PRESS RELEASE

for immediate distribution

Melcor Developments announces third quarter results, declares quarterly dividend of $0.12 per share, and announces CEO succession plan

Edmonton, Alberta | November 9, 2021

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the third quarter and nine months ended September 30, 2021. Company year-to-date revenue was up 13% to $165.03 million compared to 2020. **Community Development** division revenue increased 30% over the same period in 2020.

Investment properties grew by 22,865 sf or 1% year-to-date as a result of properties transferred from our Property Development division. Revenue in our income-producing divisions (**Investment Properties** and **REIT**) was down 1% over Q3-2020 and up 1% year-to-date. Vacancy rates are up slightly due to challenging markets.

Year-to-date net income was impacted by non-cash fair value losses of $26.31 million on REIT units related to unit price appreciation compared to December 31, 2020 resulting in a net income of $11.54 million or $0.35 per share (basic) compared with a net income of $11.58 million or $0.35 per share (basic) in the same period of 2020.

Funds from operations (FFO) decreased 13% to $12.52 million or $0.38 per share over Q3-2020 and increased 32% to $39.02 million or $1.17 per share year-to-date. Changes to FFO are the result of significant swings in fair value adjustments on REIT units and investment properties.

Darin Rayburn, Melcor's President and Chief Executive Officer, commented on the quarter: "We are pleased with our results through the first nine months of 2021. Year-to-date, we sold 408 single-family lots in Canada compared to 290 in 2020. In the prior year, we also sold 229 single-family lots in the USA.

While COVID-19 has had a modest impact on our business through the past year, our income-generating divisions have been the most sensitive to changes in consumer behaviour and work from home orders. We continue to work with our tenants to support them through this time. As of September 30, we had collected 99% of year-to-date rent. Revenue and occupancy have remained relatively stable in these divisions throughout the past year. Leasing activity through the period was stable and trending to positive.

Recreational Properties achieved record revenue and margin through the first three quarters as a result of early opening dates and favourable weather throughout the golf season.

Gross margin improved to 48% year-to-date compared to 43% in 2020 due to higher gross margin in most operating divisions, most notably the Community Development Division and the REIT.

Finally, a few acknowledgments in my final quote as president and CEO of Melcor. I am so incredibly proud of our entire Melcor team for their commitment, perseverance and resilience. The success of Melcor, and the REIT, is attributable to all the facets of the Melcor team coming together to achieve a common goal.

I'm grateful to the board, the Melcor team, our shareholders and all stakeholders for your guidance, support and friendship over the years. I look forward to watching Melcor continue to succeed."

CEO SUCCESSION PLAN AND EXECUTIVE CHANGES

Melcor Developments Ltd. today announced that its Board of Directors has appointed Mr. Tim Melton as Chief Executive Officer and Executive Chairman of the Board effective immediately. In addition, Naomi Stefura, Melcor's Chief Financial Officer, has been promoted to the new role of Executive Vice President in addition to her continuing role as CFO, effective immediately. Darin Rayburn will continue to work with Melcor and assist with this transition until his retirement December 31, 2021.

Third Quarter Results

Given the longer term nature of real estate development, comparison of any three-month period may not be meaningful.

Revenue in Q3-2021 was down 23% compared to Q3-2020 due to the bulk sale of 196 single-family lots in Harmony (Aurora, CO) in the prior period and 41% fewer single-family lots sold in Canada in Q3-2021 compared to the prior year, partially offset by the sale of 293 paper lots (79 acres) for $13.84 million (USD$10.99 million). The US community development model differs from Canadian markets, resulting in the majority of revenue occurring in a single quarter. In Harmony, where Melcor is developing in much the same way as we do in our Canadian markets, production builders buy lots in bulk to build homes to sell to homeowners. Demand for additional lots in Harmony remains high and we are completing the third phase for sale to builders. In other US assets, Melcor advances land through the municipal approval process and then sells the land as paper lots, typically to a single builder, without doing any development. Paper lot sales transactions result in a quick return on equity, with transactions typically occurring within 18 to 24 months from land purchase to sale.

Revenue was up 13% year-to-date as a result of the 30% increase in Community Development revenue and record revenue for Recreational Properties division. The Community Development division sold 22.69 acres of commercial and industrial land for $4.68 million year-to-date (2020 - 0.80 acres, $0.42 million) in addition to the 293 paper lots sold in Q3-2021. We usually see the most revenue from lot sales in the third and fourth quarters as that is when plans typically register.

Investment properties gross leasable area (GLA) grew by 22,865 sf or 1% year-to-date as a result of properties transferred from our Property Development division in 2021. Revenue from our income-generating Investment Properties and REIT divisions was flat in the quarter and year-to-date. Growth in revenues from PD transferred assets, including properties awaiting lease-up which have not yet transferred, but where IP recognizes the revenue, offset a decline in US revenues where tenant turnover drove a decline in occupancy. Year-to-date we recognized $2.94 million in lease termination fees offsetting lower lease revenue. We continue to both renew tenants and lease new space.

FINANCIAL HIGHLIGHTS

- Revenue was down 23% in the quarter due to the bulk sale of 196 lots in the US in Q3-2020 contributing to the 21% decrease in single-family lots sold and up 13% year-to-date as a result of 30% increase in Community Development revenue due to revenue from the sale of paper lots, and raw, commercial and industrial land sales. Record revenue from Recreational Properties also contributed to the year-to-date growth. Revenue from single-family lot sales was stable at $58.95 million year-to-date (YTD-2020 - $58.90 million).
- Funds from operations (FFO) decreased 13% over Q3-2020 and increased 32% year-to-date. These changes are the result of the fluctuations in fair value adjustments on REIT units and investment properties, and changes to non-cash finance charges.
- Net income of $16.56 million in Q3-2021 (Q3-2020 - $7.53 million) and $11.54 million year-to-date (YTD-2020 - $11.58 million) is a result of the swings in non-cash fair value adjustments on investment properties and REIT units, and increased finance costs offset by increased revenue. The change in the REIT's unit price has a counter-intuitive impact on net income as an increase in unit value decreases net income. These losses are driven by market forces outside of Melcor's control and are a key reason we focus on FFO as a truer measure of our financial performance.

DIVISIONAL OPERATING HIGHLIGHTS

- The **Community Development** division has had a busy construction season to replenish inventory in all regions and is building 1,721 single-family lots (including duplex and townhome sites) in 25 new phases of 14 existing communities and 1 new community, and 3.33 acres for multi-family development. This includes the launch of a new community known as Cobblestone Creek in Airdrie, AB.

  Sales activity remains healthy in all Canadian markets, including satellite communities such as St. Albert, Spruce Grove, Airdrie and Cochrane. Year-to-date, we sold 408 single-family lots compared to 290 last year. We continue to move new communities and additional phases in existing neighbourhoods through the municipal approval process.

  Interest in Harmony (Aurora, CO) also remained strong throughout the quarter as builders move through their inventory. In 2020, 229 single-family lot sales were made in Harmony.
- The **Property Development** team has a total of 104,776 sf in 5 projects (Greenwich, Jensen Lakes Crossing, Clearview Market, Chestermere Station and Vista Ridge) currently under construction. Property Development transferred a 16,348 sf building at The District (Calgary) to Investment Properties in Q3-2021. A further 18,931 sf is complete and awaiting lease-up

and transfer in 2 projects: Woodbend Market and Clearview Market. Construction and leasing activity resulted in fair value gains of $2.27 million (YTD - $1.13 million).

- Total GLA under management has increased 22,865 sf or 1% via transfers from **Property Development**. Revenue in our income-producing divisions (**Investment Properties** and **REIT**) was flat in the quarter and year-to-date. Tenant retention and new leasing remain healthy in our Canadian portfolio driving stable occupancy; while our US portfolio occupancy is down due to soft office conditions. See the COVID-19 section for rent collection information.

  The investment property portfolio fair value increased $2.14 million in Q3-2021 (YTD - $6.14 million). Gains realized in the quarter were due to lower capitalization rates while year-to-date gains also include the sale of Turney Brownstones in Phoenix, Arizona on July 30, which generated gains of $2.54 million (US$2.03 million).

- Our **Recreational Properties** year-to-date revenue increased 30% to $9.29 million due to mild spring weather allowing earlier course opening dates and favourable weather throughout the season. Comparative 2020 revenues were impacted by COVID-19 related delays to course openings and restrictions imposed on food and beverage service throughout the season.

RETURNING VALUE

- We continue to return value to our shareholders and unitholders:
  - We paid a quarterly dividend of $0.12 per share in September (year to date - $0.32 per share).
  - On November 9, 2021 we declared a quarterly dividend of $0.12 per share, payable on December 31, 2021 to shareholders of record on December 15, 2021. The dividend is an eligible dividend for Canadian tax purposes.
  - The REIT increased the August and September distributions by 14% to $0.04 per unit compared to $0.035 per unit January through July.

Selected Highlights

($000s except as noted)	Three months ended			Nine months ended		
	30-Sep-21	30-Sep-20	Change	**30-Sep-21**	30-Sep-20	Change
Revenue	**56,213**	73,051	(23.0)%	**165,030**	145,871	13.1 %
Gross margin (%) *	**47.9 %**	36.4 %	31.6 %	**48.2 %**	43.3 %	11.3 %
Net income	**16,561**	7,526	120.1 %	**11,542**	11,576	(0.3)%
Net margin (%) *	**29.5 %**	10.3 %	186.4 %	**7.0 %**	7.9 %	(11.4)%
Funds from operations (FFO) *	**12,516**	14,315	(12.6)%	**39,016**	29,516	32.2 %
Per Share Data ($)						
Basic earnings	**0.50**	0.23	117.4 %	**0.35**	0.35	— %
Diluted earnings	**0.50**	0.23	117.4 %	**0.35**	0.35	— %
Funds from operations *	**0.38**	0.43	(11.6)%	**1.17**	0.89	31.5 %
Dividends	**0.12**	0.08	50.0 %	**0.32**	0.26	23.1 %

As at ($000s except share and per share amounts)	**30-Sep-21**	31-Dec-20	Change
Total assets	**2,054,109**	2,001,285	2.6 %
Shareholders' equity	**1,077,716**	1,077,429	— %
Total shares outstanding	**32,966,423**	33,091,061	(0.4)%
Per Share Data ($)			
Book value *	**32.69**	32.52	0.5 %

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three and nine months ended September 30, 2021, which can be found on the company's website at www.Melcor.ca or on SEDAR (www.sedar.com).

About Melcor Developments Ltd.

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

Melcor has been focused on real estate since 1923. The company has built over 140 communities and commercial projects across Western Canada and today manages 4.66 million sf in commercial real estate assets and 603 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

Melcor's headquarters are located in Edmonton, Alberta, with regional offices throughout Alberta and in Kelowna, British Columbia and Phoenix, Arizona. Melcor has been a public company since 1968 and trades on the Toronto Stock Exchange (TSX:MRD).

