

Management's Discussion & Analysis

November 6, 2019

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, 2019 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2018.

The financial statements underlying this MD&A, including 2018 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Melcor's Board of Directors approved the content of this MD&A on November 6, 2019 on the recommendation of the Audit Committee.

Other Information

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

Non-standard Measures

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

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

Forward-looking Statements

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

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

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

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Our Business

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

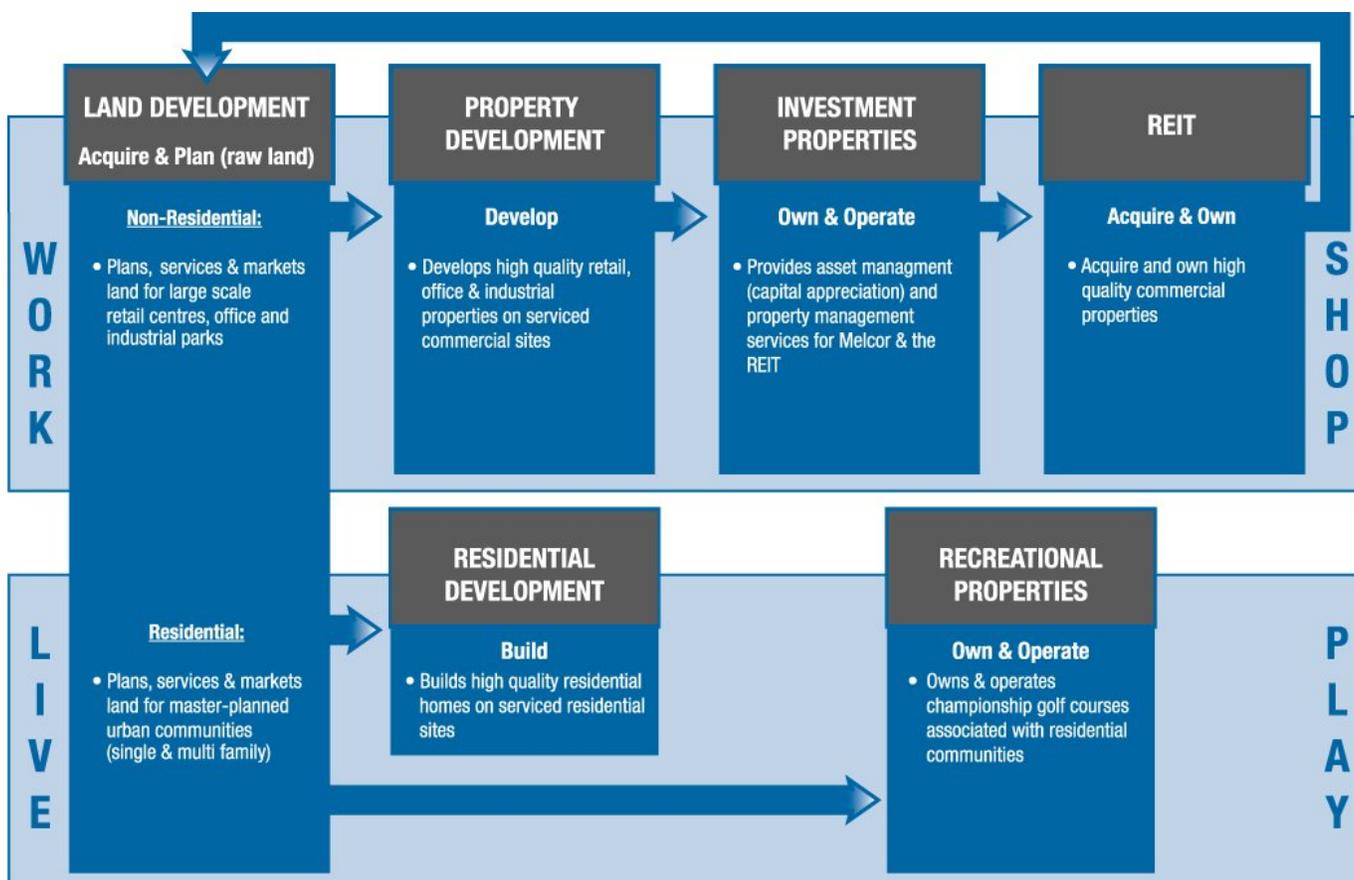
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

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

In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreational Properties. Melcor has \$2.04 billion in assets.

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



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

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

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

Third Quarter Highlights

(\$000s except as noted)	Three months ended			Nine months ended		
	30-Sept-19	30-Sept-18	Change	30-Sept-19	30-Sept-18	Change
Revenue	53,946	60,245	(10.5)%	129,915	147,452	(11.9)%
Gross margin (%) *	43.5%	46.6%	(6.7)%	49.5%	48.7%	1.6 %
Net income	16,068	11,469	40.1 %	20,795	27,747	(25.1)%
Net margin (%) *	29.8%	19.0%	56.8 %	16.0%	18.8%	(14.9)%
Funds from operations *	10,696	12,841	(16.7)%	24,348	25,456	(4.4)%
Per Share Data (\$)						
Basic earnings	0.48	0.34	41.2 %	0.62	0.83	(25.3)%
Diluted earnings	0.48	0.34	41.2 %	0.62	0.83	(25.3)%
Funds from operations *	0.32	0.38	(15.8)%	0.73	0.76	(3.9)%

As at (\$000s except as noted)	30-Sept-19	31-Dec-18	Change
Shareholders' equity	1,070,814	1,067,565	0.3 %
Total assets	2,044,964	2,023,076	1.1 %
Per Share Data (\$)			
Book value *	32.20	32.01	0.6 %

*See non-standard measures for calculation.

