

# Management's Discussion & Analysis

November 3, 2017

The following discussion of Melcor Developments Ltd.'s (Melcor's) financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the quarter ended September 30, 2017 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2016.

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

Melcor's Board of Directors approved the content of this MD&A on November 3, 2017 on the recommendation of the Audit Committee.

## Other Information

Additional information about Melcor, including our annual information form, information circular and annual and quarterly reports, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Non-standard Measures

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

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

## Forward-looking Statements

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

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

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2017 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

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

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

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## Our Business

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

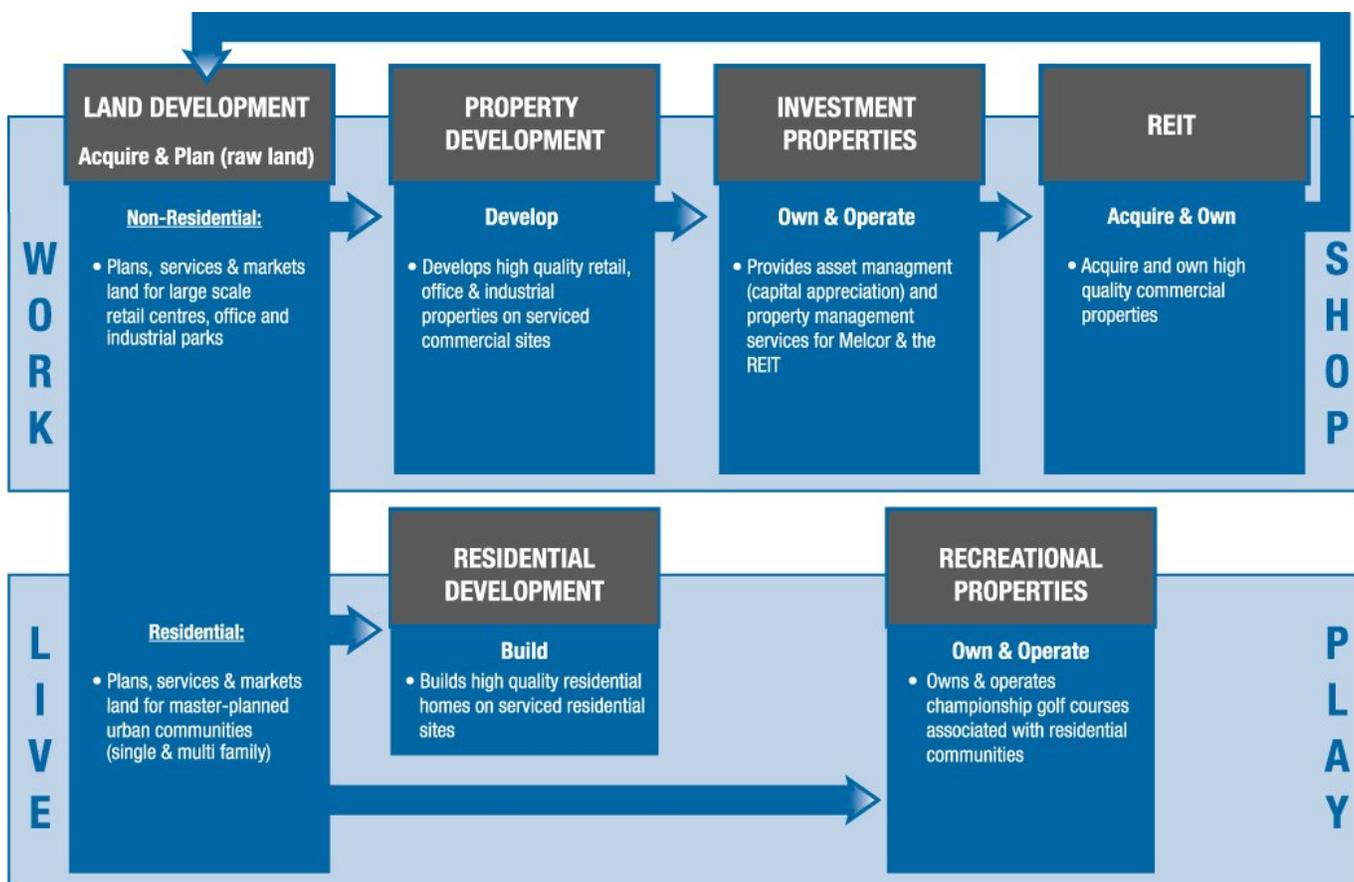
**We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.**

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

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

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

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



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

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

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

## Third Quarter Highlights

(\$000s except as noted)	Three months ended			Nine months ended		
	30-Sept-17	30-Sept-16	Change	30-Sept-17	30-Sept-16	Change
Revenue	<b>62,795</b>	63,432	(1.0)%	<b>148,317</b>	136,070	9.0 %
Gross margin (%) *	<b>44.4%</b>	45.9%	(1.5)%	<b>46.2%</b>	48.0%	(1.8)%
Net income	<b>11,517</b>	16,260	(29.2)%	<b>6,441</b>	10,324	(37.6)%
Net margin (%) *	<b>18.3%</b>	25.6%	(7.3)%	<b>4.3%</b>	7.6%	(3.3)%
Funds from operations *	<b>12,787</b>	10,225	25.1 %	<b>28,171</b>	22,803	23.5 %
<b>Per Share Data (\$)</b>						
Basic earnings	<b>0.34</b>	0.49	(30.6)%	<b>0.19</b>	0.31	(38.7)%
Diluted earnings	<b>0.34</b>	0.49	(30.6)%	<b>0.19</b>	0.31	(38.7)%
Funds from operations *	<b>0.38</b>	0.31	22.6 %	<b>0.84</b>	0.69	21.7 %

As at (\$000s except as noted)	30-Sept-17	31-Dec-16	Change
Shareholders' equity	<b>980,648</b>	994,721	(1.4)%
Total assets	<b>1,918,805</b>	1,891,988	1.4 %
<b>Per Share Data (\$)</b>			
Book value *	<b>29.39</b>	29.83	(1.5)%

\*See non-standard measures for calculation.