Forward Looking Statements

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

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

This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2021 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

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

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

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Management's Discussion & Analysis

November 9, 2021

The following discussion of Melcor Developments' (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, 2021 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2020.

The financial statements underlying this MD&A, including 2020 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, i*ncluding IAS 34, Interim Financial Reporting*, 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 9, 2021 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 2021 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. We also caution readers that the ongoing COVID-19 pandemic has resulted in both new and increased risk, creating significant uncertainty as to the outlook for Melcor. 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 and the updated risk disclosure contained in the Business Environment & Risks section contained in this 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.

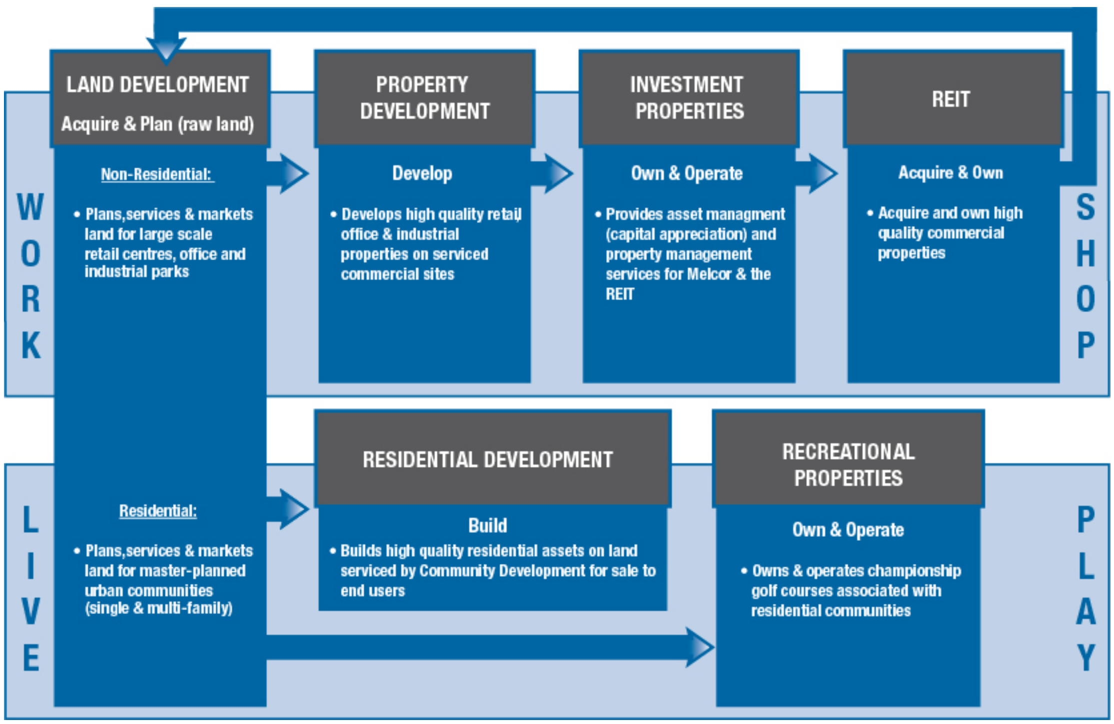
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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 $2.05 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**).

SIGNIFICANT EVENT - COVID-19

With lock-downs, business interruptions, occupancy limits and now the rollout of the restrictions exemption program in Alberta, the COVID-19 global pandemic has had and continues to have a material impact on some of our tenants. The long-term impact of COVID-19 related economic stressors remains to be seen. It is difficult to estimate the future impact to Melcor's financial performance, and because of this future results could be materially different from current estimates.

Melcor continues to focus on responding quickly as the situation fluctuates, implementing various measures to provide safe and clean work environments, and keep our employees, contractors, clients, tenants and visitors to our properties safe while doing our part to slow the spread.

Our Investment Properties and REIT segments are most impacted by COVID-19. We have and will continue to work with tenants on a case by case basis to implement lease amendments where appropriate, depending on the tenant's financial need and potential access to government relief programs. These arrangements demonstrate our continued solidarity and partnership with our tenants to provide them with the best opportunity to endure the pandemic and be successful in the long-term. We are all in this together. We see ourselves as partners with our tenants and our main objective is to help each other survive and thrive.

We use Alberta Health Services (AHS) guidelines as a baseline for the operations of all business units.

We continue to actively monitor ongoing COVID-19 developments to ensure a healthy and safe environment.

Operations Update

The market for new homes has been robust since Q3-2020. We attribute this strength to the drop in mortgage rates in 2020, and many homeowners and renters realizing that their home wasn't ideal for their situation during lock-downs while both working and schooling from home. New home sales in Canada remain strong, resulting in 408 single-family lots being sold year-to-date compared to 290 lots in the same period of 2020. All golf courses have also benefited through COVID-19 as a relatively safe outdoor recreational option when travel and other forms of entertainment were closed, coupled with a mild winter leading to early openings and favourable weather during the golf season. All other divisions achieved stable results.

In spite of the favourable results achieved in 2020 and year-to-date in 2021, we caution that it is not possible to accurately predict the extent and duration of the impact of COVID-19 on future results. Potential impacts include projected interest rate increases, and supply chain delays on construction materials and corresponding price increases, in addition to the potential for tenant failures or inability to pay rent.

We continue to provide temporary relief on an as-needed basis to our tenants. As of September 30, we had collected 98% of third quarter rent and 99% of year-to-date rent (excluding amounts owing and receivables related to 2020 year end reconciliations). At September 30, we had $1.55 million in outstanding arrears, of which $0.16 million has been deferred and a further $0.58 million designated as bad debts where collectibility is doubtful. The majority of our tenants are working cooperatively with us in finding acceptable arrangements for repayment of arrears.

Melcor expects collection of deferred and uncollected amounts, less those provided for as bad debts.

In the third quarter we recognized a net $0.07 million recovery in previously provided for bad debts (year to date - net recovery of $0.01 million). We recognized $2.29 million in bad debts for the year ended December 31, 2020 (including $0.86 million related to Canada Emergency Commercial Rent Assistance (CECRA) applications). The 2020 bad debts expense was unprecedented for Melcor. Government programs aimed at supporting businesses through the pandemic, including Canada Emergency Rent Subsidy (CERS) and Canada Emergency Wage Subsidy (CEWS) will be continuing post September when they were initially set to expire, but limited to "hard hit employers" until March 2022. It is too early to anticipate the impact of this new change on our tenants and caution readers that bad debt may become elevated again in the future.

The following table illustrates our outstanding billed receivables (excluding deferred amounts), deferred tenant receivables and allowances as at September 30, 2021 and December 31, 2020 by asset class. Accrued and other receivables of $5.30 million (December 31, 2020 - $10.15 million) are not reflected in the figures illustrated below.

Tenant Receivables and Provisions ($000s)						
		September 30, 2021			December 31, 2020	
	Tenant Billed Receivables	**Deferred Tenant Receivables**	**Allowance for Doubtful Accounts**	Tenant Billed Receivables	Deferred Tenant Receivables	Allowance for Doubtful Accounts
Retail	**974**	**113**	**(478)**	1,953	424	(764)
Office	**379**	**46**	**(98)**	880	99	(409)
Industrial	**12**	**—**	**(5)**	64	—	(10)
Other	**30**	**—**	**—**	28	—	—
Total	**1,395**	**159**	**(581)**	2,925	523	(1,183)

In addition to deferral arrangements, Melcor has entered into lease amendments with certain tenants to provide short-term rent relief. These arrangements underscore our continued partnerships with our tenants in strategic efforts to increase tenant retention for the long-term.

We believe that the strong relationships that we continually build with our tenants are a key factor in our strong rent collection throughout this challenging period. Based on current conditions, we expect rent collections to remain stable; however, caution that despite all efforts, bad debts could increase in the future due to lingering impacts of COVID-19.

Third Quarter Highlights

($000s except as noted)	**Three months ended**			**Nine months ended**		
	30-Sep-21	30-Sep-20	Change	**30-Sep-21**	30-Sep-20	Change
Revenue	**56,213**	73,051	(23.0)%	**165,030**	145,871	13.1 %
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Total assets	**2,054,109**	2,001,285	2.6 %
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Book value *	**32.69**	32.52	0.5 %

**See non-standard measures for calculation.*

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- Funds from operations (FFO) decreased 13% over Q3-2020 and increased 32% year-to-date. Higher income tax expense, G&A and cash finance costs resulted in the lower quarterly FFO, while year to date FFO was bolstered by higher gross margin.
- Net income of $16.56 million in Q3-2021 (Q3-2020 - $7.53 million) and $11.54 million year-to-date (YTD-2020 - $11.58 million) is significantly impacted by swings in non-cash fair value adjustments on investment properties and REIT units. The change in the REIT's unit price has a counter-intuitive impact on net income as an increase in unit value decreases net income. These losses are driven by market forces outside of Melcor's control and are a key reason we focus on FFO as a truer measure of our financial performance.

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- The **Property Development** team has a total of 104,776 sf in 5 projects (Greenwich, Jensen Lakes Crossing, Clearview Market, Chestermere Station and Vista Ridge) currently under construction. Property Development transferred a 16,348 sf building at The District (Calgary) to Investment Properties in Q3-2021. A further 18,931 sf is complete and awaiting lease-up and transfer in 2 projects: Woodbend Market and Clearview Market. Construction and leasing activity resulted in fair value gains of $2.27 million (YTD - $1.13 million).
- Total GLA under management has increased 22,865 sf or 1% year-to-date via transfers from **Property Development**. Revenue in our income-producing divisions (**Investment Properties** and **REIT**) was flat in the quarter and year-to-date. Tenant retention and new leasing remain healthy in our Canadian portfolio driving stable occupancy; while our US portfolio occupancy is down due to soft office conditions. See the COVID-19 section for rent collection information.

  The investment property portfolio fair value increased $2.14 million in Q3-2021 (YTD - $6.14 million). Gains realized in the quarter were due to lower capitalization rates while year-to-date gains also include the sale of Turney Brownstones in Phoenix, Arizona, which generated gains of $2.54 million (US$2.03 million).
- Our **Recreational Properties** year-to-date revenue increased 30% to $9.29 million due to mild spring weather allowing earlier course opening dates and favourable weather throughout the season. Comparative 2020 revenues were impacted by COVID-19 related delays to course openings and restrictions imposed on food and beverage service throughout the season.