Given the longer term nature of real estate development, comparison of any three-month period may not be as meaningful as year-to-date results. Land sales are uneven by nature and it is difficult to predict when they will close. Revenues in Q3-2019 were down 10% over Q3-2018 and 12% year-to-date as a result of the soft residential market in Canada and the timing of sales in the US. Community Development was the main contributor to the revenue decline, with revenue down 17% year-to-date and 23% over Q3-2018.

Investment Properties revenue growth partially offset the softness experienced in Community Development, with a 21% increase in revenue over Q3-2018 and 23% year-to-date. Third-party acquisitions and transfers from our Property Development division have increased our owned and managed gross leasable area (GLA) by 9% over the last 12 months. US revenue will continue to be uneven while we ramp up our Harmony project in Aurora, CO. Strategies employed to diversify geographically and via product mix over the past few years continue to positively impact our financial results and serve as an offset to the impact of softer residential markets in Alberta.

Our Community Development and Property Development divisions are actively engaged in a number of projects as we continue through the 2019 construction season.

Highlights of the quarter and year-to-date periods include:

FINANCIAL HIGHLIGHTS

- Year-to-date revenue was down 12% to \$129.92 million as a result of softer residential sales and the timing of multi-family and commercial sales, which tend to fluctuate quarter to quarter.
- Year-to-date funds from operations (FFO) were down 4% to \$24.35 million compared to the same period last year. FFO was down 17% to \$10.70 million in Q3-2019 from \$12.84 million in Q3-2018 due to the decrease in revenue earned in our Community Developments division of 23% over Q3-2018 and 17% over the same period last year. Management believes funds from operations is a more accurate reflection of our true operating performance.
- Net income of \$16.07 million in the quarter was positively impacted by non-cash fair value gains on investment properties of \$3.30 million which were partially offset by non-cash fair value losses on REIT units of \$1.18 million. These gain and losses are driven by market forces outside of Melcor's control.

DIVISIONAL OPERATING HIGHLIGHTS

- Our Community Development division began the initial phases of two new communities adjacent to successful communities in west Edmonton, and Airdrie, AB. All planned fall servicing and paving have been completed. The Community Development team has engaged in strategies and marketing programs to reduce slow-moving inventory, and single-family lot inventory is down 34% since September 30, 2018 as a result.

- Our Property Development team transferred 20,832 sf of GLA in Q3-2019 to our Investment Properties division and started 6,600 sf of new development during the quarter with a total of 32,379 sf currently under construction. A further 93,106 sf is complete and awaiting lease-up and/or transfer.
- With the 4% growth in total GLA via acquisitions and transfer from Property Development since September 30, 2018, our income-producing divisions (Investment Properties and REIT) revenue was up 7% over Q3-2018 and year-to-date. These divisions continue to yield stable results in spite of market challenges and achieved consistent occupancy and base rents.
- Our golf courses (Recreational Properties) enjoyed an early spring start and good fall conditions, offset by a wet summer. Overall, the total number of rounds played was up 7% at quarter end.

ACQUISITIONS FOR FUTURE GROWTH

- Community Development purchased 158.03 acres of strategic land in Red Deer, AB for \$12.80 million and received vendor financing of \$8.80 million. This land will be planned for a residential community with a commercial component for a neighbourhood shopping centre. We have purchased 470.60 acres of land at a total cost of \$28.61 million and received total vendor financing of \$16.11 million year to date.
- Property Development acquired land from a third-party at a purchase price of \$1.05 million on August 1, 2019. The land is adjacent to and will be developed as part of the Kingsview Market regional shopping centre in Airdrie, AB.

SUBSEQUENT EVENTS

- On October 10, 2019 we announced that the REIT had entered into an agreement to acquire a \$54.80 million third-party property (the "REIT Property Acquisition"), which is expected to close on or about November 12, 2019. This latest acquisition increases our portfolio gross leasable area by 9.7% and is expected to be immediately accretive to AFFO per unit. The purchase price will be partially satisfied through the issuance of a 5.10% unsecured convertible debenture (the "2019 REIT Debentures").
- On October 29, 2019 the REIT completed the placement of the 2019 REIT Debentures to the public for gross proceeds of \$46.00 million, including \$6.00 million issued pursuant to the exercise of an over-allotment option in full. The 2019 Debentures were issued in connection with the REIT Property Acquisition currently under contract and our intention to redeem the 5.50% \$34.50 million 2014 Debentures.

RETURNING VALUE

- We continue to return value to our shareholders and unit holders:
 - We paid a quarterly dividend of \$0.12 per share on September 28, 2019. The REIT paid distributions of \$0.05625 per trust unit in July, August and September for a quarterly payout ratio of 97% and 100% year to date.
 - On November 6, 2019 we declared a quarterly dividend of \$0.12 per share, payable on December 31, 2019 to shareholders of record on December 16, 2019. The dividend is an eligible dividend for Canadian tax purposes.

Revenue & Margins:

Revenue was down 12% to \$129.92 million year-to-date and down 10% to \$53.95 million compared to Q3-2018. Q3-2019 Community Development revenue was down by 23% over Q3-2018 and down 17% year-to-date due to lower single-family lot sales in both Canada and the US. Q3-2019 revenue from the sale of single-family lots decreased by 45% to \$17.79 million from \$32.27 million in Q3-2018. This decrease was partially offset by the sale of 59.26 acres of raw land in the Calgary, AB region. Community Development division revenue is highly dependent on the demand for new homes in the regions where we hold land and by the timing of the registration process on single-family lots.

Gross margin remained stable year-to-date due to a higher proportionate share of revenue coming from higher margin income-generating properties held in our Investment Property and REIT divisions, which contributed \$81.87 million at 59% gross margin compared to \$76.47 million at 60% gross margin in 2018. Year-to-date revenue in our REIT operating division remains stable, while revenue in our Investment property division has increased 23%. Gross margin decreased to 43% in the quarter compared to 47% in Q3-2018 as a result of lower Community Development margins (31% - Q3-2019, 39% - Q3-2018) as promotions and incentives have been used to drive sales activity. Gross margins in Community Development can fluctuate based on the mix of product type sold in any period.