We achieved stable results in each of our main operating divisions in Q3-2017 and year to date, with year to date growth in revenue driven by the 23% increase in revenue in the Community Development division. We continue to focus on working with our builders to diversify our product mix with an emphasis on affordable lot options. This strategy has positively impacted our financial results, with inventory remaining well-positioned in many of our active communities.

Our Community Development and Property Development divisions have been busy through the 2017 construction season. Driven by builder demand, the Community Development division began development of new community phases in many of our operating regions. The Property Development team has 185,000 sf in development underway for 2017. During the quarter, two properties were completed and transferred to our Investment Properties division.

Highlights of the third quarter include:

- Revenue of \$62.80 million remained steady compared to Q3-2016 and grew by 9% to \$148.32 million year to date. Year to date revenue growth of 23% in the Community Development division is the largest driver in the overall revenue growth.
- The Investment Properties and REIT division combined revenue in 2017 remained steady over 2016 as a result of stable occupancy and gross leasable area in the portfolio.
- Net income was \$11.52 million in the quarter and \$6.44 million year to date. Year to date net income is significantly impacted by the \$12.75 million non-cash fair value loss on investment properties. This loss was primarily the result of an increase in capitalization rates on our downtown Edmonton office properties recorded in the first quarter, as well as fair value losses on REIT units due to unit price appreciation.
- Funds from operations was \$28.17 million year to date, up 24% over the same period last year. Management believes funds from operations (FFO) is a more accurate reflection of our true operating performance.
- We continue to invest in land holdings for future development and made the following acquisitions during Q3-2017:
  - 14.55 acres of commercial raw land in Leduc, AB for a purchase price of \$10.11 million,
  - 10.00 acres in Red Deer, AB for a purchase price of \$0.79 million,
- On September 18, 2017 we sold a parking lot in downtown Edmonton for \$3.05 million (\$2.99 million net of transaction costs).
- We paid a quarterly dividend of \$0.13 per share on September 29, 2017. The REIT paid distributions of \$0.05625 per trust unit in July, August and September for a quarterly payout ratio of 84%.
- On November 3, 2017 we declared a quarterly dividend of \$0.13 per share, payable on December 29, 2017 to shareholders of record on December 15, 2017. The dividend is an eligible dividend for Canadian tax purposes.

## Revenue & Margins:

Revenue for the quarter remained steady over Q3-2016 and increased 9% year to date. Our Community Development division continues to produce strong results and has increased revenue by 23% year to date. Community Development division revenue is highly dependent on the real estate market for new homes in the regions where we hold land. Generally, our markets experienced softer demand in 2016, while demand has improved in 2017.

Gross margin was 44%, down 2% compared to Q3-2016. Our Community Development division continues to provide promotions to stimulate development in all our regions which led to a 1% compression in margin for the division year to date. Gross margin is also impacted by the revenue mix in a given period. In Q3-2017 Community Development revenue, which is lower margin, comprised 57% of revenue compared to 56% in Q3-2016 and 49% year to date compared with 43% in 2016.

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

## Funds From Operations (FFO)

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

Below is a reconciliation of net income to FFO:

(\$000s)	Three months ended		Nine months ended	
	30-Sept-17	30-Sept-16	30-Sept-17	30-Sept-16
<b>Net income for the period</b>	<b>11,517</b>	16,260	<b>6,441</b>	10,324
Amortization of operating lease incentives	<b>1,480</b>	1,673	<b>4,635</b>	4,766
Fair value adjustment on investment properties	<b>(106)</b>	(14,170)	<b>12,751</b>	(15,587)
Depreciation on property and equipment	<b>517</b>	564	<b>1,175</b>	1,303
Stock based compensation expense	<b>93</b>	63	<b>305</b>	220
Non-cash finance costs	<b>(294)</b>	3,721	<b>(123)</b>	5,306
Gain on sale of asset	<b>(21)</b>	(35)	<b>(35)</b>	(38)
Deferred income taxes	<b>(287)</b>	253	<b>(1,327)</b>	228
Fair value adjustment on REIT units	<b>(112)</b>	1,896	<b>4,349</b>	16,281
<b>FFO</b>	<b>12,787</b>	10,225	<b>28,171</b>	22,803
<b>FFO per share</b>	<b>0.38</b>	0.31	<b>0.84</b>	0.69

FFO during the quarter increased by 25% over Q3-2016 and 24% year to date. The improvement in FFO is driven by strong sales in the Community Development division and consistent performance of our income-producing assets.

Income before taxes in Q3-2017 was \$15.11 million, a decrease of 40% compared to the prior quarter as a result of non-cash items which includes fair value losses on investment properties and REIT units. Year to date, we have recorded fair value losses on investment properties of \$12.75 million and on REIT units of \$4.35 million which contributed to the decrease in income before tax. FFO normalizes for these non-cash items.

Fair value adjustments on investment properties and REIT units are driven by market forces. Recent transactions in the Edmonton office market resulted in increases of between 25-100 basis points over Q4-2016 capitalization rates on properties in the downtown area leading to fair value losses in the REIT division which were recorded in the first quarter. These adjustments are non-cash items required to be reported under IFRS.

Finance costs decreased 42% for the quarter and 29% year to date. An accrual for a defeasance charge on a pending disposition in Q3-2016 drove the large swing in non-cash finance costs. Excluding the impact of non-cash finance costs, finance costs were steady in the quarter, and down 6% year to date.

## Divisional Results

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

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office and industrial income-producing properties on serviced commercial sites developed by Community Development;
- Investment Properties, which manages and leases the commercial developments produced by the Property Development division and an externally purchased portfolio of assets, as well as assets held in the REIT;
- The REIT, which owns and holds 37 income-producing properties; and
- Recreational Properties, which owns and operates championship golf courses associated with Melcor residential communities.