RETURNING VALUE

- We continue to return value to our shareholders and unitholders:
  - We paid a quarterly dividend of $0.12 per share in September (year to date - $0.32 per share).
  - On November 9, 2021 we declared a quarterly dividend of $0.12 per share, payable on December 31, 2021 to shareholders of record on December 15, 2021. The dividend is an eligible dividend for Canadian tax purposes.
  - The REIT increased the August and September distributions by 14% to $0.04 per unit compared to $0.035 per unit January through July.
  - On October 15, 2021 the REIT declared the following distributions:

Month	Record Date	Distribution Date	Distribution Amount
October 2021	October 29, 2021	November 15, 2021	$0.04 per unit
November 2021	November 30, 2021	December 15, 2021	$0.04 per unit
December 2021	December 31, 2021	January 17, 2022	$0.04 per unit

REVENUE & MARGINS

Revenue was down 23% to $56.21 million compared to Q3-2020 and up 13% to $165.03 million year-to-date. Community Development year-to-date revenue increased 30% to $78.83 million due to strong lot sales in all Canadian regions. Revenue from single-family lot sales in Canada was stable at $58.95 million. We also sold 22.69 acres of raw land for $4.68 million and 293 paper lots for $13.84 million (USD$10.99 million). Community Development division revenue is highly dependent on the demand for new homes in the regions where we hold land, the timing of raw, commercial and multi-family land sales, and the timing of registration on single-family lots.

With the higher contribution to revenue from Community Development, our income-generating divisions (Investment Properties and the REIT) accounted for 51% of year-to-date revenues after intersegment eliminations compared with 58% of total revenue in the same period of 2020. Year-to-date 2021 revenue from our income-generating divisions was $84.98 million at 59% gross margin compared to $84.40 million at 55% gross margin in 2020. 2020 gross margins were negatively impacted by COVID-19 related bad debt expense.

Gross margin improved to 48% compared to 36% in Q3-2020 and to 48% year-to-date compared to 43% in 2020 due to higher gross margin in most operating divisions, most notably the Community Development Division and the REIT. Community Development's gross margin was 38% in the quarter (Q3-2020 - 24%) and 37% year to date (YTD-2020 - 25%), driven by increased land sales, which typically carry a higher margin. Comparative period margins were impacted by the proportion of US lot sales in our Harmony, Colorado project. Gross margin in the Community Development division can vary widely based on the mix of product type sold in any period. Recreational Properties gross margin showed no change from comparable period with 48% in Q3-2021. REIT and Investment Properties margin is stable by nature; however, REIT margin was impacted by bad debt expenses in Q3-2020. These divisions continue to grow via transfers from Property Development, which further stabilizes overall gross margin.

Net income is impacted by non-cash fair value adjustments on investment properties and the 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 net income can fluctuate significantly from quarter to quarter due to the timing of plan registrations, the cyclical nature of real estate and construction markets, and the mix of lot sales and product types. The growth of our income-generating divisions offsets this cyclicality and has been a key diversification strategy for the past decade.

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-Sep-21	30-Sep-20	**30-Sep-21**	30-Sep-20
Net income for the period	**16,561**	7,526	**11,542**	11,576
Amortization of operating lease incentives	**2,102**	1,910	**5,922**	5,955
Fair value adjustment on investment properties	**(5,183)**	857	**(10,040)**	69,540
Depreciation on property and equipment	**509**	504	**1,107**	1,173
Stock based compensation expense	**254**	208	**762**	644
Non-cash finance costs	**(135)**	1,786	**4,147**	2,809
Gain on sale of asset	**(65)**	(3)	**(127)**	(39)
Deferred income taxes	**(879)**	(169)	**(604)**	(5,818)
Fair value adjustment on REIT units	**(648)**	1,696	**26,307**	(56,324)
FFO	**12,516**	14,315	**39,016**	29,516
FFO per share	**0.38**	0.43	**1.17**	0.89

FFO was down 13% or $1.80 million in the quarter and up 32% or $9.50 million year-to-date. Gross profit increased 1% in the quarter and 26% year-to-date due to improved Community Development and REIT division margin. Golf courses contributed an additional $1.51 million to gross profit year-to-date due to earlier opening dates and favourable weather conditions, leading to record rounds played. These positive impacts to gross profit were partially offset by higher taxes on increased revenue and REIT related distributions, in addition to higher G&A expense related to business activity in all divisions and the reversal of many COVID-19 cost constraint measures that were in place in the comparative period of 2020.

As real estate development is long term in nature, comparison of any three-month period may not be meaningful as year-to-date results.

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 39 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, marketing and human resources.

The following table 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)	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Revenue	**26,441**	43,076	**8,740**	13,973	**9,272**	9,241	**18,089**	18,441	**4,658**	4,380
Portion of total revenue %	39 %	48 %	**13 %**	16 %	**14 %**	10 %	**27 %**	21 %	**7 %**	5 %
Cost of sales	**(16,453)**	(32,635)	**(8,700)**	(13,867)	**(3,884)**	(3,898)	**(7,248)**	(8,470)	**(2,406)**	(2,267)
Gross profit	**9,988**	10,441	**40**	106	**5,388**	5,343	**10,841**	9,971	**2,252**	2,113
Gross margin %	**38 %**	24 %	**— %**	1 %	**58 %**	58 %	**60 %**	54 %	**48 %**	48 %
Portion of total margin	**35 %**	37 %	**— %**	— %	**19 %**	19 %	**38 %**	36 %	**8 %**	8 %
General and administrative expense	**(1,820)**	(1,800)	**(431)**	(390)	**(470)**	(538)	**(717)**	(748)	**(777)**	(683)
Fair value adjustment on investment properties	**—**	—	**2,272**	2,462	**(395)**	(1,315)	**2,535**	(2,535)	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**65**	3
Interest income	**142**	105	**—**	—	**—**	1	**7**	13	**—**	—
Segment Earnings	**8,310**	8,746	**1,881**	2,178	**4,523**	3,491	**12,666**	6,701	**1,540**	1,433

	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)	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Revenue	**78,832**	60,793	**12,011**	14,171	**29,430**	28,571	**55,552**	55,830	**9,291**	7,140
Portion of total revenue %	**43 %**	37 %	**6 %**	9 %	**16 %**	17 %	**30 %**	34 %	**5 %**	4 %
Cost of sales	**(49,583)**	(45,697)	**(11,900)**	(13,867)	**(11,953)**	(11,540)	**(22,331)**	(23,622)	**(4,754)**	(4,117)
Gross profit	**29,249**	15,096	**111**	304	**17,477**	17,031	**33,221**	32,208	**4,537**	3,023
Gross margin %	**37 %**	25 %	**1 %**	2 %	**59 %**	60 %	**60 %**	58 %	**49 %**	42 %
Portion of total margin %	**35 %**	22 %	**— %**	— %	**21 %**	25 %	**39 %**	48 %	**5 %**	4 %
General and administrative expense	**(5,071)**	(4,825)	**(1,344)**	(1,320)	**(1,632)**	(1,845)	**(2,215)**	(2,279)	**(1,953)**	(1,648)
Fair value adjustment on investment properties	**—**	—	**1,133**	3,070	**3,476**	(14,922)	**2,665**	(59,831)	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**127**	39
Interest income	**405**	344	**—**	13	**1**	18	**20**	60	**—**	—
Segment earnings (loss)	**24,583**	10,615	**(100)**	2,067	**19,322**	282	**33,691**	(29,842)	**2,711**	1,414

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, which in turn develops commercial properties on the land.

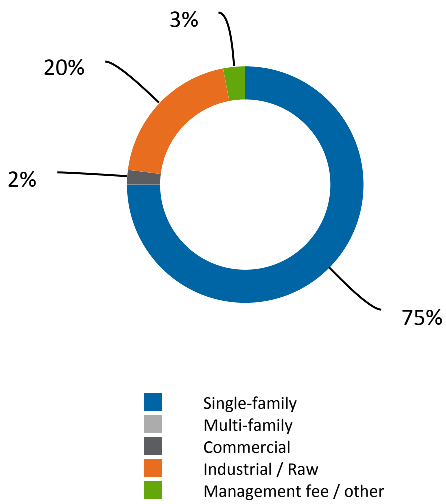
Master-planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and multi-family 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.

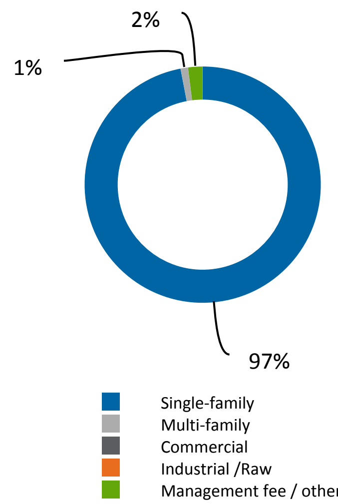
Sales Activity

REVENUE BY TYPE

Nine months ended September 30, 2021



Nine months ended September 30, 2020



Community Development division revenue is cyclical in nature and highly dependent on the demand for new homes in the regions where we hold land as well as the timing of single-family lot registrations, and the timing of raw, commercial, industrial and multi-family land sales. Because of this, community development revenue and income can fluctuate significantly from period to period.

Consolidated	Three months ended		Nine months ended	
	30-Sep-21	30-Sep-20	**30-Sep-21**	30-Sep-20
Canada Sales data: (including joint ventures at 100%)				
Single-family sales (number of lots)	**109**	184	**408**	290
Gross average revenue per single-family lot ($)	**167,949**	124,000	**206,202**	139,200
Multi-family sales (acres)	**—**	0.80	**—**	0.80
Gross average revenue per multi-family acre ($)	**—**	523,600	**—**	523,600
Commercial sales (acres)	**—**	—	**4.95**	—
Gross average revenue per commercial land acre ($)	**—**	—	**573,080**	—
Industrial sales (acres)	**—**	—	**1.29**	—
Gross average revenue per industrial land acre ($)	**—**	—	**325,581**	—
Land sales to government bodies - raw, other (acres)	**—**	—	**14.88**	—
Gross average revenue per other land acre ($)	**—**	—	**92,133**	—
Other land sales - raw, other (acres)	**—**	—	**1.57**	—
Gross average revenue per other land acre ($)	**—**	—	**31,357**	—
US Sales data:				
Single family sales (number of lots)	**—**	196	**—**	229
Gross average revenue per single-family lot ($)	**—**	137,700	**—**	139,407
Other land sales - raw (paper lots), other	**293**	—	**293**	—
Gross average revenue per paper lot ($)	**47,250**	—	**47,250**	—
Divisional results: (including joint ventures at Melcor's interest)				
Revenue ($000s)	**26,441**	43,076	**78,832**	60,793
Earnings ($000s)	**8,310**	8,746	**24,583**	10,615

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

Following strong demand for residential product in Canada over the past year, the market cooled slightly in a return to historic trends of slower sales through the summer months. We sold 109 single-family lots in Q3-2021 compared to 184 in Q3-2020. Year-to-date, we sold 408 single-family lots compared to 290 in 2020.

Land and paper lot sales contributed $13.84 million to revenue in the quarter and $18.52 million year-to-date while land sales were minimal in the comparable periods of 2020.