Revenue in our Investment Properties and REIT operating divisions increased during the quarter due to third party acquisitions and transfers from Property Development in the past 12 months, while margins remain stable. In Q3-2019, these divisions contributed revenue of \$27.06 million at 60% gross margin compared with revenue of \$25.18 million at 60% gross margin last year.

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

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

Funds From Operations (FFO)

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

Below is a reconciliation of net income to FFO:

(\$000s)	Three months ended		Nine months ended	
	30-Sept-19	30-Sept-18	30-Sept-19	30-Sept-18
Net income for the period	16,068	11,469	20,795	27,747
Amortization of operating lease incentives	3,161	1,752	5,919	5,007
Fair value adjustment on investment properties	(3,300)	25	(1,359)	(258)
Depreciation on property and equipment	525	518	1,153	1,170
Stock based compensation expense	189	111	548	323
Non-cash finance costs	611	491	1,973	1,698
Gain on sale of asset	(61)	(1)	(83)	(6)
Deferred income taxes	(7,677)	58	(8,283)	(4,839)
Fair value adjustment on REIT units	1,180	(1,582)	3,685	(5,386)
FFO	10,696	12,841	24,348	25,456
FFO per share	0.32	0.38	0.73	0.76

FFO decreased by 17% compared with Q3-2018. The decrease in FFO is a result of the 23% decline in Community Development revenues, which contributed to the overall decline in revenue of 10% over Q3-2018. The increase in net income in the current quarter is due to a significant deferred tax recovery of \$7.68 million related to the reduced Alberta corporate tax rate. Excluding this item, net income is down by 27% to \$8.39 million over Q3-2018.

As real estate development is long term in nature, comparison of any three-month period may not be as meaningful as year to date results. Year-to-date FFO is down 4% as a result of lower revenue.

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 38 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 September 30		Three-months September 30		Three-months September 30		Three-months September 30		Three-months September 30	
(\$000s except as noted)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue	25,897	33,469	13,559	131	9,589	7,899	17,468	17,283	3,854	3,779
Portion of total revenue	37 %	53 %	19 %	— %	14 %	13 %	25 %	28 %	5 %	6 %
Cost of sales	(17,800)	(20,471)	(13,500)	—	(4,100)	(3,198)	(6,782)	(6,855)	(2,579)	(2,405)
Gross profit	8,097	12,998	59	131	5,489	4,701	10,686	10,428	1,275	1,374
Gross margin %	31 %	39 %	— %	100 %	57 %	60 %	61 %	60 %	33 %	36 %
Portion of total profit	32 %	44 %	— %	— %	21 %	16 %	42 %	35 %	5 %	5 %
General and administrative expense	(2,068)	(2,216)	(561)	(578)	(607)	(639)	(697)	(702)	(723)	(744)
Fair value adjustment on investment properties	—	—	2,931	1,567	(1,373)	(613)	462	(1,746)	—	—
Gain on sale of assets	—	—	—	—	—	—	—	—	61	2
Interest income	326	242	7	8	11	2	28	40	—	—
Segment Earnings (Loss)	6,355	11,024	2,436	1,128	3,520	3,451	10,479	8,020	613	632

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Nine-months September 30		Nine-months September 30		Nine-months September 30		Nine-months September 30		Nine-months September 30	
(\$000s except as noted)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue	60,241	72,910	13,595	20,174	28,985	23,632	52,886	52,837	7,856	7,714
Portion of total revenue	37%	41%	8%	11%	18%	13%	32%	30%	5%	4%
Cost of sales	(41,561)	(44,279)	(13,500)	(19,850)	(12,097)	(9,530)	(21,228)	(21,117)	(5,210)	(4,995)
Gross profit	18,680	28,631	95	324	16,888	14,102	31,658	31,720	2,646	2,719
Gross margin %	31%	39%	1%	2%	58%	60%	60%	60%	34%	35%
Portion of total profit	27%	37%	—%	—%	24%	18%	45%	41%	4%	4%
General and administrative expense	(6,088)	(7,009)	(1,765)	(1,784)	(1,727)	(1,819)	(2,161)	(2,157)	(1,913)	(1,947)
Fair value adjustment on investment properties	—	—	3,541	6,370	(5,353)	(4,344)	(258)	(5,161)	—	—
Gain on sale of assets	—	—	—	—	—	—	—	—	83	14
Interest income	782	758	21	19	28	6	89	104	—	—
Segment Earnings (Loss)	13,374	22,380	1,892	4,929	9,836	7,945	29,328	24,506	816	786

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

Community Development

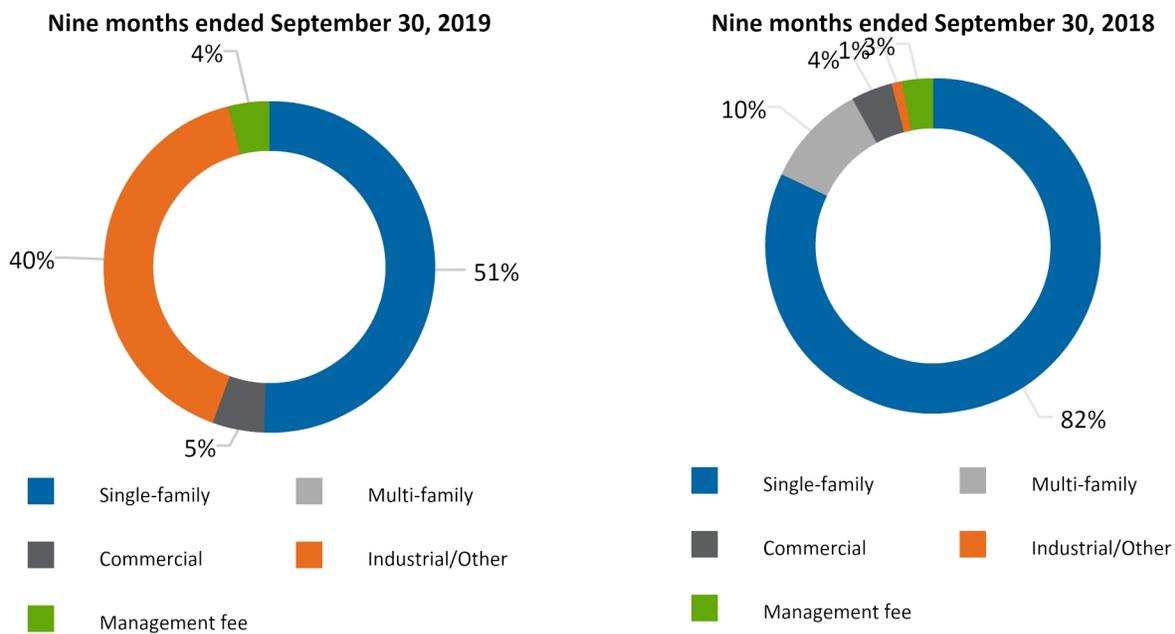
Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning, 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 BY TYPE