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

The following tables summarize the results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three months ended September 30		Three months ended September 30		Three months ended September 30		Three months ended September 30		Three months ended September 30	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
(\$000s except as noted)										
Revenue	35,673	35,458	5,120	25,763	8,464	9,558	16,791	16,439	4,093	3,952
Portion of total revenue	57%	56%	8%	41%	13%	15%	27%	26%	7%	6%
Cost of sales	(23,257)	(22,191)	(5,100)	(25,750)	(3,529)	(3,770)	(6,424)	(6,265)	(2,407)	(2,409)
Gross margin	12,416	13,267	20	13	4,935	5,788	10,367	10,174	1,686	1,543
Gross margin %	35%	37%	—%	—%	58%	61%	62%	62%	41%	39%
Portion of total margin	45%	46%	—%	—%	18%	20%	37%	35%	6%	5%
General and administrative expense	(2,214)	(2,109)	(526)	(415)	(682)	(619)	(624)	(629)	(708)	(708)
Fair value adjustment on investment properties	—	—	(190)	2,049	(395)	12,366	79	(947)	—	—
Gain on sale of assets	—	—	—	—	—	—	—	—	21	35
Interest income	236	328	1	1	4	1	20	7	—	—
Segment Earnings (Loss)	10,438	11,486	(695)	1,648	3,862	17,536	9,842	8,605	999	870

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Nine months ended September 30		Nine months ended September 30		Nine months ended September 30		Nine months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
(\$000s except as noted)										
Revenue	72,509	58,988	5,250	29,073	25,882	26,331	50,350	49,872	7,957	8,426
Portion of total revenue	49%	43%	4%	21%	17%	19%	34%	37%	5%	6%
Cost of sales	(47,996)	(38,116)	(5,100)	(29,050)	(10,420)	(10,051)	(19,767)	(19,280)	(4,909)	(5,158)
Gross margin	24,513	20,872	150	23	15,462	16,280	30,583	30,592	3,048	3,268
Gross margin %	34%	35%	3%	—%	60%	62%	61%	61%	38%	39%
Portion of total margin	36%	32%	—%	—%	23%	25%	45%	47%	4%	5%
General and administrative expense	(6,527)	(6,302)	(1,488)	(1,259)	(1,953)	(1,892)	(1,938)	(2,022)	(1,866)	(1,931)
Fair value adjustment on investment properties	—	—	2,513	6,080	(1,165)	9,546	(16,629)	(2,946)	—	—
Gain on sale of assets	—	—	—	—	—	—	—	—	35	38
Interest income	819	807	14	3	6	3	40	24	—	—
Segment Earnings (Loss)	18,805	15,377	1,189	4,847	12,350	23,937	12,056	25,648	1,217	1,375

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

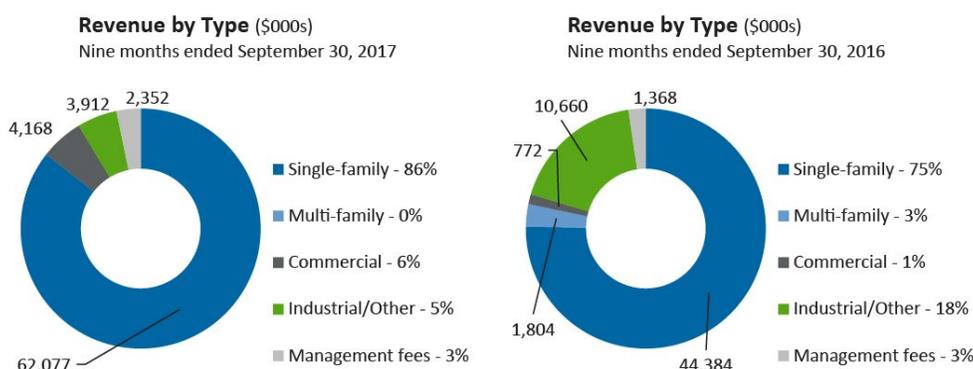
## Community Development

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

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

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

## Sales Activity



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

Consolidated	Three months ended		Nine months ended	
	30-Sept-17	30-Sept-16	30-Sept-17	30-Sept-16
<b>Sales data: (including joint ventures at 100%)</b>				
Single family sales (number of lots)	320	202	541	337
Gross average revenue per single-family lot (\$)	141,800	137,400	149,000	158,200
Multi-family sales (acres)	—	3.34	—	3.34
Gross average revenue per multi-family acre (\$)	—	900,000	—	900,000
Commercial sales (acres)	—	—	8.80	2.11
Gross average revenue per commercial land acre (\$)	—	—	947,200	387,500
Industrial sales (acres)	—	8.73	—	9.68
Gross average revenue per industrial land acre (\$)	—	973,700	—	510,000
Other land sales - Raw, Other (acres)	4.18	19.62	22.73	19.62
Gross average revenue per other land acre (\$)	95,000	85,400	180,100	85,400
<b>Financial results: (including joint ventures at Melcor's interest)</b>				
Revenue (\$000s)	35,673	35,458	72,509	58,988
Earnings (\$000s)	10,438	11,486	18,805	15,377

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

Market demand remained strong in the third quarter of 2017 compared to the market conditions of the past few years. Single-family lot sales were up 61% year to date while average revenue per single-family lot decreased by 6% as the trend to smaller, more affordable lots and new product types continues. In Q3-2017, single-family lot sales were up 58% and average revenue per single-family lot increased by 3%. Average revenue fluctuates period to period based on the mix of product sold.

The Community Development division has been successful in selling older inventory and has been responding to demand for new product types by developing new phases in communities that meet pre-sales targets. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development.

