,611)
Net income for the period	36,526	32,084
Earnings per share attributable to Melcor's shareholders:		
Basic earnings per share	1.09	0.96
Diluted earnings per share	1.09	0.96

Highlights of the fourth quarter include:

- Our Property Development division completed and transferred 2 buildings (20,093 sf) to Investment Properties.
- We purchased a total of 69.08 acres of raw land in the quarter, including:
 - 5.59 acres in St. Albert, AB
 - 1.49 acres in Calgary, AB
 - 62.00 acres in Buckeye, AZ
- Our Community Development division registered 16 plans in 12 communities, which added 637 lots to inventory with 710 lots sold in Q4-2018. This compares to 11 plan registrations in 7 communities adding 796 lots to inventory with 864 lots sold in Q4-2017.
- On December 3, 2018 we purchased two investment properties in Lethbridge, AB - an office building at a purchase price of \$6.32 million (including transaction costs) purchased by the REIT and a commercial building at a purchase price of \$2.69 million (including transaction costs) purchased by Melcor.
- On October 9, 2018 we began purchasing shares under our NCIB and during the fourth quarter we purchased 57,156 shares at a cost of \$0.76 million. These shares have been canceled and returned to treasury.

Segmented information for the fourth quarter is as follows:

Three months ended December 31, 2018 (\$000s)	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	95,426	10,577	8,913	17,336	677	—	132,929	(12,947)	119,982
Cost of sales	(55,486)	(10,500)	(3,706)	(6,980)	(1,018)	—	(77,690)	11,180	(66,510)
Gross profit	39,940	77	5,207	10,356	(341)	—	55,239	(1,767)	53,472
General and administrative expense	(2,492)	(622)	(620)	(727)	(351)	(1,577)	(6,389)	715	(5,674)
Fair value adjustment on investment properties	—	986	4,791	(6,224)	—	—	(447)	1,052	605
Interest income	147	8	2	33	—	51	241	—	241
Segment Earnings (loss)	37,595	449	9,380	3,438	(692)	(1,526)	48,644	—	48,644
Foreign exchange gain									166
Finance costs									(6,129)
Adjustments related to REIT units									6,216
Income before income taxes									48,897
Income tax expense									(12,371)
Net income for the period									36,526

Three months ended December 31, 2017 (\$000s)	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	85,776	5,765	8,910	16,263	693	—	117,407	(7,774)	109,633
Cost of sales	(51,118)	(5,600)	(3,456)	(6,733)	(980)	—	(67,887)	6,253	(61,634)
Gross profit	34,658	165	5,454	9,530	(287)	—	49,520	(1,521)	47,999
General and administrative expense	(2,381)	(577)	(1,244)	(780)	(317)	(2,768)	(8,067)	719	(7,348)
Fair value adjustment on investment properties	—	795	(1,503)	3,829	—	—	3,121	802	3,923
Loss on sale of assets	—	—	—	—	—	(18)	(18)	—	(18)
Interest income	87	2	27	22	—	56	194	—	194
Segment Earnings (loss)	32,364	385	2,734	12,601	(604)	(2,730)	44,750	—	44,750
Foreign exchange gain									(26)
Finance costs									(5,938)
Adjustments related to REIT units									1,909
Income before income taxes									40,695
Income tax expense									(8,611)
Net income for the period									32,084

OUTLOOK

Melcor owns a high quality portfolio of assets, including raw land, developed land inventory (residential lots and acres for multi-family and commercial development), income-producing properties and championship golf courses. Alberta, our largest market, has undergone dramatic changes throughout the past few years, primarily related to lower oil prices. We continue to execute on our strategic plan and achieved stable results in 2018. We continue to intentionally diversify our business across asset class and geography, including continued investment in the US with raw land and commercial property acquisitions and the launch of our 1,100-acre community in Aurora. We anticipate that these diversification strategies will continue to ease our reliance on the Alberta economy going forward.

We expect continued softness in the residential market in Alberta in 2019 and are focused on reducing existing lot inventory held by both Melcor and our builders. On the commercial side, retail activity remains steady and we expect that to continue in 2019. Our US assets delivered positive results in economies that are growing and that are counter cyclical to our resource dependence in Alberta.

Our business model has adapted to changing times for 95 years. We will continue to take advantage of opportunities to diversify our asset base both geographically and by product type. We will maintain our disciplined, conservative approach to operations to ensure that we remain profitable while achieving our fundamental goals of protecting shareholder investment and sharing corporate profit with our shareholders.

With appropriate levels of serviced land inventory, movement of residential and commercial land through the municipal approvals process, steady occupancy rates and capacity on our operating facility, we remain well-positioned for the future.

INTEREST IN THE REIT

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

The REIT began operations on May 1, 2013 when trust units were issued for cash pursuant to the initial public offering (Offering or IPO). Units of the REIT trade on the Toronto Stock Exchange under the symbol MR.UN. The REIT is externally managed, administered and operated by Melcor pursuant to the property management and asset management agreements entered into in conjunction with the IPO.