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-19	30-Sept-18	30-Sept-19	30-Sept-18
Canada Sales data: (including joint ventures at 100%)				
Single family sales (number of lots)	115	335	250	536
Gross average revenue per single-family lot (\$)	150,064	138,700	154,185	149,700
Multi-family sales (acres)	—	—	—	5.57
Gross average revenue per multi-family acre (\$)	—	—	—	1,558,900
Commercial sales (acres)	—	—	3.42	5.25
Gross average revenue per commercial land acre (\$)	—	—	871,345	978,100
Industrial sales (acres)	2.82	—	3.81	1.48
Gross average revenue per industrial land acre (\$)	312,765	—	319,423	345,300
Other land sales - Raw, Other (acres)	59.26	5.18	77.86	5.18
Gross average revenue per other land acre (\$)	148,301	95,000	295,123	95,000
US Sales data: (including joint ventures at 100%)				
Single family sales (number of lots)	24	140	24	294
Gross average revenue per single-family lot (\$)	120,609	43,100	120,609	40,400
Other land sales - Raw, Other (acres)	—	—	1.98	—
Gross average revenue per other land acre (\$)	—	—	1,026,676	—
Divisional results: (including joint ventures at Melcor's interest)				
Revenue (\$000s)	25,897	33,469	60,241	72,910
Earnings (\$000s)	6,355	11,024	13,374	22,380

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

Strain on real estate continues to negatively impact land sales with fewer sales of commercial acres and no multi-family lot sales in Q3-2019. Single-family lot sales were also down in Canada at 115 compared to 335 in Q3-2018 resulting in revenue (at JV%) of \$14.94 million in Q3-2019 compared to \$28.60 million. In Q3-2018, 140 single-family lots were also sold in the US for revenue of \$5.29 million (at JV% - US\$4.00 million) compared to 24 lot sales in the US during Q3-2019 for revenue of \$2.89 million (US\$2.18 million). US lot sales will remain uneven while we continue to build out the Harmony community in Aurora, CO. In Q3-2018 and year-to-date 2018, all lots sold in the US related to a different project with lower lot prices. The average selling price of single-family lots in Canada increased 3% compared with last year as a result of our active marketing of estate lots. Average revenue per single-family lot fluctuates period to period based on the type of product sold.

Community Development revenue was down due to the 45% decrease in revenue from single-family lot sales in the quarter; 49% year to date.

The Community Development division is continuing to develop new phases in communities that show demand. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development, and by ensuring that our product mix is aligned with current market preferences.

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-19			Three months ended 30-Sept-18		
	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	94	—	2.82	137	—	—
Red Deer Region	7	—	—	102	—	—
Calgary Region	6	—	59.26	79	—	—
Lethbridge	2	—	—	16	—	—
Kelowna	6	—	—	1	—	—
United States	24	—	—	140	—	—
	139	—	62.08	475	—	—

Regional Sales Analysis <i>(including joint ventures at 100%)</i>	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	189	—	18.36	274	1.98	5.58
Red Deer	15	—	—	122	—	—
Calgary Region	27	—	62.68	119	3.59	1.15
Lethbridge	13	—	—	17	—	—
Kelowna	6	—	4.05	4	—	—
United States	24	—	1.98	294	—	—
	274	—	87.07	830	5.57	6.73

Single-family lot sales may vary significantly quarter over quarter as plan registrations typically occur in the third and fourth quarters. Lot sales were down in our Canadian regions due to soft markets.

Year to date we have sold 17.97 acres of commercial land to our Property Development division for \$13.48 million. This land is under development for a gas station and other retail tenants in Edmonton and Calgary. No land was sold in Q3-2019.

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-19			Nine months ended 30-Sept-18		
	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	1,248	59.00	130.44	1,481	68.56	136.13
Purchases	—	—	—	—	—	1.01
New developments	31	—	—	870	4.53	—
Internal sales	—	—	(3.42)	—	—	(5.25)
Sales	(274)	—	(3.81)	(830)	(5.57)	(1.48)
	1,005	59.00	123.21	1,521	67.52	130.41

Our primary market is Alberta. Market conditions remain uncertain throughout the province, so we remain cautious about developing new phases and continue to commit resources outside of Alberta to diversify our land holdings portfolio. As a result of this caution, and with active marketing programs aimed at reducing inventory, we have reduced our single-family lot inventory by 34% compared to September 30, 2018.

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 158.03 acres in Red Deer, AB for \$12.80 million. Year-to-date, we have purchased a total of 470.60 acres, including prior quarter purchases of 80.00 acres in the Edmonton region for \$2.45 million, 160.00 acres in Lethbridge for \$9.75 million and 72.57 acres in the US for \$3.61 million (US\$2.70 million). In Q3-2018, we purchased 129.04 acres of raw land in the Edmonton region for \$3.50 million and an additional 0.45 acres in one of our Joint Ventures for \$0.20 million (at JV%) on land adjacent to a development.