During the quarter, management was made aware that one of our builders is in receivership. Agreements receivable balances owing from this builder amount to \$6.18 million, of which \$0.92 million are past due as at September 30, 2017. We hold title to the lots sold to this builder as specific security against this balance. Management has performed an assessment of the collectibility and of the underlying security for these agreements, and has concluded that no impairment is required as at September 30, 2017. We will continue to monitor our exposure to impairment as we work to settle the outstanding amounts. We believe our exposure to developers and builders who are financially stressed due to the market contraction over the past few years is minimal.

Year to date single-family lot revenue includes \$7.09 million for the sale of residential homes that Melcor built in Kelowna (\$3.03 million in 2016). We build select residential product types in select communities to stimulate development and extract additional value out of our land assets.

### Regional Sales Analysis

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

Regional Sales Analysis <i>(including joint ventures at 100%)</i>	Three months ended 30-Sept-17			Three months ended 30-Sept-16		
	Single- family (Lots)	Multi-family (Acres)	Non- Residential (Acres)	Single- family (Lots)	Multi-family (Acres)	Non- Residential (Acres)
Edmonton Region	188	—	—	61	3.34	—
Red Deer Region	20	—	—	47	—	—
Calgary Region	92	—	—	11	—	8.73
Lethbridge	12	—	—	5	—	—
Kelowna	8	—	—	13	—	—
United States	—	—	—	65	—	—
	<b>320</b>	<b>—</b>	<b>—</b>	<b>202</b>	<b>3.34</b>	<b>8.73</b>

Regional Sales Analysis <i>(including joint ventures at 100%)</i>	Nine months ended 30-Sept-17			Nine months ended 30-Sept-16		
	Single- family (Lots)	Multi-family (Acres)	Non- Residential (Acres)	Single- family (Lots)	Multi-family (Acres)	Non- Residential (Acres)
Edmonton Region	310	—	8.80	145	3.34	—
Red Deer Region	62	—	—	57	—	0.95
Calgary Region	116	—	—	17	—	10.84
Lethbridge	31	—	—	30	—	—
Kelowna	22	—	—	23	—	—
United States	—	—	—	65	—	—
	<b>541</b>	<b>—</b>	<b>8.80</b>	<b>337</b>	<b>3.34</b>	<b>11.79</b>

Year to date single-family lot sales have improved in most regions, contributing to solid results in the quarter and year to date. Our US region has projects under active development, with pending sales expected to close in 2017/2018.

During the year we sold 4.15 acres of commercial land to our Property Development division for \$3.74 million (at 100%). The land is in active development as a neighbourhood shopping centre in southwest Edmonton. We sold a further 4.65 acres in the same development to a grocer.

## Inventory

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

Developed Inventory <i>(including joint ventures at 100%)</i>	Nine months ended 30-Sept-17			Nine months ended 30-Sept-16		
	Single- family (Lots)	Multi-family (Acres)	Non- Residential (Acres)	Single- family (Lots)	Multi-family (Acres)	Non- Residential (Acres)
Open	1,004	64.61	142.37	1,433	63.10	144.41
Purchases	294	—	—	—	—	—
New developments	578	—	—	146	—	15.43
Internal sales	—	—	—	—	—	—
Sales	(541)	—	(8.80)	(337)	(3.34)	(11.79)
	<b>1,335</b>	<b>64.61</b>	<b>133.57</b>	<b>1,242</b>	<b>59.76</b>	<b>148.05</b>

Our primary market is Alberta. Market conditions have shown signs of improvement in most regions and we remain cautiously optimistic. Developments in Edmonton and Calgary registered 566 lots during Q3-2017 (year to date: 578)

We continue to commit resources outside of Alberta to diversify our land holding portfolio. During 2017, we have invested in 294 developed lots in the US.

### Raw land inventory

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

During the quarter, we purchased 24.55 acres of land in Alberta: 10.00 acres in Red Deer and 14.55 acres in Edmonton. In the first half of the year, we purchased 93.29 acres in the Edmonton region, 59.40 acres in the Lethbridge region, 43.06 acres in the Kelowna region, 31.32 acres in the Calgary region and 197.78 acres in Arizona (US).

We also sold 4.18 acres of raw land in the Edmonton area for \$0.38 million during Q3-2017, for a total of 22.73 acres of raw land sold year to date.

In the comparative period Melcor purchased 42.24 acres in Colorado (US), 54.35 acres in the Lethbridge region, 39.91 acres in the Edmonton region and 22.94 acres in the Red Deer region.

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

### Property Development

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

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

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

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

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

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

## Division Highlights

(\$000s except as noted)	Three months ended		Nine months ended	
	30-Sept-17	30-Sept-16	30-Sept-17	30-Sept-16
Total revenue	5,120	25,763	5,250	29,073
Revenue from property transfers	5,100	25,750	5,100	29,050
Management fees	20	13	150	23
Gross margin (%) on property transfers	33%	26%	33%	27%
Square footage transferred (sf, at 100%)	20,875	32,205	20,875	46,739
Number of buildings transferred	2	3	2	5
Fair value adjustment on investment properties	(190)	2,049	2,513	6,080

The Property Development division has approximately 185,000 sf of development planned for the 2017 construction season.

Continued lease up of the Shoppes of Jagare Ridge resulted in a fair value gain of \$0.68 million (\$0.34 million at JV%) recorded on consolidation when the land was purchased from Community Development for \$3.74 million (\$1.87 million at JV%) during the quarter. During the year, the Community Development division sold land to a grocery store anchor at The Shoppes of Jagare Ridge to stimulate further development at the neighbourhood shopping centre. The land was sold for \$4.60 million (\$2.30 million at JV%).

Development continues throughout the division, including Jensen Lakes Crossing (67,000 sf under development) and our second office building at The Village at Blackmud Creek (53,000 sf under development). The division continues to make progress in pre-leasing and planning future projects.

During the quarter we completed and transferred 2 properties in Chestermere, Alberta (20,875 sf, at 100%) to our investment properties division, for total revenue of \$10.20 million (\$5.10 million at JV%).