As of March 13, 2019, Melcor holds a 53.0% (December 31, 2017 and 2018 - 56.7%) effective interest in the REIT through ownership of all Class B LP units of the partnership through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

As we retain control over the REIT, we consolidate the REIT and record 100% of its revenues, expenses, assets and liabilities. We reflect the public's 47.0% interest (December 31, 2018 - 43.3%) in the REIT as a financial liability.

Arrangements between Melcor and the REIT

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

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

- a base annual management fee calculated and payable on a quarterly basis, equal to 0.25% of the REIT's gross book value;
- a capital expenditures fee equal to 5.0% of all hard construction costs incurred on capital projects in excess of \$0.10 million;

- c. an acquisition fee equal to 0.5% - 1.0% of the purchase price;
- d. a financing fee equal to 0.25% of the debt and equity of all financing transactions completed for the REIT to a maximum of actual expenses incurred by Melcor.

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

- a. a base fee of 3.0% of gross property revenue;
- b. a leasing fee equal to 5.0% of aggregate base rent for new leases for the first 5 years and 2.5% thereafter, and 2.5% of aggregate base rent for lease renewals and expansions for the first 5 years.

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

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

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

BUSINESS ENVIRONMENT & RISKS

A discussion of credit risk, liquidity risk and market risk can be found in note 28 to the consolidated financial statements.

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

GENERAL RISKS

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

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

We participate in joint arrangements under the normal course of business that may have an effect on certain assets and businesses. These joint arrangements may involve risks that would not otherwise be present if the third parties were not involved, including the possibility that the partners have different economic or business interests or goals. Also, within these arrangements, Melcor may not

have sole control of major decisions relating to these assets and businesses, such as: decisions relating to the sale of the assets and businesses; timing and amount of distributions of cash from such entities to Melcor and its joint arrangement partners; and capital expenditures.

INDUSTRY RISK

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

CONCENTRATION OF ASSETS RISK

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

FINANCING RISK

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

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

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

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

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

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

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

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

ENVIRONMENTAL RISK

Our development activities are subject to various requirements (including federal, provincial and municipal laws) relating to the protection of the environment. For example, environmental laws or local bylaws may apply to a development site based on its environmental condition, present and former uses, and its adjoining properties. Environmental laws and conditions may result in delays, cause Melcor to incur significant compliance and other costs, and can severely restrict or prevent development in environmentally sensitive regions or areas.

Under these requirements, we could be, or become, liable for environmental or other harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment and/or affecting persons, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under our properties (including commercial buildings, land inventory and development sites).

Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such substances. Additional liability may be incurred by Melcor with respect to the release of such substances from our properties to properties owned by third parties, including properties adjacent to our properties or with respect to the exposure of persons to such substances. The failure to remove or otherwise address such substances may materially adversely affect our ability to sell such property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against Melcor.

We employ a rigorous due diligence process prior to acquiring raw land, development sites or investment properties to mitigate our exposure to these potential issues. It is our operating policy to obtain, or be entitled to rely on, a Phase I environmental site assessment prior to acquiring property or land. Where a Phase I environmental site assessment warrants further investigation, it is our operating policy to conduct further environmental investigations. Although such environmental assessments provide Melcor with some level of assurance about the condition of the property, we may become subject to liability for undetected contamination or other environmental conditions of its properties against which it cannot insure, or against which we may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on our business, cash flows, financial condition and results of operations and ability to make distributions to unitholders.

Environmental laws and other requirements can change and we may become subject to more stringent environmental laws or other requirements in the future. Compliance with more stringent environmental laws or requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse

effect on our business, cash flows, financial condition and results of operations and ability to pay dividends to shareholders.

Melcor bears the risk of assessment, remediation or removal of such contamination, hazardous substances or other residual pollution. The discovery of any such residual pollution on the sites and/or in the buildings, particularly in connection with the lease or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions or termination of leases for cause, for damages and other breach of warranty claims against Melcor. The remediation of any contamination and the related additional measures we would have to undertake could have a materially adverse effect and could involve considerable additional costs that we may have to bear. Melcor will also be exposed to the risk that recourse against the polluter or the previous owners or occupants of the properties might not be possible, for example, because they cannot be identified, no longer exist or have become insolvent. Moreover, the existence or even the mere suspicion of the existence of contamination, hazardous materials or other residual pollution can materially adversely affect the value of a property and our ability to lease or sell such a property.

We employ a rigorous due diligence process, including obtaining a Phase I environmental site assessment, prior to acquiring property to mitigate our exposure to these potential issues.

CYBER SECURITY RISK

Cyber security has become an increasingly problematic issue for issuers and businesses in Canada and around the world, including for Melcor and the real estate industry in general. Cyber attacks may focus on financial fraud, obtaining sensitive data for inappropriate use or to disrupt business operations. A cyber incident is any adverse event that threatens the confidentiality, integrity or availability of our information resources, including intentional or unintentional events to gain unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information.

As our reliance on technology has increased, so has our risk of a cyber security breach. The primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our reputation, damage to our business relationships with tenants and suppliers, disclosure of confidential information regarding our tenants, employees and third parties with whom we do business, and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation.