Although the Community Development division is expecting softer activity in Canada during 2019, we continue to manage our cash position in order to capitalize on land acquisition opportunities. We are well placed to respond to stronger market conditions when they return and continue to focus on clearing out existing inventory held by Melcor and by our builders using active marketing programs to support this objective. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development.

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, Recipe Unlimited, CIBC, Home Depot, Loblaws, McDonald's, Rona, Royal Bank, Save-on Foods, Scotiabank, Shoppers Drug Mart, Staples, Starbucks, Subway, TD Canada Trust, Tim Hortons, Wal-Mart, Winners and many others.

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

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

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

Division Highlights

(\$000s except as noted)	Three months ended		Nine months ended	
	30-Sept-19	30-Sept-18	30-Sept-19	30-Sept-18
Total revenue	13,559	131	13,595	20,174
Revenue from property transfers	13,500	—	13,500	19,850
Management fees	59	131	95	324
Gross margin (%) on property transfers	25%	—%	25%	11%
Square footage transferred (sf, at 100%)	20,832	—	20,832	45,897
Number of buildings transferred	3	—	3	3
Fair value adjustment on investment properties	2,931	1,567	3,541	6,370

Development was completed on two buildings at Jensen Lakes Crossing and one building at The District for a total of three buildings completed and transferred to Investment Properties in Q3-2019 (20,832 sf), for total revenue of \$13.50 million. The Property Development division currently has an additional 125,485 sf under active development or completed and awaiting lease-up.

Regional Highlights

(\$000s except as noted)	Three months ended		Nine months ended	
	30-Sept-19	30-Sept-18	30-Sept-19	30-Sept-18
<i>Fair value adjustments by region</i>				
Northern Alberta	1,618	1,567	1,695	6,370
Southern Alberta	1,313	—	1,846	—
	2,931	1,567	3,541	6,370

Northern Alberta: Year to date fair value gains of \$1.70 million relate to properties under development. Three CRUs, including a gas station at Woodbend Market, resulted in fair value gains in the quarter of \$1.97 million offset by a fair value loss on an office building at the Village at Blackmud of \$0.36 million. Lease up of the Shoppes of Jagare Ridge, which has two buildings near completion, continues and the buildings are expected to transfer to Investment Properties this year.

Southern Alberta: Year to date fair value gains of \$1.85 million relate to our properties under development. A CRU in Kingsview Market is near completion and resulted in the full \$1.31 million fair value gain in the quarter. We expect to transfer this property to Investment Properties this year.

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 and transferred to IP or Sold	SF Under Development or developed and awaiting lease up
The Village at Blackmud Creek	South Edmonton	<i>Regional business park</i>	725,000	56,800	56,524
Telford Industrial	Leduc	<i>Industrial Park</i>	500,000	143,100	—
West Henday Promenade	West Edmonton	<i>Regional mixed use centre</i>	726,000	116,300	—
Kingsview Market	Airdrie	<i>Regional shopping centre</i>	331,000	181,900	18,471
Chestermere Station	Chestermere	<i>Neighbourhood shopping centre</i>	278,100	241,600	—
Clearview Market	Red Deer	<i>Neighbourhood shopping centre</i>	230,100	150,100	—
The District at North Deerfoot	North Calgary	<i>Regional business / industrial park</i>	2,250,000	528,750	—
Campsite Industrial	Spruce Grove	<i>Industrial Park</i>	170,000	13,700	—
The Shoppes at Jagare Ridge	South Edmonton	<i>Neighbourhood shopping centre</i>	105,000	20,500	36,582
Jensen Lakes Crossing	St. Albert	<i>Neighbourhood shopping centre</i>	150,000	59,688	10,908
Woodbend Market	Leduc	<i>Neighbourhood shopping centre</i>	140,000	—	3,000
Greenwich	West Calgary	<i>Regional mixed use centre</i>	325,000	—	—

Our Property Development team transferred 20,832 sf of GLA in Q3-2019 to our Investment Properties division and started 6,600 sf of new development during the quarter with a total of 32,379 sf currently under construction. A further 93,106 sf is complete and awaiting lease-up and/or transfer.

Expected Future Projects					
Project	Location	Type	Total SF *	Ownership Interest	Expected Start (year)
Laredo	Red Deer	<i>Neighbourhood shopping centre</i>	30,000	100%	2020
Vista Ridge	Sylvan Lake	<i>Neighbourhood shopping centre</i>	25,000	50%	2020
Secord/Rosenthal	Edmonton	<i>Neighbourhood shopping centre</i>	120,000	55%	2021
The Shoppes at Canyons	Lethbridge	<i>Neighbourhood shopping centre</i>	105,000	100%	2020
Mattson	Edmonton	<i>Neighbourhood shopping centre</i>	78,000	50%	2021
Rollyview	Leduc	<i>Neighbourhood shopping centre</i>	150,000	100%	2021
Keystone Common	North Calgary	<i>Regional power centre</i>	775,000	100%	2022+
West Pointe Marketplace	Lethbridge	<i>Regional power centre</i>	750,000	100%	2022+
Westview Commercial	West Calgary	<i>Neighbourhood shopping centre</i>	150,000	100%	2022+

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

Investment Properties

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

Our Investment Properties division manages 4,225,829 sf of income-producing commercial GLA and 608 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-19	30-Sept-18	30-Sept-19	30-Sept-18
Commercial properties GLA under management (sf, total)	4,225,829	4,050,649	4,225,829	4,050,649
Properties owned and managed (sf)	918,896	841,805	918,896	841,805
Properties managed (sf)	3,306,933	3,208,844	3,306,933	3,208,844
Revenue (total)	9,589	7,899	28,985	23,632
Canadian properties	3,440	2,857	9,950	8,301
US properties	4,543	3,479	14,082	10,506
Management fees	1,297	1,245	4,003	3,857
Parking lots and other assets	309	318	950	968
Net operating income (NOI) *	5,704	4,777	16,977	14,028
Funds from operations *	5,360	4,334	16,526	13,101
Funds from operations per share *	0.16	0.13	0.50	0.39