Land sales, coupled with strong estate lot sales in the quarter and year-to-date, contributed to improved gross margin of 38% (Q3-2020 - 24%) and 37% (YTD-2020 - 25%) respectively. All lots in Phase 1 of North Clifton Estates (Kelowna) are now sold, and BlueSky at Black Mountain (Kelowna) Phase 7 registered and sold and/or committed all lots in Q3-2021. We also had strong sales in our Edmonton estate community of Jagare Ridge year-to-date.

With low single-family lot inventory coming into 2021 combined with strong demand, we have an active construction program for the year and are currently planning to bring on 25 new phases in 14 existing communities and 1 new community.

The average selling price on our single-family lots in Canada increased 35% over Q3-2020 as a result of the combination of product type and selling region. Single-family lot sales covered a wide mix of product categories at various price points in 2021 thus far, from starter townhomes and duplexes to lake-view estate lots.

In the US, we sold 293 paper lots (79 acres) in Goodyear, AZ, generating $13.84 million (US$10.99 million) in revenue. No lots were sold in Harmony in the quarter or year-to-date. Harmony contains larger phases (300+ lots/phase vs. less than 100 lots/phase in Canada) and production builders bulk buy lots as a phase becomes available. We began underground development on the 511 lots in phase 3 to support current sales velocity early in Q2-2021. This phase introduces duplex and fee simple townhomes (no condo fees) to attract buyers at different price points. We are currently completing construction on phase 3.

We are actively marketing and working on final approvals for all of our land assets in the US. We intend to sell many of these projects as paper lots, which means we do not plan to develop ourselves. We continue to seek land acquisition opportunities in AZ and CO and to advance planning and approvals on all land holdings.

We continue to develop new phases in communities where demand is evident. 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	**Three months ended September 30, 2021**			Three months ended September 30, 2020			
(including joint ventures at 100%)	**Single-family (Lots)**	**Multi-family (Acres)**	**Other (Acres)**	Single-family (Lots)	Multi-family (Acres)	Other (Acres)	Paper Lots
Edmonton Region	**34**	—	—	99	—	—	—
Red Deer	**10**	—	—	71	—	—	—
Calgary Region	**62**	—	—	2	—	—	—
Lethbridge	—	—	—	8	—	—	—
Kelowna	**3**	—	—	4	0.80	—	—
United States	—	—	**79**	196	—	—	—
	109	—	**79**	380	0.80	—	—

Regional Sales Analysis	Nine months ended September 30, 2021			Nine months ended September 30, 2020			
(including joint ventures at 100%)	**Single-family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Paper Lots
Edmonton Region	**193**	**—**	**9.75**	170	—	—	—
Red Deer	**51**	**—**	**9.87**	81	—	—	—
Calgary Region	**82**	**—**	**1.50**	5	—	—	—
Lethbridge	**7**	**—**	**—**	18	—	—	—
Kelowna	**75**	**—**	**1.57**	16	0.80	—	—
United States	**—**	**—**	**79.00**	229	—	—	—
	408	**—**	**101.69**	519	0.80	—	—

Single-family lot sales may vary significantly quarter over quarter as plan registrations typically occur in the latter half of the year. Lot sales were up in our Canadian regions year-to-date but down in the quarter, demonstrating how sales lumpiness occurs due to the timing of plan registration which is outside of our control. In Q3-2021, we registered 157 new single-family lots: 61 in Lanark Landing phase 1C (Airdrie) and 96 in the first phase of Cobblestone Creek (Airdrie).

Sales remain strong in our popular communities in all areas that have available inventory.

Inventory

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

Developed Inventory	Nine months ended September 30, 2021			Nine months ended September 30, 2020		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Other (Acres)**	Single- family (Lots)	Multi-family (Acres)	Other (Acres)
Open	**652**	**59.00**	**126.09**	1,023	59.00	126.09
Purchases	**1**	**—**	**—**	—	—	—
New developments	**215**	**—**	**3.45**	275	—	—
Internal sales	**—**	**—**	**(4.95)**	—	—	—
Sales	**(408)**	**—**	**(1.29)**	(519)	(0.80)	—
	460	**59.00**	**123.30**	779	58.20	126.09

We strategically monitor inventory levels and bring on appropriately sized new phases where market demand dictates.

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 no new land was purchased as well as in the comparative period. Year to date, we purchased 17.1 acres of land in Arizona at a cost of $3.04 million (USD$2.45 million) with no purchases in the comparative period.

We continue to monitor our land holdings and manage our cash position in order to capitalize on land acquisition opportunities as they arise. Melcor remains 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, industrial and multi-family residential revenue-producing properties on prime commercial sites purchased primarily from our Community Development division at fair market value. The division currently operates solely in Alberta.

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

The Property Development division increases the value of land assets and delivers long-term sustainable returns with high profile anchor tenants such as ATB, Bank of Montreal, Canadian Tire, Canadian Western Bank, CIBC, Home Depot, Loblaws, McDonald's, Recipe Unlimited, 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 and at JV%, except as noted)	Three months ended		Nine months ended	
	30-Sep-21	30-Sep-20	**30-Sep-21**	30-Sep-20
Total revenue	**8,740**	13,973	**12,011**	14,171
Revenue from property transfers	**8,700**	13,867	**11,900**	13,867
Management fees revenue	**40**	106	**111**	304
Margin (%) on property transfers	**14 %**	11 %	**13 %**	11 %
Square footage transferred (sf, at 100%)	**16,348**	36,314	**22,865**	36,314
Number of buildings transferred	**1**	4	**2**	4
Fair value gains on investment properties	**2,272**	2,462	**1,133**	3,070

Our Property Development division is actively constructing new buildings and Commercial Retail Units (CRUs) in a number of projects, including Greenwich in Calgary, Jensen Lakes in St. Albert, Clearview in Red Deer, Vista Ridge in Sylvan Lake and Chestermere Station in Chestermere.

New development activity in these projects resulted in fair value gains of $2.27 million during the quarter and $1.13 million year-to-date. Management examines each project on a case by case basis and we continue to develop where we remain confident in our lessees prospects.

One building, the 16,348 sf CRU B at The District (Calgary), transferred to Investment Properties in the quarter for total revenue of $7.00 million, year to date we transferred an additional 6,517 sf in The District for total revenue of $10.20 million. We recognized an additional $1.70 million in revenue related to fair value adjustment on properties transferred in 2020. We continue to see below target margins on property transfers due to a decline in commercial real estate values related to the effects of the pandemic as well as increasing construction costs due to supply chain issues.

The Property Development division currently has 123,707 sf under active development or completed and awaiting lease-up, including an additional 12,071 sf commenced in Q3-2021.

Regional Highlights

($000s and at JV%, except as noted)	Three months ended		Nine months ended	
Fair value adjustments by region	**30-Sep-21**	30-Sep-20	**30-Sep-21**	30-Sep-20
Northern Alberta	**930**	780	**1,041**	780
Southern Alberta	**1,342**	1,682	**92**	2,290
	2,272	2,462	**1,133**	3,070

Northern Alberta: We recognized $1.04 million in fair value gains year-to-date related to ongoing development in Jensen Lakes and Clearview Market. Additional gains were recognized in the quarter related to reduced capitalization rates on 2020 property transfers which were credited to the PD division. Nominal fair value gains were recorded in the quarter in our Northern Alberta region. Development continues at neighbourhood shopping centres in Northern Alberta with 50,903 sf completed and awaiting lease-up and a further 12,071 sf in new construction begun in Q3-2021.

Southern Alberta: Year-to-date we realized net fair value gains of $0.09 million primarily related to reduced capitalization rates on 2020 property transfers which were credited to the PD division. These gains were offset by fair value losses realized in the quarter and year-to-date on the The Calgary Farmers' Market West building (54,000 sf) in Greenwich (Calgary). Property margins on any particular building are impacted by the cost allocation and the tenant composition and are not measured in isolation. Our Greenwich project has a projected total GLA of 325,000 sf and is expected to produce margins within target on future phases.

Future development opportunities

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

The following tables illustrate our current and future project expectations:

Current Projects					
Project	Location	Type	Total SF[1]	Developed and transferred to IP or Sold[2]	SF Under Development or developed and awaiting lease up
The Village at Blackmud Creek	South Edmonton	*Regional business park*	550,000	198,905	—
Telford Industrial	Leduc	*Industrial Park*	500,000	143,118	—
West Henday Promenade	West Edmonton	*Regional mixed use centre*	515,300	116,300	—
Kingsview Market	Airdrie	*Regional shopping centre*	331,000	200,601	—
Kingsview Commercial	Airdrie	*Regional shopping centre*	33,500	33,500	—
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	278,100	241,600	12,204
Clearview Market 2	Red Deer	*Neighbourhood shopping centre*	80,000	3,010	17,949
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	1,285,000	586,633	—
Campsite Industrial	Spruce Grove	*Industrial Park*	170,000	13,700	—
The Shoppes at Jagare Ridge	South Edmonton	*Neighbourhood shopping centre*	105,000	105,000	—
Jensen Lakes Crossing	St. Albert	*Neighbourhood shopping centre*	150,000	95,713	17,013
Woodbend Market	Leduc	*Neighbourhood shopping centre*	140,000	3,000	10,783
Vista Ridge	Sylvan Lake	*Neighbourhood shopping centre*	20,000	—	5,158
Greenwich	West Calgary	*Regional mixed use centre*	325,000	—	60,600

[1] *Total SF represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end-users. For example, grocers usually buy land from Melcor and build/own their building. Total SF is periodically recalibrated based on current market conditions and changes to development plans.*

[2] *Developed and transferred to IP or sold includes estimated sf of sites sold to retailers for development as described above.*

We commenced construction on land under lease in Vista Ridge (Sylvan Lake) and one CRU in Jensen Lakes Crossing (St. Albert) in Q3-2021. We have a total of 104,776 sf currently under construction and a further 18,931 sf complete and awaiting lease-up and/or transfer.

Expected Future Projects					
Project	Location	Type	Total SF[1]	Ownership Interest	Expected Start (year)
Secord	Edmonton	*Neighbourhood shopping centre*	75,000	60%	2022
Laredo	Red Deer	*Neighbourhood shopping centre*	10,000	100%	2023
Keystone Common	North Calgary	*Regional power centre*	350,000	100%	2023
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	100%	2023
Mattson	Edmonton	*Neighbourhood shopping centre*	75,000	50%	2024+
Rollyview	Leduc	*Neighbourhood shopping centre*	75,000	100%	2024+
Rosenthal	Edmonton	*Neighbourhood mixed use centre*	30,000	50%	2024+
West Pointe Marketplace	Lethbridge	*Regional power centre*	750,000	100%	2024+
Westview Commercial	West Calgary	*Neighbourhood shopping centre*	150,000	100%	2024+
Sora	South Calgary	*Neighbourhood shopping centre*	60,000	50%	2024+

[1] *Total SF represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end-users. For example, grocers usually buy land from Melcor and build/own their building. Total SF is periodically recalibrated based on current market conditions and changes to development plans.*

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 properties owned by the REIT. Currently our Investment Properties division manages 4.66 million sf of income-producing commercial GLA and 603 residential units.