## Regional Highlights

(\$000s except as noted)	Three months ended		Nine months ended	
	30-Sept-17	30-Sept-16	30-Sept-17	30-Sept-16
<i>Fair value adjustments by region</i>				
Northern Alberta	(458)	1,478	1,298	3,301
Southern Alberta	268	571	1,215	2,779
	(190)	2,049	2,513	6,080

**Northern Alberta:** We recognized year to date fair value gains of \$1.30 million and a Q3-2017 loss of \$0.46 million. The loss is due to the Village at Blackmud Creek office project being developed below our usual pre-lease threshold to stimulate activity in the business park which resulted in a \$1.37 million fair value loss. The office is 33% pre-leased and there has been strong interest in the remainder of the space. This loss was offset by gains at West Henday Promenade (\$0.45 million) and Jensen Lakes Crossing (\$0.46 million) as development progresses.

**Southern Alberta:** Gains are the result of completing and transferring 2 commercial retail units at Chestermere Station (20,875 sf, at 100%) to our Investment Properties division for long-term holding during the quarter.

## Future development opportunities

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

The following tables illustrate our current and future project expectations:

Current Projects					
Project	Location	Type	Total SF *	Developed to Date *	SF Under Development
The District at North Deerfoot	North Calgary	<i>Regional business / industrial park</i>	2,250,000	494,359	—
West Henday Promenade	West Edmonton	<i>Regional mixed use centre</i>	726,000	109,711	6,500
The Village at Blackmud Creek	South Edmonton	<i>Regional business park</i>	725,000	57,364	53,000
Telford Industrial	Leduc	<i>Industrial Park</i>	500,000	142,790	—
Kingsview Market	Airdrie	<i>Regional shopping centre</i>	331,000	181,927	—
Chestermere Station	Chestermere	<i>Neighbourhood shopping centre</i>	297,000	241,451	—
Jensen Lakes Crossing	St. Albert	<i>Neighbourhood shopping centre</i>	173,000	—	67,000
Campsite Industrial	Spruce Grove	<i>Industrial Park</i>	170,000	13,654	—
Clearview Market	Red Deer	<i>Neighbourhood shopping centre</i>	150,000	139,567	10,523
The Shoppes at Jagare Ridge	South Edmonton	<i>Neighbourhood shopping centre</i>	105,000	—	28,000

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

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

## Investment Properties

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

Our Investment Properties division manages 3.90 million sf of income-producing commercial GLA and 612 residential units.

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

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

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

## Operating results

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

(\$000s except as noted)	Three months ended		Nine months ended	
	30-Sept-17	30-Sept-16	30-Sept-17	30-Sept-16
Commercial properties GLA under management (sf, total)	<b>3,904,282</b>	3,904,986	<b>3,904,282</b>	3,904,986
Properties owned and managed (sf)	<b>832,462</b>	775,213	<b>832,462</b>	775,213
Properties managed (sf)	<b>3,071,820</b>	3,129,773	<b>3,071,820</b>	3,129,773
Revenue (total)	<b>8,464</b>	9,558	<b>25,882</b>	26,331
Canadian properties	<b>3,538</b>	3,225	<b>10,620</b>	8,978
US properties	<b>3,391</b>	4,574	<b>10,587</b>	12,594
Management fees	<b>1,195</b>	1,417	<b>3,607</b>	3,729
Parking lots and other assets	<b>340</b>	342	<b>1,068</b>	1,030
Net operating income (NOI) *	<b>4,884</b>	5,576	<b>15,604</b>	15,550
Funds from operations *	<b>4,424</b>	5,432	<b>14,038</b>	14,855
Funds from operations per share *	<b>0.13</b>	0.16	<b>0.42</b>	0.45

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

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

### Canadian properties

Since Q3-2016, we grew our Canadian properties portfolio with the addition of 3 commercial buildings (64,950 sf, at JV%) transferred from Property Development (including 2 buildings adding 20,950 (at JV%) in Q3-2017), and the acquisition of a 72 residential apartment. This portfolio growth contributed to revenue growth of 10% over Q3-2016.

Property Development is actively developing 185,000 sf of GLA and we expect continued growth through the development pipeline. Revenues generated on assets held and acquired from Property Development in 2016 and to date in 2017 were \$1.18 million in Q3-2017 and \$3.47 million year to date (2016 - \$1.00 million in the third quarter and \$2.33 million year to date).

NOI was up 15% to \$2.66 million in the quarter and 22% to \$7.71 million year to date. The residential apartment acquired in Q4-2016 contributed \$0.26 million to third quarter revenue (2016 - \$nil) and \$0.82 million year to date.

Occupancy on Canadian properties remained steady at 92% at September 30, 2017 over Q3-2016. Weighted average base rents were \$26.97, up 3% compared to year-end. Stability in occupancy and average base rents reflect the slower pace of development over the past twelve months and a larger proportion of the portfolio being comprised of mature properties.

The following is a reconciliation of Canadian properties same asset NOI to NOI:

(\$000s except as noted)	Three months ended		Nine months ended	
	30-Sept-17	30-Sept-16	30-Sept-17	30-Sept-16
Same asset NOI *	<b>1,438</b>	1,689	<b>4,466</b>	4,852
Third party acquisition	<b>124</b>	—	<b>313</b>	—
Properties transferred from PD	<b>1,005</b>	657	<b>2,882</b>	1,844
Properties transferred to REIT	<b>(6)</b>	(6)	<b>(6)</b>	29
NOI before adjustments	<b>2,561</b>	2,340	<b>7,655</b>	6,725
Amortization of operating lease incentives	<b>79</b>	106	<b>241</b>	278
Straight-line rent adjustment	<b>23</b>	(137)	<b>(184)</b>	(697)
NOI *	<b>2,663</b>	2,309	<b>7,712</b>	6,306

\* See non-standard measures for definition.

NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustments. Same asset NOI decreased 15% over 2016 due to fluctuations in non-cash adjustments. Excluding the impact of amortization of tenant incentives and straight-line rent adjustments same-asset NOI was down 6% year to date due to higher vacancy and lease restructuring at our retail property in Fort McMurray, Alberta.

## US properties

Over the past eighteen months, our US portfolio has seen significant change with three commercial property acquisitions adding 306,169 sf of GLA and the sale of a 240 unit residential building. Revenue on US properties decreased by 26% compared to Q3-2016 and by 16% in the year to date period as a result of the sale of Lakeside 121 in December 2016. Revenues recognized from Lakeside 121 for Q3-2016 and 2016 year to date were \$1.00 million (US\$0.73 million) and \$2.83 million (US\$2.14 million) respectively. Proceeds from this sale have not been reinvested in investment property to date in 2017. The decline in residential revenue was partially offset year to date by additional revenues from commercial assets acquired in 2017 adding \$4.98 million (US\$3.82 million) in revenues year to date 2017 compared to \$3.89 million (US\$2.94 million) year to date in 2016.

Occupancy was 89% at September 30, 2017, down 2% compared to the end of Q3-2016 reflecting tenancy rollovers in some of our same asset commercial properties. Weighted average rental rates on our commercial US properties were stable over year-end at US \$17.27.

The following is a reconciliation of US properties same asset NOI to NOI:

(\$000s except as noted)	Three months ended		Nine months ended	
	30-Sept-17	30-Sept-16	30-Sept-17	30-Sept-16
Same asset NOI	512	492	1,597	1,831
Third party acquisitions	529	688	1,766	1,605
Third party disposition	—	373	(2)	1,057
NOI before adjustments	1,041	1,553	3,361	4,493
Foreign currency translation	263	560	1,026	1,452
Amortization of operating lease incentives	110	113	368	143
Straight-line rent adjustment	(125)	(222)	(257)	(382)
NOI *	1,289	2,004	4,498	5,706

\* See non-standard measures for definition.

NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustment. Same asset NOI was down 13% year to date, a result of lower occupancy on certain commercial properties and lower non-cash adjustments related to amortization of operating lease incentives and straight-line rent adjustments.

## Management fees & other

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the manager. Management fees were down \$0.22 million from Q3-2016, and steady compared to Q2-2017 at \$1.20 million. Year to date management fees were \$3.61 million. In Q3-2016 we re-negotiated the management agreement on one of our joint arrangements in order to align the fee structure with other management agreements and fairly compensate Melcor for administration of the assets. The amended agreement was applied retroactively, resulting in higher than normal management fee income in Q3-2016.

Revenue from our 516 parking stalls and other assets was \$0.34 million in Q3-2017 and \$1.07 million year to date (Q3-2016 - \$0.34 million and \$1.03 million). These revenues can fluctuate from period to period.

Funds from operations (FFO) decreased 19% in the quarter and 5% year to date as a result of lower revenue generated from our US properties.

## REIT

The REIT owned 37 income-producing office, retail and industrial properties, comprising 2,711,521 square feet of gross leasable area (GLA) at September 30, 2017. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants, operating in a variety of industries.

We have a controlling 56.7% effective interest in the REIT through ownership of all Class B LP Units (December 31, 2016 - 56.7%). As Melcor controls the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities.

### Operating results

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

(\$000s except as noted)	Three months ended		Nine months ended	
	30-Sept-17	30-Sept-16	30-Sept-17	30-Sept-16
Rental revenue	<b>16,791</b>	16,439	<b>50,350</b>	49,872
Net operating income (NOI) *	<b>10,557</b>	10,692	<b>31,864</b>	32,078
Same asset NOI * (see calculation following)	<b>10,353</b>	9,933	<b>30,324</b>	30,038
Fair value adjustment on investment properties	<b>79</b>	(947)	<b>(16,629)</b>	(2,946)
Gross leasable area (GLA) (sf)	<b>2,711,521</b>	2,775,832	<b>2,711,521</b>	2,775,832
Occupancy % (weighted by GLA)	<b>92.5%</b>	92.4%	<b>92.5%</b>	92.4%
Fair value of portfolio	<b>637,797</b>	662,012	<b>637,797</b>	662,012
Funds from operations *	<b>10,473</b>	10,371	<b>30,966</b>	31,023
Funds from operations per share *	<b>0.31</b>	0.31	<b>0.93</b>	0.93

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

Rental revenue increased 2% in the third quarter and 1% year to date. Higher operating cost and realty tax recoveries in 2017 are due to an increase in direct operating expenses, and are included in rental revenue. The sale of LC industrial in April 2017 combined with slightly lower same-asset average occupancy, which was down 0.4% compared to the end of Q3-2016 resulted in a 1% decrease in base rent.

Year to date we signed 294,628 sf of new and renewed leasing (including holdovers) and maintained steady occupancy at 92.5%. In 2017, 128 leases representing 406,876 sf or 14.7% of our portfolio are up for renewal. We have retained 84.1% of expiring leases (representing 267,314 sf) as at September 30, 2017 in spite of challenging market conditions in many of our operating regions. We continue to be proactive with our leasing programs to both retain tenants and attract new tenants.

Weighted average base rent was \$15.72, down \$0.01 compared to December 31, 2016. This reduction is primarily due to market conditions creating downward pressure on our downtown Edmonton office rates due to significant new inventory in the market. Competition in this asset class has intensified, resulting in net effective rent erosion and higher tenant incentives. Declining base rates on new and renewed leasing was offset by the sale of LC Industrial, which had a base rate of \$8.68.