* 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

Investment Properties continues to grow as properties are developed and transferred from our Property Development division and third-party acquisitions are made. The Property Development division has 125,485 sf of GLA under active construction or completed and awaiting lease up. During Q3-2019 Property Development transferred three buildings, adding 20,832 sf to total owned and managed GLA. The majority of transfers typically occur in the latter part of the year due to construction timing and we expect to complete further transfers for 2019 during Q4. Over the past twelve months, Property Development has transferred five buildings representing 36,657 sf (at 100%). Revenue generated on assets acquired from Property Development, as well as those currently under development, and held through the nine-month period was \$3.33 million (2018 - \$1.75 million).

Occupancy on Canadian properties was 92% at September 30, 2019, steady over Q2-2019 and year end. Commercial weighted average base rents (WABR) were stable compared to Q2-2019 at \$28.19, and up \$0.65 compared with year-end.

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-19	30-Sept-18	30-Sept-19	30-Sept-18
Same asset NOI *	1,578	1,639	4,899	4,757
Third party acquisition	22	—	72	—
Properties transferred from PD	788	422	2,037	774
Properties transferred to REIT	—	—	—	61
NOI*	2,388	2,061	7,008	5,592
Amortization of operating lease incentives	(151)	(63)	(523)	(229)
Straight-line rent adjustment	75	221	371	863
Gross profit	2,312	2,219	6,856	6,226

* 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.

Gross profit was up 4% to \$2.31 million in the quarter and up \$0.63 million or 10% year to date, while NOI was up 16% to \$2.39 million in the quarter and up \$1.42 million or 25% year to date. Properties transferred from the Property Development division over the past 12 months, as well as those currently under development, drove the increase in Canadian property NOI, adding \$0.79 million in NOI in the third quarter of 2019 and \$2.04 million in NOI year to date (Q3-2018 - \$0.42 and \$0.77 million). On a same asset basis, NOI was down 4% to \$1.58 million in the quarter due to timing of operating expenses and up 3% year to date due to higher occupancy. The increase in gross profit was due to higher NOI and offset by lower straight-line rent adjustments and higher amortization of operating lease incentives, which can fluctuate based on the timing of leases rollovers and leasing incentives.

US properties

Revenue on US properties was \$4.54 million compared with \$3.48 million in Q3-2018 as a result of a third party acquisition made in Arizona during Q3-2018 as well as new leasing across the portfolio.

Occupancy on our commercial portfolio was up 5% over year end at 88%. Weighted average rental rates on our US commercial properties were down 2% over year-end at US\$19.32. Residential occupancy remained stable at 98%.

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

(\$000s except as noted)	Three months ended		Six months ended	
	30-Sept-19	30-Sept-18	30-Sept-19	30-Sept-18
Same asset NOI *	1,460	1,147	3,752	3,793
Third party acquisitions	291	35	1,046	35
NOI	1,751	1,182	4,798	3,828
Foreign currency translation	484	361	1,566	1,095
Amortization of operating lease incentives	(317)	(206)	(816)	(582)
Straight-line rent adjustment	179	(27)	879	23
Gross profit	2,097	1,310	6,427	4,364

* See non-standard measures for definition.

Gross profit was up \$0.79 million or 60% over Q3-2018, while NOI was up \$0.57 million or 48%. Year to date gross profit was up \$2.06 million or 47%, while NOI was up \$0.97 million or 25%. Gross profit was up due to the acquisition completed in Q3-2018 generating higher NOI as well as an increase in straight-line rent adjustments due to new leasing completed. Same asset NOI was up \$0.31 million or 27% over Q3-2018 due to new leasing and timing of operating expenses while year to date same asset NOI was stable.

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 up 4% over Q3-2018 and year to date due to internalization of management on one of our joint venture assets.

Funds from operations (FFO) increased 24% or \$1.03 million in the quarter and 26% or \$3.43 million year to date as a result of third party acquisitions and transfers from Property Developments over the past 12 months as well as higher straight-line rent adjustments on account of new leasing completed.

REIT

The REIT owned 38 income-producing office, retail and industrial properties, comprising 2,925,738 square feet of gross leasable area (GLA) at September 30, 2019. The REIT's portfolio has a diversified tenant profile - with a mix of national, regional and local tenants - operating in a variety of industries. During the nine-months ended September 30, 2019, the REIT acquired a 56,084 sf retail building with warehouse space in Calgary, AB for \$12.45 million.

We have a controlling 53.1% effective interest in the REIT through ownership of all Class B LP Units (December 31, 2018 - 53.0%). 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-19	30-Sept-18	30-Sept-19	30-Sept-18
Gross leasable area (GLA) (sf)	2,925,738	2,835,228	2,925,738	2,835,228
Occupancy % (weighted by GLA)	90.1%	90.3%	90.1%	90.3%
Fair value of portfolio	720,651	702,843	720,651	702,843
Rental revenue	17,468	17,283	52,886	52,837
Net operating income (NOI) *	11,460	10,845	33,854	32,977
Same asset NOI * (see calculation following)	9,876	9,553	29,371	29,152
Funds from operations *	10,885	10,529	32,257	31,955
Funds from operations per share *	0.33	0.32	0.97	0.96

* See non-standard measures for definition and calculation.