Our commercial property portfolio is primarily comprised of properties developed and transferred from our Property Development division in Alberta or acquired from third parties throughout our portfolio. 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. While we continue to see pockets of opportunity we anticipate the long-term effects of the pandemic have yet to be seen on the fundamentals of commercial real estate . We also enhance our portfolio by upgrading the appearance, functionality and desirability of our properties, thereby increasing their rental potential. In 2020, we deferred 23 non-essential projects to minimize activity at our properties and to improve near-term liquidity. We have resumed our capital expenditures program in 2021.

Our US properties provide the division with a stable income stream that diversifies our exposure to the western Canadian resource sector. We also own 10 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 GLA, occupancy and average base rent:

(as at, at JV%, except as noted)	**30-Sep-21**	31-Dec-20
Commercial properties GLA under management (sf, total)	**4,660,475**	4,629,675
Properties owned and managed (sf)	**1,020,338**	997,414
Properties managed (sf)	**3,640,137**	3,632,261
Residential units managed	**603**	604
Occupancy - CAD	**89.5 %**	79.0 %
Occupancy - US	**75.4 %**	83.2 %
Weighted Average Base Rent (per sf) - CAD	**$ 25.25**	$ 25.49
Weighted Average Base Rent (per sf) - US	**$ 20.56**	$ 22.35

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

($000s and at JV%, except as noted)	Three months ended		Nine months ended	
	30-Sep-21	30-Sep-20	**30-Sep-21**	30-Sep-20
Revenue (total)	**9,272**	9,241	**29,430**	28,571
Canadian properties	**4,375**	3,611	**12,762**	10,903
US properties	**3,494**	4,194	**12,066**	12,899
Management fees	**1,277**	1,301	**4,257**	4,210
Parking lots and other assets	**126**	135	**345**	559
Net operating income (NOI) *	**5,539**	5,502	**17,928**	18,031
Funds from operations *	**5,324**	5,220	**17,060**	16,511
Funds from operations per share *	**0.16**	0.16	**0.52**	0.50

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

The Investment Properties division's primary function is asset management and hands on property management.

Canadian properties

Our Canadian property portfolio continues to grow as properties are developed and transferred from Property Developments. The Property Development division has 123,707 sf of GLA under active construction or completed and awaiting lease up. In Q3-2021 we transferred one 16,348 sf building from The District in north Calgary to Investment Properties (year to date - two buildings with 22,865 sf). The majority of transfers to Investment Properties typically occur in the latter part of the year due to construction timing. In 2020, Property Development transferred 10 buildings representing 129,723 sf. Revenue from transferred assets, as well as the properties awaiting lease-up, through the first nine months of the year was $2.20 million (2020 - $0.59 million).

Occupancy on Canadian properties was up over year end at 89.5% at September 30, 2021 (December 31, 2020 - 79.0%). Commercial weighted average base rents (WABR) were stable at $25.25 (December 31, 2020 - $25.49). Occupancy and WABR were both impacted by transfers from Property Developments during the latter half of 2020, where tenants were on free-rent periods, and lower rates on new leasing and pandemic related lease restructures.

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

($000s and at JV%, except as noted)	Three months ended		Nine months ended	
	30-Sep-21	30-Sep-20	**30-Sep-21**	30-Sep-20
Same asset NOI*	**2,488**	2,269	**7,174**	7,219
Properties transferred from PD	**436**	132	**751**	275
NOI*	**2,924**	2,401	**7,925**	7,494
Amortization of operating lease incentives	**(165)**	(129)	**(480)**	(414)
Straight-line rent adjustment	**284**	169	**1,151**	218
Gross profit	**3,043**	2,441	**8,596**	7,298

** See non-standard measures for definition.*

Gross profit was up $1.30 million or 18% over 2020, while NOI was flat. Properties transferred from the Property Development division to date in 2021, in 2020, as well as those currently under development added $0.75 million in NOI to date in 2021 (2020 - $0.28 million). On a same asset basis, NOI was up 10% in the quarter due to improved occupancy in the quarter and elevated bad debts expense in the comparative period. Year-to-date NOI was flat.

US properties

On July 30, 2021, we sold our 10 residential units at Turney Brownstones in Phoenix, Arizona for net proceeds of $7.08 million (US$5.68 million).

Revenue on US properties was $3.49 million compared to $4.19 million in Q3-2020. Occupancy was 75.4% at September 30, 2021, down 9% from year end, due to tenant rollover at certain properties, including 19,000 sf surrendered as a partial termination with a termination fee of $1.94 million (US$1.53 million) in the first quarter. The surrendered space previously contributed $0.41 million in base rent annually. Lower revenue was also due to the sale of Perimeter Parkway in Q3-2020 and Turney Brownstones in Q3-2021, which contributed $0.24 million year-to-date in 2021 (2020 - $0.77 million).

Q3-2021 WABR was $20.56 per sf compared to $22.35 at year end. WABR was negatively impacted by tenant rollover during the year. Residential occupancy was stable at 100%.

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

($000s and at JV%, except as noted)	Three months ended		Nine months ended	
	30-Sep-21	30-Sep-20	**30-Sep-21**	30-Sep-20
Same asset NOI *	**1,233**	1,483	**5,443**	4,740
Third party disposals	**18**	231	**83**	430
NOI	**1,251**	1,714	**5,526**	5,170
Foreign currency translation	**325**	571	**1,386**	1,834
Amortization of operating lease incentives	**(241)**	(285)	**(734)**	(893)
Straight-line rent adjustment	**(29)**	(26)	**(388)**	89
Gross profit	**1,306**	1,974	**5,790**	6,200

** See non-standard measures for definition.*

Year-to-date, gross profit was down $0.41 million due to fluctuations in straight-line rent adjustments and lower US exchange rate. NOI was up $0.36 million year-to-date due to a $1.94 million (US$1.53 million) lease termination payment received in Q1-2021 from a large tenant at Melcor Glendale. Excluding this, same-asset NOI was down due to lower occupancy.

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 flat over 2020.

Year to date, we recognized $0.35 million in revenues on our parking stalls and other assets, down 159% from 2020 revenue of $0.56 million. These revenues fluctuate from period to period and were impacted by the COVID-19 pandemic with many businesses having at least a portion of their workforce continuing to work from home throughout 2021.

Funds from Operations

Funds from operations (FFO) increased 3% or $0.55 million over 2020 as a result of increased segment revenue due to a termination fee of $1.94 million (US$1.53 million) in Q1-2021 on a US office property, offset by lower USD foreign exchange rate for the current period, and lower property margin due to a combination of lower occupancy and WABR but consistent expenses.

REIT

The REIT owns 39 income-producing office, retail and industrial properties, comprising 3.22 million square feet of gross leasable area (GLA) at September 30, 2021. The REIT's portfolio has a diversified tenant profile - with a mix of national, regional and local tenants - operating in a variety of industries.

As at November 9, 2021 we have a controlling 55.4% interest in the REIT through ownership of all Class B LP Units (December 31, 2020 - 55.3%). As we have concluded that Melcor retains control of the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities.

Operating results

The following table summarizes the division's GLA, occupancy and average base rent:

(as at, at JV%, except as noted)	**30-Sep-21**	31-Dec-20
Commercial properties GLA under management (sf, total)	**3,216,175**	3,208,298
Fair value of portfolio	**722,792**	716,292
Occupancy	**88.8 %**	87.6 %
Weighted average base rent (per sq. ft.)	**16.44**	16.67

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

($000s except as noted)	Three months ended		Nine months ended	
	30-Sep-21	30-Sep-20	**30-Sep-21**	30-Sep-20
Rental revenue	**18,089**	18,441	**55,552**	55,830
Net operating income (NOI) *	**11,915**	10,567	**36,124**	34,270
Same asset NOI * *(see calculation following)*	**11,915**	10,567	**36,124**	34,270
Fair value adjustment on investment properties	**2,535**	(2,535)	**2,665**	(59,831)
Funds from operations *	**11,247**	10,147	**33,993**	32,877
Funds from operations per share *	**0.34**	0.30	**1.02**	0.99

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

Rental revenue was flat in the quarter and year-to-date. Year-to-date, higher other revenue offset lower rent revenue (base rent and straight-line rent adjustments). Other revenue was up year-to-date due to the early termination of a national restaurant chain in Leduc Common during the first quarter resulting in $1.00 million in lease break fees. The tenant previously occupied 6,384 sf, contributing 0.4% towards 2020 base rent, and had 11 years remaining on a 20 year lease.

Year-to-date, we signed 293,522 sf of new and renewed leasing (including holdovers) and maintained steady occupancy at 88.8%. In 2021, 114 leases (excluding month to month tenants) representing 293,663 sf or 9.2% of our portfolio are up for renewal. We have retained 80.0% of expiring leases (179,164 sf) as at September 30, 2021 and have received commitment on an additional 57,000 sf of future renewals. While the market is slightly soft, activity and opportunity across our portfolio in all asset classes continues. New leases commenced in Q3-2021 include 39,000 sf of temporary seasonal space that will be not produce long-term cash flows.

Property taxes and utilities were up 3% in the quarter and 1% year-to-date. Utility costs related to air conditioning during abnormal heatwaves across western Canada in the summer of 2021 drove this increase, partially offset by reduced property taxes across the portfolio as a result of lower assessments.

Operating expenses were down due to the comparative quarter's elevated bad debt. Excluding bad debt, operating expenses were flat over Q3-2020 and up 6% year-to-date. We recovered $0.07 million for previous bad debt provisions in Q3-2021 and have recognized $0.04 million in bad debt expense year-to-date (2020 - $0.56 million and $1.31 million, and an additional $0.67 million related to CECRA provisions).

The following is a reconciliation of same asset NOI to net rental income:

($000s except as noted)	**Three months ended**		**Nine months ended**	
	30-Sep-21	30-Sep-20	**30-Sep-21**	30-Sep-20
Same asset NOI *	**11,915**	10,567	**36,124**	34,270
NOI before adjustments	**11,915**	10,567	**36,124**	34,270
Amortization of operating lease incentives	**(1,116)**	(911)	**(2,967)**	(2,888)
Straight-line rent adjustment	**42**	315	**64**	826
Net rental income	**10,841**	**9,971**	**33,221**	**32,208**

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

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

NOI and same-asset NOI are identical in Q3-2021 as no transactions have been completed within the trailing 12 months. NOI was up 13% in Q3-2021 and up 5% year-to-date due to the comparative quarter's elevated bad debt and lease termination fees received. Sequentially (compared to the most recent quarter), NOI was up 3% compared to Q2-2021 due to recovery in previously provided bad debts and higher base rent.