Direct operating expenses were up 3% in Q3-2017 and year to date. The timing of maintenance projects and lower non-recoverable costs led to a 1% decrease in third quarter operating expenses. Year to date operating expenses increased 1% due to timing of projects undertaken and higher snow removal costs in Q1-2017. Utilities and property taxes were up 6% in the third quarter and 4% year to date as a result of 5% increase in property taxes on account of higher mill rates and the introduction of the carbon tax in Alberta effective January 1, 2017. 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.

Slightly lower average occupancy combined with the sale of LC Industrial contributed to the 1% decline in NOI. On a same-asset basis, NOI was up 4% in Q3-2017 and 1% year to date as a result of higher non-cash adjustments. Excluding the impact of amortization of tenant incentives and straight-line rent adjustments same-asset NOI was flat over 2016.

The following is a reconciliation of same asset NOI to NOI:

(\$000s except as noted)	Three months ended		Nine months ended	
	30-Sept-17	30-Sept-16	30-Sept-17	30-Sept-16
Same asset NOI *	10,353	9,933	30,324	30,038
Acquisitions/Dispositions	14	241	259	554
NOI before adjustments	10,367	10,174	30,583	30,592
Amortization of operating lease incentives	710	819	2,281	2,429
Straight-line rent adjustment	(520)	(301)	(1,000)	(943)
Divisional NOI	10,557	10,692	31,864	32,078

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

### Funds from operations

Funds from operations (FFO) was stable in the third quarter at \$10.47 million compared with \$10.37 million in the prior year.

### Recreational Properties

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

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

Our Edmonton area courses faced challenging early season weather conditions and opened and re-opened several times throughout April due to snow. They have also faced cooler average temperatures this fall than the prior year, resulting in 18% fewer rounds played through the end of September.

Rounds of golf at Melcor-managed courses remained stable quarter over quarter at 43,675 in 2017 and 43,761 in 2016.

Food and beverage at Melcor-managed courses continued to perform well and was up 8% over Q3-2016, but down 2% year-to-date due to the poor conditions at the start of the season.

	Ownership interest	Season opened 2017	Rounds of Golf	Season opened 2016	Rounds of Golf
<i>Managed by Melcor:</i>					
Lewis Estates (Edmonton)	60%	April 6	26,316	March 31	31,160
The Links (Spruce Grove)	100%	April 7	21,836	April 1	24,606
Black Mountain (Kelowna)	100%	April 1	28,833	March 11	30,117
<i>Managed by a Third Party:</i>					
Jagare Ridge (Edmonton)	50%	April 29	21,616	April 8	23,300

### General and Administrative Expense

General and administrative expenses were up 15% in Q3-2017 over the comparable period. This increase was driven by increases in certain corporate expenses including stock based compensation, donations and professional fees. Year to date, a retirement allowance payment was the significant factor in the 21% increase in general and administrative expense.

### Income Tax Expense

The statutory tax rate is 27% for the three and nine months ended September 30, 2017. Significant adjustments that impacted the 2017 effective tax rate include permanent differences related to revaluation adjustments on investment properties and REIT units and a higher tax rate for income earned in our US subsidiary. The adjustments are offset by the non-taxable portion of REIT income.

## Liquidity & Capital Resources

The following table represents selected information as at September 30, 2017, compared to December 31, 2016.

<i>As at (\$000s except as noted)</i>	<b>30-Sept-17</b>	<b>31-Dec-16</b>
Cash & cash equivalents	<b>41,932</b>	39,892
Accounts receivable	<b>14,040</b>	16,918
Agreements receivable	<b>99,170</b>	116,244
Revolving credit facilities	<b>88,698</b>	50,052
Accounts payable and accrued liabilities	<b>44,646</b>	35,274
Total assets	<b>1,918,805</b>	1,891,988
Total liabilities	<b>938,157</b>	897,267
Debt to equity ratio*	<b>0.96</b>	0.90

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

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

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

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

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

### Financing

As at September 30, 2017, our total general debt outstanding was \$643.59 million. A summary of our debt is as follows:

<i>As at (\$000s)</i>	<b>30-Sept-17</b>	<b>31-Dec-16</b>
Melcor - revolving credit facilities	<b>75,254</b>	32,728
REIT - revolving credit facility	<b>13,444</b>	17,324
Project specific financing	<b>8,735</b>	5,213
Secured vendor take back debt on land inventory	<b>67,600</b>	65,408
Debt on investment properties and golf course assets	<b>445,403</b>	455,189
REIT - convertible debenture	<b>33,153</b>	32,749
	<b>643,589</b>	608,611

We are subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to total capital ratio of 125%, a minimum debt service coverage ratio of 3.00, and a minimum net book value of shareholder's equity of \$300.00 million. As at September 30, 2017 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT's \$35.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.50, and a minimum adjusted unitholders' equity of \$140.00 million. As at September 30, 2017 and throughout the period, we were in compliance with our financial covenants.

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

## Sources and uses of cash

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

(\$000s)	Three months ended		Nine months ended	
	30-Sept-17	30-Sept-16	30-Sept-17	30-Sept-16
Cash flows from (used in) operating activities	(3,139)	34,887	8,229	60,179
Cash flows used in investing activities	(11,371)	(2,408)	(16,734)	(44,730)
Cash flows from (used in) financing activities	30,122	(30,483)	12,553	(24,624)

During Q3-2017, cash flows used in operating activities were \$3.14 million. Cash generated was offset by investments in community development activity of \$10.86 million and land purchased for \$4.33 million (net of vendor financing) during the quarter. Development in our Community and Property Development divisions is highly seasonal due to the weather in Alberta, and spending is at its highest during the later half of the year as contractors complete work. Year to date operating cash flows decreased by \$51.95 million mainly as a result of decreases in collections on agreements receivable from \$58.31 million to \$17.07 million as well as an increase in land purchased for \$29.46 million (net of vendor financing) compared with \$1.91 million in the prior year.