Rental revenue for the three and nine-months ended September 30, 2019 was stable over 2018. Properties acquired within the past twenty-one months (Staples Centre on April 24, 2019, LFS Building on December 3, 2018 and the Melcor Acquisition on January 12, 2018) contributed rental revenue of \$2.17 million in the third quarter and \$6.32 million year to date (2018 - \$1.83 million and \$5.25

million respectively). The increase in rental revenue was offset by a decrease in same-asset performance in our office portfolio as well as the sale of two retail assets in 2018, which contributed \$0.38 million to prior year revenues.

Year to date we signed 187,941 sf of new and renewed leasing (including holdovers) and maintained steady occupancy at 90.1%. In 2019, 85 leases representing 279,560 sf or 9.6% of our portfolio are up for renewal. We have retained 80.3% of expiring leases (representing 154,747 sf) as at September 30, 2019 in spite of challenging market conditions in many of our operating regions. A major tenant, Royal Bank of Canada, vacated their 47,088 sf (approximately 1.6% of our portfolio) space at the Royal Bank Building in Edmonton, AB following the expiration of their lease on September 30, 2019. We are actively working on various strategies for the property to re-brand and lease-up and have already pre-leased one floor (7,900 sf) to an existing tenant who is outgrowing their space in another downtown building owned by the REIT.

Weighted average base rent was \$16.64, up \$0.13 compared to December 31, 2018 and up \$0.06 over Q3-2018 due to leasing activity and fewer tenants on rent free periods.

Direct operating expenses were up 1% year to date in 2019. On a same-asset basis, property taxes and utilities increased by 1% due to higher utility riders and fees as well as increases in property taxes, primarily on our retail assets. Third quarter property taxes and utilities were down 3% due to property tax credits received in the current period and lower consumption. Same-asset operating expenses are stable year to date in 2019. 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.

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

(\$000s except as noted)	Three months ended		Nine months ended	
	30-Sept-19	30-Sept-18	30-Sept-19	30-Sept-18
Same asset NOI *	9,876	9,553	29,371	29,152
Acquisitions	1,584	1,293	4,483	3,545
Disposals	—	(1)	—	280
NOI*	11,460	10,845	33,854	32,977
Amortization of operating lease incentives	(868)	(763)	(2,671)	(2,288)
Straight-line rent adjustment	94	346	475	1,031
Gross profit	10,686	10,428	31,658	31,720

* See non-standard measures for definition and calculation.

NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustment.

NOI was up 6% in the third quarter and 3% year to date over 2018 due to new properties acquired. On a same-asset basis NOI was flat over 2018. Third quarter same-asset NOI increased 3% over Q3-2018 due to rent escalations and lower non-recoverable costs. Third quarter same-asset NOI was stable over Q2-2019.

Funds from operations

FFO was up 3% in the third quarter at \$10.89 million and flat year to date. Higher NOI drove the increase in FFO. The decrease in straight-line rent adjustments in the quarter is a result of mid-term lease amendments, fewer tenants on rent-free periods and increasing rents on leases with multiple rent escalations. Straight-line rent adjustments fluctuate due to the timing of signed leases.

Recreational Properties

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

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

The Recreational Properties division earned revenue of \$7.86 million year to date, an increase of 2% over 2018 due to an early spring and extended fall golfing, offset by a wet summer. Rounds of golf played to the end of the third quarter increased by 7% over the prior year.

	Ownership interest	Season opened 2019	Rounds of Golf	Season opened 2018	Rounds of Golf
<i>Managed by Melcor:</i>					
Lewis Estates (Edmonton)	60%	April 12	23,542	April 27	22,610
The Links (Spruce Grove)	100%	April 13	21,017	April 27	19,605
Black Mountain (Kelowna)	100%	April 3	29,809	April 6	27,162
<i>Managed by a Third Party:</i>					
Jagare Ridge (Edmonton)	50%	April 19	21,895	May 1	20,929

General and Administrative Expense

General and administrative expenses (G&A) were down 7% over Q3-2018 and down 6% year to date as a result of decreased activity in our Community Development division and careful monitoring of expenses. Corporate G&A also decreased by 8% over Q3-2018 and 4% year to date as we continue to prudently monitor our controllable expenses. Community Development year to date G&A decreased \$0.92 million over 2018, primarily due to decreased Canadian activity and the timing of activity in the US compared to the prior year. Our other operating divisions remained fairly steady over Q3-2018.

Income Tax Expense

The statutory tax rate is 26.5% for the three and nine months ended September 30, 2019 (2018 - 27%). Significant adjustments that impacted the 2019 effective tax rate include permanent differences related to revaluation adjustments on investment properties and REIT units. These adjustments are partially offset by the non-taxable portion of REIT income. In addition, the enacted reduction in the tax rate, with the end goal of 23% by 2020, resulted in a deferred income tax recovery.

Liquidity & Capital Resources

The following table represents selected information as at September 30, 2019, compared with December 31, 2018.

<i>As at (\$000s except as noted)</i>	30-Sept-19	31-Dec-18
Cash & cash equivalents	31,420	26,727
Accounts receivable	8,924	10,849
Agreements receivable	75,522	126,490
Revolving credit facilities	81,075	46,529
Accounts payable and accrued liabilities	51,396	44,825
Total assets	2,044,964	2,023,076
Total liabilities	974,150	955,511
Debt to equity ratio*	0.91	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, 2019, our total general debt outstanding was \$702.44 million. A summary of our debt is as follows:

As at (\$000s)	30-Sept-19	31-Dec-18
Melcor - revolving credit facilities	59,319	46,529
REIT - revolving credit facility	21,756	—
Project specific financing	66,554	62,639
Secured vendor take back debt on land inventory	43,874	40,842
Debt on investment properties and golf course assets	454,955	454,342
REIT - convertible debentures	55,979	55,204
General debt	702,437	659,556

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, 2019 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 1.25, and a minimum adjusted unitholders' equity of \$140.00 million. As at September 30, 2019 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 & 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-19	30-Sept-18	30-Sept-19	30-Sept-18
Cash flows from operating activities	21,391	3,923	20,719	2,179
Cash flows used in investing activities	(6,824)	(29,753)	(29,568)	(25,492)
Cash flows from (used in) financing activities	(12,428)	32,587	13,687	18,720

During Q3-2019, cash flows from operating activities were \$21.39 million, an increase of \$17.47 million over Q3-2018. Collections on agreements receivables were \$14.77 million compared to \$9.91 million in Q3-2018, while cash used for development activities decreased from \$22.55 in Q3-2018 to \$10.99 million in Q3-2019 resulted in the overall increase in cash from operating activities.