Funds from operations

Funds from operations (FFO) were up 11% in the third quarter and 3% year-to-date due to higher NOI.

Recreational Properties

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

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

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

Revenue in the Recreational Properties division increased by 6% to $4.66 million in Q3-2021 and by 30% to $9.29 million year-to-date due to earlier course opening dates and favourable weather.

The mild winter and good spring weather enabled our managed courses to open at the beginning of April in accordance with provincial health regulations. Indoor dining restrictions lifted in Q2-2021, contributing a 35% increase to food and beverage revenue compared to the first nine months of 2020.

As a relatively safe recreational and social activity, golf enjoyed renewed popularity in 2020 and that has continued into 2021. We are pleased to be able to service our communities and work within the regulations provided to maintain a safe environment.

	Ownership interest	Season opened 2021	Rounds of Golf	Season opened 2020	Rounds of Golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	**April 2**	**32,319**	May 7	27,828
The Links (Spruce Grove)	100%	**April 2**	**30,893**	May 7	26,418
Black Mountain (Kelowna)	100%	**April 1**	**36,646**	May 1	29,995
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	**April 14**	**27,498**	May 5	24,356

General & Administrative Expense

General and administrative expenses (G&A) were up 11% over Q3-2020 and 8% year-to-date as a result of increased activity and the reversal of various cost constraint initiatives put in place during the comparative period in response to the COVID-19 pandemic. As a percentage of revenue, G&A was 9% in the quarter (Q3-2020 - 6%) and 9% year-to-date (YTD-2020 - 10%) as a result of increased revenue. Management continues to prudently monitor and manage controllable expenses.

Income Tax Expense

The statutory tax rate is 23% for the three and nine months ended September 30, 2021 (2020 - 24%). The most significant adjustment impacting the 2021 effective tax rate was the fair value adjustment on REIT units, which is not subject to tax. Other items that impacted the effective tax rate include permanent differences related to revaluation adjustments on investment properties, distributions to REIT unitholders and the non-taxable portion of REIT income.

Liquidity & Capital Resources

The following table represents selected information as at September 30, 2021, compared with December 31, 2020.

As at ($000s except as noted)	**30-Sep-21**	31-Dec-20
Cash & cash equivalents	**53,682**	29,201
Restricted cash	**10,300**	7,413
Accounts receivable	**6,274**	12,414
Agreements receivable	**62,145**	73,336
Revolving credit facilities	**97,054**	69,911
Accounts payable and accrued liabilities	**54,816**	36,096
Total assets	**2,054,109**	2,001,285
Total liabilities	**976,393**	923,856
Debt to equity ratio*	**0.91**	0.86

**See non-standard measures for definition.*

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

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

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

We believe that internally generated cash flows, supplemented by borrowings through our credit facility and mortgage financings, where required, will be sufficient to cover our normal operating and capital expenditures. We regularly review our credit facility limits and manage our capital requirements accordingly. Melcor continues to focus on cash management to place our business in a position where we are able to support our builders, suppliers and tenants through the unpredictability of COVID-19.

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

Financing & Liquidity

Total liquidity (cash and MDL & REIT line availability) was $130.06 million as at September 30, 2021 (December 31, 2020 - $95.94 million). As at September 30, 2021, our total general debt outstanding was $730.59 million compared to $721.79 million on December 31, 2020.

A summary of our debt is as follows:

As at ($000s)	**30-Sep-21**	31-Dec-20
Melcor - revolving credit facilities	**97,054**	59,925
REIT - revolving credit facility	**—**	9,986
Project specific financing	**39,197**	66,248
Secured vendor take back debt on land inventory	**15,748**	28,616
Debt on investment properties and golf course assets	**507,263**	490,801
REIT - convertible debentures	**71,329**	66,210
General debt	**730,591**	721,786

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, 2021 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, 2021 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 flow from (used in) operating, investing and financing activities, as reflected in our consolidated statement of cash flow:

($000s)	**Three months ended**		**Nine months ended**	
	30-Sep-21	**30-Sep-20**	**30-Sep-21**	**30-Sep-20**
Cash flow from operating activities	**10,789**	13,927	**46,489**	34,284
Cash flow used in investing activities	**(18)**	(535)	**(14,811)**	(14,613)
Cash flow used in financing activities	**(2,854)**	(6,363)	**(7,297)**	(20,882)

Year to date, cash flow from operating activities was $46.49 million, an increase of $12.21 million over comparative period due to higher FFO. Cash flow from operating activities is significantly impacted by the timing of development and sales activity and settlement of working capital. Collections on agreements receivable were down $9.57 million year to date 2021 due to timing of sales and receipts. Development activity was up in 2021, spending $17.39 million (2020 - $1.60 million). Operating assets and liabilities tend to fluctuate year over year depending on the timing of payments due and receivable, which resulted in cash inflow of $26.17 million year to date 2021(2020 - cash inflow of $3.49 million). We also incurred $5.99 million in tenant incentives and direct leasing costs in 2021 compared to $5.62 million in 2020. We continue to invest in strategic land holdings, purchasing 17.10 acres in 2021 at a cost of $3.04 million (2020 - $nil).

Cash flow used in investing activities was $0.02 million in Q3-2021 (Q3-2020 - $0.54 million) and $14.81 million year to date (2020 - $14.61 million). We continue to develop commercial properties and invest in our portfolio, resulting in $6.86 million of cash outflow in the quarter (Q3-2020 - $7.42 million) and $20.01 million year to date (2020 - $20.82 million). Investments in properties under development (Property Development division) contributed $17.35 million year to date to cash outflows (2020 - $18.07 million).

During the quarter, we disposed of 10 units in a residential property, Turney Brownstones in Phoenix, Arizona for net proceeds of $7.08 million (US$5.68 million) (in the comparative period we recognized net proceeds of $6.07 million (US$4.63 million) on the sale of a commercial property, Perimeter Parkway in Phoenix, Arizona). Additional net proceeds were received in the current and comparative year related to unit sales at the Edge and Camelback in Phoenix, Arizona.

Cash flow used in financing activities was $7.30 million year to date compared to $20.88 million in the comparative 2020 period. Draws on the credit facility were $27.14 million in 2021 compared with draws of $0.59 million in 2020 comparative period. Draws on the credit facility were offset by net repayments on our general debt of $21.66 million year to date in 2021 compared with net repayment of $11.78 million in 2020. Year to date, we recognized gross proceeds from general debt of $94.10 million related to nine mortgage financings (net $20.22 million). In the quarter, we paid a $0.12 per share dividend for a total of $10.58 million paid year-to-date. This compares to Q3-2020 payments of $0.08 per share for a total of $8.63 million year-to-date.

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, 2021 there were 32,966,423 common shares issued and outstanding, 731,000 options, and 306,121 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, 2021 in comparison to the December 31, 2020 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

Normal Course Issuer Bid

We have had active Normal Course Issuer Bids (NCIB) in place over the past year as follows:

Melcor Developments		
NCIB Effective Date	April 1, 2020	April 1, 2021
NCIB Expiration Date	March 31, 2021	March 31, 2022
Maximum Shares	1,661,033	1,654,553
Daily Purchase Restriction	1,000	3,781
Purchased and Cancelled: Cumulative To Date	116,416	121,244
Repurchase Total Cost	$ 791,898	$1,600,824
Average Per Share	$6.80	$13.20
Purchased and Cancelled: Q3-2021 Year To Date	7,000	121,244
Repurchase Total Cost	$ 77,322	$1,600,824
Average Per Share	$11.05	$13.20

Melcor REIT		
NCIB Effective Date	April 1, 2020	April 1, 2021
NCIB Expiration Date	March 31, 2021	March 31, 2022
Maximum Units	655,792	652,525
Daily Purchase Restriction	3,207	3,824
Purchased and Cancelled: Cumulative To Date	104,417	40,792
Repurchase Total Cost	$ 477,346	$263,296
Average Per Unit	$4.57	$6.45
Purchased and Cancelled: Q3-2021 Year To Date	44,891	40,792
Repurchase Total Cost	$ 268,758	$263,296
Average Per Unit	$5.99	$6.45

Both Melcor and the REIT entered into automatic share purchase plan agreements with a broker to allow for the purchase of shares or trust units under the NCIB's at times we would ordinarily not be active in the market due to regulatory restrictions or self-imposed blackout periods.

Quarterly Results

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

	Three Months Ended							
($000s)	30-Sept-21	30-June-21	31-Mar-21	31-Dec-20	30-Sept-20	30-June-20	31-Mar-20	31-Dec-19
Revenue	**56,213**	65,547	43,270	80,947	73,051	39,053	33,767	78,056
Net income (loss)	**16,561**	9,014	(14,033)	(112)	7,526	(62,590)	66,640	16,946
FFO	**12,516**	16,326	10,174	21,908	14,315	9,276	5,925	13,917
Per Share								
Basic earnings (loss)	**0.50**	0.27	(0.42)	(0.01)	0.23	(1.88)	2.00	0.51
Diluted earnings (loss)	**0.50**	0.27	(0.42)	(0.01)	0.23	(1.88)	2.00	0.51
FFO	**0.38**	0.49	0.31	0.66	0.43	0.28	0.18	0.42
FFO Diluted	**0.37**	0.49	0.30	0.66	0.43	0.28	0.18	0.42
Dividends	**0.12**	0.10	0.10	0.08	0.08	0.08	0.08	0.12
Book value *	**32.69**	32.10	31.98	32.56	32.83	32.76	34.88	32.51

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

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.

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, 2021 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Melcor has continually responded to the COVID-19 pandemic by following the guidelines set forth by the Alberta government, at a minimum. As a result, the majority of Melcor's employee base has been working from home wherever practical. The remote work arrangements have not impacted the design of our internal controls. We will continue to monitor and mitigate the risks associated with changes to our control environment.