The Board and management are responsible for overseeing Melcor's cyber security risks. We completed a cyber security assessment with a third party consultant which resulted in an action plan that we are working through. Progress is reported to the Audit Committee quarterly. Some of the actions we have implemented to remain resilient include processes, procedures and controls to help mitigate these risks, including installing firewalls and antivirus programs on our networks, servers and computers, staff training, and cyber security insurance. However, these measures, as well as our increased awareness of the potential risk of a cyber incident, does not provide assurance that our efforts will be effective or that attempted security breaches or disruptions will not be successful or damaging.

OTHER FINANCIAL INFORMATION

COMMUNITY DEVELOPMENT

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

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

PROPERTY DEVELOPMENT

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

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

INVESTMENT PROPERTIES AND REIT

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

RECREATIONAL PROPERTIES

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

While weather is outside our control, we manage our golf courses to provide consistent playing conditions to support the popularity of our courses. We also focus on growing revenue related to food and beverage and event rentals.

NORMAL COURSE ISSUER BID

On March 29, 2018 we announced a Normal Course Issuer bid commencing March 31, 2018 and ending March 30, 2019. Under the bid, we can 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 are also able to arrange a block purchase of a larger number of shares than our daily repurchase restriction one time per calendar week.

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, we repurchased 57,156 shares which were canceled and returned to treasury (2017 - nil).

Subsequent to year end, we have repurchased 54,318 common shares from the public market under the ASPP agreement.

CRITICAL ACCOUNTING ESTIMATES

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

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

CHANGES IN ACCOUNTING POLICIES AND ADOPTION OF IFRS

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

SUBSEQUENT EVENTS

Please refer to note 30 to the consolidated financial statements for information pertaining to subsequent events.

JOINT ARRANGEMENT ACTIVITY

We record only our proportionate share of the assets, liabilities, revenue and expenses of our joint arrangements. Refer to note 24 to the consolidated financial statements for a listing of our current joint arrangements. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to Melcor.

<i>Joint arrangement activity at 100% (\$000s)*</i>	2018	2017
Revenue	193,250	169,505
Earnings	57,627	42,679
Assets	1,033,828	1,008,635
Liabilities	402,526	403,964

<i>Joint arrangement activity at Melcor's ownership % (\$000s)*</i>	2018	2017
Revenue	82,811	82,046
Earnings	27,126	22,280
Assets	455,808	444,378
Liabilities	169,308	169,740

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

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant and material information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely manner. Under the supervision of the CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Canada by National Instrument 52-109 as of December 31, 2018. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures related to Melcor and its subsidiaries and joint arrangements were effective.

Internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management designed these controls based on the criteria set out in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). The CEO and CFO have certified that the internal controls over financial reporting were properly designed and effective for the year ended December 31, 2018.

There has been no change to Melcor's disclosure controls and procedures or internal control over financial reporting during the year ended December 31, 2018, that materially affected, or is reasonably likely to materially affect, Melcor's internal control over financial reporting.

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

NON-STANDARD MEASURES

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

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

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

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

Same asset NOI: this measure compares the NOI on assets that have been owned for the entire current and comparative year, excluding management fees earned on inter-divisional services and the effects of foreign currency translation.

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

CALCULATIONS

We use the following calculations in measuring our performance.

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

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

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

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

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

INVESTMENT PROPERTIES

(\$000s)	2018	2017
Segment earnings *	17,325	15,084
Fair value adjustment on investment properties	(447)	2,668
General and administrative expenses	2,439	3,197
Interest income	(8)	(33)
Amortization of operating lease incentives	1,138	798
Straight-line rent adjustments	(1,152)	(663)
Divisional NOI	19,295	21,051

*Refer to note 25 to the consolidated financial statements

REIT

(\$000s)	2018	2017
Segment earnings *	27,944	24,657
Fair value adjustment on investment properties	11,385	12,800
General and administrative expenses	2,884	2,718
Interest income	(137)	(62)
Amortization of operating lease incentives	3,097	3,062
Straight-line rent adjustments	(1,190)	(1,074)
Divisional NOI	43,983	42,101

*Refer to note 25 to the consolidated financial statements

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

CONSOLIDATED

(\$000s)	2018	2017
Net income for the year	64,273	38,525
Amortization of operating lease incentives	6,710	6,304
Fair value adjustment on investment properties	(863)	8,828
Depreciation on property and equipment	1,417	1,436
Stock based compensation expense	450	408
Non-cash financing costs	1,466	414
Gain on sale of asset	(6)	(17)
Deferred income taxes	(3,493)	2,565
Fair value adjustment on REIT units	(13,827)	558
FFO	56,127	59,021

INVESTMENT PROPERTIES

(\$000s)	2018	2017
Divisional income for the year *	17,325	15,084
Fair value adjustment on investment properties	(447)	2,668
Amortization of operating lease incentives	1,138	798
Divisional FFO	18,016	18,550

*Refer to note 25 to the consolidated financial statements

REIT

(\$000s)	2018	2017
Divisional income for the year *	27,944	24,657
Fair value adjustment on investment properties	11,385	12,800
Amortization of operating lease incentives	3,097	3,062
Divisional FFO	42,426	40,519

*Refer to note 25 to the consolidated financial statements

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