Cash flows used in investing activities were \$6.82 million in Q3-2019 compared with cash flows used in investing activities of \$29.75 million during Q3-2018. During the quarter, property was purchase for development resulting in cash outflows \$1.05 million compared to cash outflows of \$24.53 million from purchases of investment properties in Q3-2018. We continue to develop commercial properties and invest in our portfolio. Cash flows used in the development of investment properties was \$5.43 million compared to \$4.89 million in Q3-2018.

Cash flows used in financing activities were \$12.43 million during the quarter compared to cash flows from financing activities of \$32.59 million in Q3-2019, a change of \$45.02 million. Proceeds on general debt during the quarter were \$17.71 million compared to proceeds of \$65.81 million in Q3-2018. Net repayments in our revolving credit facility were \$9.44 million in the quarter compared to net proceeds of \$4.08 million in Q3-2018. In the quarter, we paid a \$0.12 per share dividend for a total of \$12.65 million paid year to date. (Q3-2018 - \$0.13 per share).

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, 2019 there were 33,259,243 common shares issued and outstanding, 1,012,200 options, and 68,234 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 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, 2019 in comparison to the December 31, 2018 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

Normal Course Issuer Bid

On March 29, 2018 we announced a Normal Course Issuer Bid ("NCIB") that commenced March 31, 2018 and ended March 30, 2019. Under this bid, we could have acquired 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. Under this now expired NCIB, we purchased a total of 64,352 shares for cancellation during Q1-2019.

On March 28, 2019 we announced an NCIB commencing April 1, 2019 and ending March 31, 2020. Under the bid, we may acquire up to 1,665,080 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 1,000 common shares. As of November 6, 2019, 40,100 shares were purchased and cancelled.

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.

Also on March 28, 2019 the REIT announced an NCIB commencing April 1, 2019 and ending March 31, 2020. Under the bid, we may acquire up to 659,339 trust units in total (approximately 5% of our issued and outstanding trust units) with a daily repurchase restriction of 2,908 trust units. As of November 6, 2019, 53,504 units have been purchased and cancelled.

In connection with the commencement of the REIT NCIB, we entered into an automatic share purchase plan agreement with a broker to allow for the purchase of trust units 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-19	30-June-19	31-Mar-19	31-Dec-18	30-Sept-18	30-Jun-18	31-Mar-18	31-Dec-17
Revenue	53,946	41,085	34,884	119,982	60,245	42,793	44,414	109,633
Net income (loss)	16,068	3,137	1,590	36,526	11,469	1,631	14,647	32,084
FFO	10,696	7,975	5,677	30,671	12,841	7,695	4,920	30,850
<i>Per Share</i>								
Basic earnings	0.48	0.09	0.05	1.09	0.34	0.05	0.44	0.96
Diluted earnings	0.48	0.09	0.05	1.09	0.34	0.05	0.44	0.96
FFO	0.32	0.24	0.17	0.92	0.38	0.23	0.15	1.59
FFO Diluted	0.32	0.21	0.17	0.92	0.35	0.23	0.15	0.93
Book value	32.20	31.76	31.88	30.21	30.78	30.64	30.63	30.21

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 13 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, 2019 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, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Segment Earnings	3,520	3,451	9,836	7,945
Fair value adjustment on investment properties	1,373	613	5,353	4,344
General and administrative expenses	607	639	1,727	1,819
Interest income	(11)	(2)	(28)	(6)
Amortization of operating lease incentives	467	270	1,337	812
Straight-line rent adjustment	(252)	(194)	(1,248)	(886)
Divisional NOI	5,704	4,777	16,977	14,028

REIT

(\$000s)	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Segment Earnings	10,479	8,020	29,328	24,506
Fair value adjustment on investment properties	(462)	1,746	258	5,161
General and administrative expenses	697	702	2,161	2,157
Interest income	(28)	(40)	(89)	(104)
Amortization of operating lease incentives	868	763	2,671	2,288
Straight-line rent adjustment	(94)	(346)	(475)	(1,031)
Divisional NOI	11,460	10,845	33,854	32,977

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

Consolidated

(\$000s)	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net income for the period	16,068	11,469	20,795	27,747
Amortization of operating lease incentives	3,161	1,752	5,919	5,007
Fair value adjustment on investment properties	(3,300)	25	(1,359)	(258)
Depreciation on property and equipment	525	518	1,153	1,170
Stock based compensation expense	189	111	548	323
Non-cash finance costs	611	491	1,973	1,698
Gain on sale of asset	(61)	(1)	(83)	(6)
Deferred income taxes	(7,677)	58	(8,283)	(4,839)
Fair value adjustment on REIT units	1,180	(1,582)	3,685	(5,386)
FFO	10,696	12,841	24,348	25,456

Investment Properties

(\$000s)	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Segment Earnings	3,520	3,451	9,836	7,945
Fair value adjustment on investment properties	1,373	613	5,353	4,344
Amortization of operating lease incentives	467	270	1,337	812
Divisional FFO	5,360	4,334	16,526	13,101

REIT

(\$000s)	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Segment Earnings	10,479	8,020	29,328	24,506
Fair value adjustment on investment properties	(462)	1,746	258	5,161
Amortization of operating lease incentives	868	763	2,671	2,288
Divisional FFO	10,885	10,529	32,257	31,955

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