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, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Segment Earnings (Loss)	**4,523**	3,491	**19,322**	282
Fair value adjustment on investment properties	**395**	1,315	**(3,476)**	14,922
General and administrative expenses	**470**	538	**1,632**	1,845
Interest income	**—**	(1)	**(1)**	(18)
Amortization of operating lease incentives	**406**	414	**1,214**	1,307
Straight-line rent adjustment	**(255)**	(255)	**(763)**	(307)
Divisional NOI	**5,539**	5,502	**17,928**	18,031

REIT

($000s)	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Segment Earnings (Loss)	**12,666**	6,701	**33,691**	(29,842)
Fair value adjustment on investment properties	**(2,535)**	2,535	**(2,665)**	59,831
General and administrative expenses	**717**	748	**2,215**	2,279
Interest income	**(7)**	(13)	**(20)**	(60)
Amortization of operating lease incentives	**1,116**	911	**2,967**	2,888
Straight-line rent adjustment	**(42)**	(315)	**(64)**	(826)
Divisional NOI	**11,915**	10,567	**36,124**	34,270

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	
	September 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Net income for the period	**16,561**	7,526	**11,542**	11,576
Amortization of operating lease incentives	**2,102**	1,910	**5,922**	5,955
Fair value adjustment on investment properties	**(5,183)**	857	**(10,040)**	69,540
Depreciation on property and equipment	**509**	504	**1,107**	1,173
Stock based compensation expense	**254**	208	**762**	644
Non-cash finance costs	**(135)**	1,786	**4,147**	2,809
Gain on sale of asset	**(65)**	(3)	**(127)**	(39)
Deferred income taxes	**(879)**	(169)	**(604)**	(5,818)
Fair value adjustment on REIT units	**(648)**	1,696	**26,307**	(56,324)
FFO	**12,516**	14,315	**39,016**	29,516

Investment Properties

($000s)	Three months ended		Nine months	
	September 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Segment Earnings	**4,523**	3,491	**19,322**	282
Fair value adjustment on investment properties	**395**	1,315	**(3,476)**	14,922
Amortization of operating lease incentives	**406**	414	**1,214**	1,307
Divisional FFO	**5,324**	5,220	**17,060**	16,511

REIT

($000s)	Three months ended		Nine months	
	September 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Segment Earnings (Loss)	**12,666**	6,701	**33,691**	(29,842)
Fair value adjustment on investment properties	**(2,535)**	2,535	**(2,665)**	59,831
Amortization of operating lease incentives	**1,116**	911	**2,967**	2,888
Divisional FFO	**11,247**	10,147	**33,993**	32,877

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

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2021

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

Unaudited ($000s)	For the three months ended September 30, 2021	For the three months ended September 30, 2020	For the nine months ended September 30, 2021	For the nine months ended September 30, 2020
Revenue (note 7)	**56,213**	73,051	**165,030**	145,871
Cost of sales	**(29,313)**	(46,456)	**(85,539)**	(82,729)
Gross profit	**26,900**	26,595	**79,491**	63,142
General and administrative expense	**(5,206)**	(4,705)	**(15,062)**	(13,996)
Fair value adjustment on investment properties (note 5 and 11)	**5,183**	(857)	**10,040**	(69,540)
Adjustments related to REIT units (note 10)	**(843)**	(2,871)	**(30,529)**	51,759
Gain on sale of assets	**65**	3	**127**	39
Operating earnings	**26,099**	18,165	**44,067**	31,404
Interest income	**154**	125	**447**	454
Finance costs	**(5,966)**	(7,646)	**(22,607)**	(20,437)
Net finance costs	**(5,812)**	(7,521)	**(22,160)**	(19,983)
Income before income taxes	**20,287**	10,644	**21,907**	11,421
Income tax (expense) recovery	**(3,726)**	(3,118)	**(10,365)**	155
Net income for the period	**16,561**	7,526	**11,542**	11,576
Income per share:				
Basic income per share	**0.50**	0.23	**0.35**	0.35
Diluted income per share	**0.50**	0.23	**0.35**	0.35

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income

Unaudited ($000s)	For the three months ended September 30, 2021	For the three months ended September 30, 2020	For the nine months ended September 30, 2021	For the nine months ended September 30, 2020
Net income for the period	**16,561**	7,526	**11,542**	11,576
Other comprehensive income				
Items that may be reclassified subsequently to net income:				
Currency translation differences	**4,804**	(3,626)	**229**	4,451
Comprehensive income	**21,365**	3,900	**11,771**	16,027

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	**September 30, 2021**	December 31, 2020
ASSETS		
Cash and cash equivalents	**53,682**	29,201
Restricted cash	**10,300**	7,413
Accounts receivable	**6,274**	12,414
Income taxes recoverable	**—**	3,214
Agreements receivable	**62,145**	73,336
Land inventory (note 4)	**746,571**	728,985
Investment properties (note 5 and 11)	**1,106,611**	1,081,077
Property and equipment	**12,945**	13,135
Other assets	**55,581**	52,510
	2,054,109	2,001,285
LIABILITIES		
Accounts payable and accrued liabilities	**54,816**	36,096
Income taxes payable	**4,146**	1,518
Provision for land development costs	**46,983**	49,770
General debt (note 6)	**730,591**	721,786
Deferred income tax liabilities	**51,048**	51,652
REIT units (note 10 and 11)	**88,809**	63,034
	976,393	923,856
SHAREHOLDERS' EQUITY		
Share capital (note 8)	**72,127**	72,270
Contributed surplus	**5,573**	4,948
Accumulated other comprehensive income (AOCI)	**18,832**	18,603
Retained earnings	**981,184**	981,608
	1,077,716	1,077,429
	2,054,109	2,001,285

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited ($000's)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2021	**72,270**	**4,948**	**18,603**	**981,608**	**1,077,429**
Net income for the period	—	—	—	11,542	11,542
Cumulative translation adjustment	—	—	229	—	229
Transactions with equity holders					
Dividends	—	—	—	(10,576)	(10,576)
Share repurchase (note 8)	(289)	—	—	(1,390)	(1,679)
Employee share options					
Value of services recognized	—	762	—	—	762
Share issuance	146	(137)	—	—	9
Balance at September 30, 2021	**72,127**	**5,573**	**18,832**	**981,184**	**1,077,716**

Unaudited ($000's)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2020	72,556	4,083	21,522	982,096	1,080,257
Net income for the period	—	—	—	11,576	11,576
Cumulative translation adjustment	—	—	4,451	—	4,451
Transactions with equity holders					
Dividends	—	—	—	(8,625)	(8,625)
Share repurchase	(210)	—	—	(521)	(731)
Employee share options					
Value of services recognized	—	644	—	—	644
Share issuance	8	(8)	—	—	—
Balance at September 30, 2020	72,354	4,719	25,973	984,526	1,087,572

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

Unaudited ($000's)	For the three months ended September 30, 2021	September 30, 2020	For the nine months ended September 30, 2021	September 30, 2020
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	**16,561**	7,526	**11,542**	11,576
Non cash items:				
Amortization of tenant incentives	**2,102**	1,910	**5,922**	5,955
Depreciation of property and equipment	**509**	504	**1,107**	1,173
Stock based compensation expense	**254**	208	**762**	644
Non-cash finance costs	**(135)**	1,786	**4,147**	2,809
Straight-line rent adjustment	**(271)**	(134)	**(583)**	(755)
Fair value adjustment on investment properties (note 5 and 11)	**(5,183)**	857	**(10,040)**	69,540
Fair value adjustment on REIT units (note 10 and 11)	**(648)**	1,696	**26,307**	(56,324)
Gain on sale of assets	**(65)**	(3)	**(127)**	(39)
Deferred income taxes	**(879)**	(169)	**(604)**	(5,818)
	12,245	14,181	**38,433**	28,761
Agreements receivable	**7,200**	1,827	**11,191**	20,761
Development activities	**(16,150)**	12,525	**(17,390)**	(1,602)
Purchase of land inventory (note 4)	**—**	—	**(3,037)**	—
Payment of tenant lease incentives and direct leasing costs	**(1,858)**	(1,837)	**(5,991)**	(5,624)
Change in restricted cash	**(5,109)**	(4,978)	**(2,882)**	(11,503)
Operating assets and liabilities	**14,461**	(7,791)	**26,165**	3,491
	10,789	13,927	**46,489**	34,284
INVESTING ACTIVITIES				
Purchase of investment properties (note 5)	**—**	—	**(1,438)**	—
Additions to investment properties (note 5)	**(6,857)**	(7,421)	**(20,009)**	(20,817)
Net proceeds from disposal of investment properties (note 5)	**7,079**	6,925	**7,425**	7,182
Net proceeds from disposal of asset held for sale	**—**	—	**—**	—
Purchase of property and equipment	**(341)**	(43)	**(1,036)**	(1,029)
Proceeds on disposal of property and equipment	**101**	4	**247**	51
	(18)	(535)	**(14,811)**	(14,613)
FINANCING ACTIVITIES				
Revolving credit facilities	**12,337**	8,773	**27,143**	587
Proceeds from general debt	**34,758**	22,201	**94,101**	35,065
Repayment of general debt	**(44,628)**	(34,520)	**(115,762)**	(46,842)
Repurchase of REIT units	**—**	—	**(533)**	(336)
Dividends paid	**(3,959)**	(2,650)	**(10,576)**	(8,625)
Common shares repurchased (note 8)	**(1,371)**	(167)	**(1,679)**	(731)
Share capital issued	**9**	—	**9**	—
	(2,854)	(6,363)	**(7,297)**	(20,882)
FOREIGN EXCHANGE GAIN ON CASH HELD IN A FOREIGN CURRENCY	**217**	83	**100**	497
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**8,134**	7,112	**24,481**	(714)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**45,548**	29,154	**29,201**	36,980
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**53,682**	36,266	**53,682**	36,266
Total income taxes paid	**1,439**	4,000	**8,041**	7,712
Total interest paid	**7,197**	7,208	**21,555**	24,786

See accompanying notes to these condensed interim consolidated financial statements.

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

1. DESCRIPTION OF THE BUSINESS

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

Melcor Developments Ltd. ("Melcor" or "we") is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD". As at September 30, 2021 Melton Holdings Ltd. holds approximately 47.4% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at November 9, 2021, Melcor through an affiliate, holds an approximate 55.4% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

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

2. BASIS OF PRESENTATION

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

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on November 9, 2021.

3. SIGNIFICANT ACCOUNTING POLICIES, NEW STANDARDS AND CRITICAL ACCOUNTING ESTIMATES

SIGNIFICANT ACCOUNTING POLICIES AND NEW STANDARDS ADOPTED

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those of the previous financial year. There are no new or amended standards adopted during the current quarter.

4. LAND INVENTORY

	September 30, 2021	December 31, 2020
Raw land held	**393,700**	395,785
Land under development	**205,494**	161,647
Developed land	**147,377**	171,553
	746,571	728,985

Land is recorded at the lower of cost and net realizable value. Due to the uncertainty of the economic environment as a result of the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", the net realizable value of land could be subject to significant changes and such changes could be material. As at September 30, 2021 management does not consider there to be a negative impact on the current carrying value of land, but will continue monitoring the net realizable value of land during these uncertain times.

During the nine month period ended September 30, 2021, we purchased 17.1 acres of land in Buckeye, Arizona in the United States at a cost of $3,037 (USD$2,450) for cash. During the nine month period ended September 30, 2020, there were no land purchases made.