Cash flows used in investing activities were \$11.37 million in Q3-2017 compared with cash used in investing activities of \$2.41 million during Q3-2016. In Q3-2017, we invested \$14.06 million in the construction of new commercial properties as well as enhancements to existing commercial properties. During the quarter we also sold a parking lot in Edmonton for net cash proceeds of \$2.99 million. Year to date in 2016, we purchased three suburban office properties in the Greater Denver area for total cash consideration of \$33.74 million (US \$25.46 million) and invested \$11.52 million in the construction of new commercial properties as well as enhancements to existing commercial properties. We have not purchased any third party investments properties in 2017.

Cash flows from financing activities were \$30.12 million during the quarter, a change of \$60.61 million over Q3-2016. Repayments on our general debt of \$28.37 million were offset by net proceeds of \$31.09 million on general debt and \$31.54 million from our revolving credit facilities generating positive cash of \$34.26 million. During the same period last year, net repayments of general debt were \$26.59 million. During the quarter, we paid a \$0.13 per share dividend for a total of \$4.34 million, an increase of \$0.35 million over Q3-2016 as the dividend was \$0.12 per share in that period.

## Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at September 30, 2017 there were 33,370,851 common shares issued and outstanding and 720,747 options, each convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

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

There are no material changes to the above titled sections at September 30, 2017 in comparison to the December 31, 2016 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

## Normal Course Issuer Bid

On March 29, 2017 we announced a Normal Course Issuer Bid (NCIB) commencing March 31, 2017 and ending March 30, 2018. Under the bid, we may acquire up to 1,667,704 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 2,158 common shares. During the quarter ended September 30, 2017, we did not repurchase any common shares.

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

## Quarterly Results

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

(\$000s)	Three Months Ended							
	30-Sept-17	30-June-17	31-Mar-17	31-Dec-16	30-Sept-16	30-Jun-16	31-Mar-16	31-Dec-15
Revenue	<b>62,795</b>	46,955	38,567	106,391	63,432	42,084	30,554	91,721
Net income (loss)	<b>11,517</b>	3,927	(9,003)	24,109	16,260	1,778	(7,714)	32,658
<i>Per Share</i>								
Basic earnings	<b>0.34</b>	0.12	(0.27)	0.73	0.49	0.05	(0.23)	0.98
Diluted earnings	<b>0.34</b>	0.12	(0.27)	0.73	0.49	0.05	(0.23)	0.99
Book value	<b>29.39</b>	29.30	29.41	29.83	29.19	28.80	28.86	29.43

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

## Subsequent Events

Refer to note 12 of the interim consolidated financial statements for information pertaining to subsequent events.

## Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

## Non-standard Measures

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

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

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

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

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

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

## Calculations

We use the following calculations in measuring our performance.

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

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

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

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

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

### Investment Properties

(\$000s)	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>Segment Earnings</b>	<b>3,862</b>	17,536	<b>12,350</b>	23,937
Fair value adjustment on investment properties	<b>395</b>	(12,366)	<b>1,165</b>	(9,546)
General and administrative expenses	<b>682</b>	619	<b>1,953</b>	1,892
Interest income	<b>(4)</b>	(1)	<b>(6)</b>	(3)
Amortization of operating lease incentives	<b>167</b>	262	<b>523</b>	464
Straight-line rent adjustment	<b>(218)</b>	(474)	<b>(381)</b>	(1,194)
<b>Divisional NOI</b>	<b>4,884</b>	5,576	<b>15,604</b>	15,550

### REIT

(\$000s)	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>Segment Earnings</b>	<b>9,842</b>	8,605	<b>12,056</b>	25,648
Fair value adjustment on investment properties	<b>(79)</b>	947	<b>16,629</b>	2,946
General and administrative expenses	<b>624</b>	629	<b>1,938</b>	2,022
Interest income	<b>(20)</b>	(7)	<b>(40)</b>	(24)
Amortization of operating lease incentives	<b>710</b>	819	<b>2,281</b>	2,429
Straight-line rent adjustment	<b>(520)</b>	(301)	<b>(1,000)</b>	(943)
<b>Divisional NOI</b>	<b>10,557</b>	10,692	<b>31,864</b>	32,078

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

Consolidated

(\$000s)	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>Net income for the period</b>	<b>11,517</b>	16,260	<b>6,441</b>	10,324
Amortization of operating lease incentives	<b>1,480</b>	1,673	<b>4,635</b>	4,766
Fair value adjustment on investment properties	<b>(106)</b>	(14,170)	<b>12,751</b>	(15,587)
Depreciation on property and equipment	<b>517</b>	564	<b>1,175</b>	1,303
Stock based compensation expense	<b>93</b>	63	<b>305</b>	220
Non-cash finance costs	<b>(294)</b>	3,721	<b>(123)</b>	5,306
Gain on sale of asset	<b>(21)</b>	(35)	<b>(35)</b>	(38)
Deferred income taxes	<b>(287)</b>	253	<b>(1,327)</b>	228
Fair value adjustment on REIT units	<b>(112)</b>	1,896	<b>4,349</b>	16,281
<b>FFO</b>	<b>12,787</b>	10,225	<b>28,171</b>	22,803

Investment Properties

(\$000s)	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>Segment Earnings</b>	<b>3,862</b>	17,536	<b>12,350</b>	23,937
Fair value adjustment on investment properties	<b>395</b>	(12,366)	<b>1,165</b>	(9,546)
Amortization of operating lease incentives	<b>167</b>	262	<b>523</b>	464
<b>Divisional FFO</b>	<b>4,424</b>	5,432	<b>14,038</b>	14,855

REIT

(\$000s)	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>Segment Earnings</b>	<b>9,842</b>	8,605	<b>12,056</b>	25,648
Fair value adjustment on investment properties	<b>(79)</b>	947	<b>16,629</b>	2,946
Amortization of operating lease incentives	<b>710</b>	819	<b>2,281</b>	2,429
<b>Divisional FFO</b>	<b>10,473</b>	10,371	<b>30,966</b>	31,023

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