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

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	September 30, 2021	December 31, 2020
Investment properties	**1,032,241**	1,016,312
Properties under development	**74,370**	64,765
Total	**1,106,611**	1,081,077

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

Nine months ended September 30, 2021	**Investment Properties**	**Properties under Development**	**Total**
Balance - beginning of period	1,016,312	64,765	**1,081,077**
Additions			
Direct acquisition	—	1,438	**1,438**
Transfer from land inventory	—	301	**301**
Direct leasing costs	725	417	**1,142**
Property improvements	2,655	—	**2,655**
Development costs	—	16,916	**16,916**
Capitalized borrowing costs	—	438	**438**
Disposals	(7,425)	—	**(7,425)**
Transfers	11,605	(11,605)	**—**
Fair value adjustment on investment properties	8,340	1,700	**10,040**
Foreign currency translation (included in OCI)	**29**	**—**	**29**
Balance - end of period	**1,032,241**	**74,370**	**1,106,611**

Year ended December 31, 2020	Investment Properties	Properties under Development	**Total**
Balance - beginning of year	1,063,026	78,565	**1,141,591**
Additions			
Direct leasing costs	779	387	**1,166**
Property improvements	2,902	—	**2,902**
Development costs	—	20,229	**20,229**
Capitalized borrowing costs	—	463	**463**
Disposals	(6,600)	—	**(6,600)**
Transfers	38,537	(38,537)	**—**
Fair value adjustment on investment properties	(80,138)	3,658	**(76,480)**
Foreign currency translation (included in OCI)	(2,194)	—	**(2,194)**
Balance - end of year	**1,016,312**	**64,765**	**1,081,077**

In accordance with our policy we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 11.

During the third quarter of 2021, we disposed of an office building in Arizona for a net sale price of $7,084 (US$5,684) (net of transaction costs).

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

During the nine months ended September 30, 2021, we also disposed of one residential unit in Arizona for net sale price of $341 (US$278) net of transaction costs.

6. GENERAL DEBT

	September 30, 2021	December 31, 2020
Melcor - revolving credit facilities	**97,054**	59,925
REIT - revolving credit facility	**—**	9,986
Project specific financing	**39,197**	66,248
Secured vendor take back debt on land inventory	**15,748**	28,616
Debt on investment properties and golf course assets	**507,263**	490,801
REIT - convertible debentures	**71,329**	66,210
General debt	**730,591**	721,786

The change in project specific financing during the period is summarized as follows:

	September 30, 2021	December 31, 2020
Balance - beginning of period	**66,248**	68,436
Cash movements		
Loan repayments	**(28,991)**	(21,676)
New project financing	**1,980**	19,540
Non-cash movements		
Foreign currency translation included in OCI	**(40)**	(52)
Balance - end of period	**39,197**	66,248

The change in secured vendor take back debt on land inventory during the period is summarized as follows:

	September 30, 2021	December 31, 2020
Balance - beginning of period	**28,616**	39,005
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(12,868)**	(10,389)
Balance - end of period	**15,748**	28,616

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

The change in debt on investment properties and golf course assets during the period is as follows:

	September 30, 2021	December 31, 2020
Balance - beginning of period	**490,801**	484,413
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(12,862)**	(13,841)
Mortgage repayments	**(61,109)**	(25,554)
New mortgages	**92,121**	44,690
Non-cash movements		
Deferred interest payments	**—**	971
Deferred financing fees capitalized	**(734)**	(503)
Amortization of deferred financing fees	**451**	538
Change in derivative fair value swap	**(1,421)**	1,351
Foreign currency translation included in OCI	**16**	(1,264)
Balance - end of period	**507,263**	490,801

7. REVENUE

Total Revenues	**For the three months ended**		**For the nine months ended**	
	September 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Revenue from contracts	**35,074**	50,951	**97,981**	79,441
Revenue from other sources	**21,139**	22,100	**67,049**	66,430
	56,213	73,051	**165,030**	145,871

Timing of contract revenue recognition	**For the three months ended**		**For the nine months ended**	
	September 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
At a point in time	**30,636**	46,246	**84,807**	65,314
Over time	**4,438**	4,705	**13,174**	14,127
	35,074	50,951	**97,981**	79,441

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

8. SHARE CAPITAL

Issued and outstanding common shares at September 30, 2021 are 32,966,423 (December 31, 2020 – 33,091,061). During the three and nine months ended September 30, 2021, there were 3,606 options exercised (Q3-2020 – nil).

On April 1, 2021 Melcor commenced a new Normal Course Issuer (NCIB) which allowed us to purchase up to 1,654,553 share for cancellation, representing approximately 5% of the issued and outstanding shares. The shares may be repurchased up to a maximum daily limit of 3,781. The price, which Melcor will pay for shares repurchased under the plan, will be the market price at the time of acquisition. The new NCIB ends one year from commencement on March 31, 2022.

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

For the three months ended September 30, 2021, there were 102,420 common shares purchased for cancellation by Melcor pursuant to the new NCIB at a cost of $1,371. Share capital was reduced by $233 and retained earnings reduced by $1,138. Year to date, there were a total of 128,244 common shares purchased for cancellation at a cost of $1,679 (December 31, 2020 - 134,816 common shares purchased at a cost of $976) with share capital reduced by $289 and retained earnings reduced by $1,390 under the above mentioned NCIB agreement.

9. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues	**For the three months ended**		**For the nine months ended**	
For the three months ended	**September 30, 2021**	September 30, 2020	**September 30, 2021**	September 30, 2020
United States	**17,675**	31,403	**26,784**	45,276
Canada	**38,538**	41,648	**138,246**	100,595
Total	**56,213**	73,051	**165,030**	145,871

Total Assets

As at	**September 30, 2021**	December 31, 2020
United States	**257,750**	243,283
Canada	**1,796,359**	1,758,002
Total	**2,054,109**	2,001,285

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

9. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

For the three months ended September 30, 2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	26,441	8,740	9,272	18,089	4,658	—	**67,200**	(10,987)	**56,213**
Cost of sales	(16,453)	(8,700)	(3,884)	(7,248)	(2,406)	—	**(38,691)**	9,378	**(29,313)**
Gross profit	9,988	40	5,388	10,841	2,252	—	**28,509**	(1,609)	**26,900**
General and administrative expense	(1,820)	(431)	(470)	(717)	(777)	(1,829)	**(6,044)**	838	**(5,206)**
Fair value adjustment on investment properties	—	2,272	(395)	2,535	—	—	**4,412**	771	**5,183**
Gain on sale of assets	—	—	—	—	65	—	**65**	—	**65**
Interest income	142	—	—	7	—	5	**154**	—	**154**
Segment earnings (loss)	8,310	1,881	4,523	12,666	1,540	(1,824)	**27,096**	—	**27,096**
Finance costs									**(5,966)**
Adjustments related to REIT units									**(843)**
Income before tax									**20,287**
Income tax expense									**(3,726)**
Net income for the period									**16,561**

For the three months ended September 30, 2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	43,076	13,973	9,241	18,441	4,380	—	**89,111**	(16,060)	**73,051**
Cost of sales	(32,635)	(13,867)	(3,898)	(8,470)	(2,267)	—	**(61,137)**	14,681	**(46,456)**
Gross profit	10,441	106	5,343	9,971	2,113	—	**27,974**	(1,379)	**26,595**
General and administrative expense	(1,800)	(390)	(538)	(748)	(683)	(1,394)	**(5,553)**	848	**(4,705)**
Fair value adjustment on investment properties	—	2,462	(1,315)	(2,535)	—	—	**(1,388)**	531	**(857)**
Gain on sale of assets	—	—	—	—	3	—	**3**	—	**3**
Interest income	105	—	1	13	—	6	**125**	—	**125**
Segment earnings (loss)	8,746	2,178	3,491	6,701	1,433	(1,388)	**21,161**	—	**21,161**
Finance costs									**(7,646)**
Adjustments related to REIT units									**(2,871)**
Income before tax									**10,644**
Income tax expense									**(3,118)**
Net income for the period									**7,526**

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

For the nine months ended September 30, 2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	78,832	12,011	29,430	55,552	9,291	—	185,116	(20,086)	165,030
Cost of sales	(49,583)	(11,900)	(11,953)	(22,331)	(4,754)	—	(100,521)	14,982	(85,539)
Gross profit	29,249	111	17,477	33,221	4,537	—	84,595	(5,104)	79,491
General and administrative expense	(5,071)	(1,344)	(1,632)	(2,215)	(1,953)	(5,185)	(17,400)	2,338	(15,062)
Fair value adjustment on investment properties	—	1,133	3,476	2,665	—		7,274	2,766	10,040
Gain on sale of assets	—	—	—	—	127	—	127	—	127
Interest income	405	—	1	20	—	21	447	—	447
Segment earnings (loss)	24,583	(100)	19,322	33,691	2,711	(5,164)	75,043	—	75,043
Finance costs									(22,607)
Adjustments related to REIT units									(30,529)
Income before tax									21,907
Income tax expense									(10,365)
Net income for the period									11,542

For the nine months ended September 30, 2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	60,793	14,171	28,571	55,830	7,140	—	166,505	(20,634)	145,871
Cost of sales	(45,697)	(13,867)	(11,540)	(23,622)	(4,117)	—	(98,843)	16,114	(82,729)
Gross profit	15,096	304	17,031	32,208	3,023	—	67,662	(4,520)	63,142
General and administrative expense	(4,825)	(1,320)	(1,845)	(2,279)	(1,648)	(4,456)	(16,373)	2,377	(13,996)
Fair value adjustment on investment properties	—	3,070	(14,922)	(59,831)	—	—	(71,683)	2,143	(69,540)
Gain on sale of assets	—	—	—	—	39		39	—	39
Interest income	344	13	18	60	—	19	454	—	454
Segment earnings (loss)	10,615	2,067	282	(29,842)	1,414	(4,437)	(19,901)	—	(19,901)
Finance costs									(20,437)
Adjustments related to REIT units									51,759
Income before tax									11,421
Income tax recovery									155
Net income for the period									11,576

10. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 44.6% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at September 30, 2021 the REIT units had a fair value of $88,809. We recorded adjustments related to REIT units for the three and nine months ended September 30, 2021 of $843 and $30,529 respectively (Q3-2020 - $2,871 and $51,759). Melcor notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity markets. As the valuation of the REIT units is dependent on the trading price of the REIT's trust units, the impact on the fair value cannot be estimated at this time and such impact could be material.

On April 1, 2021 the REIT commenced a new normal course issuer bid ("REIT NCIB") which allows the REIT to purchase up to 652,525 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,824. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The new REIT NCIB ends one year from commencement on March 31, 2022.

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

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

During the nine-month period, there was a total of 85,683 units (2020 - 82,790) purchased for cancellation at a cost of $533 (2020 - $336), which is recorded as a reduction in the balance of REIT units on the consolidated statement of financial position.

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

	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Fair value adjustment on REIT units (note 11)	**648**	(1,696)	**(26,307)**	56,324
Distributions to REIT unitholders	**(1,491)**	(1,175)	**(4,222)**	(4,565)
Adjustments related to REIT units	**(843)**	(2,871)	**(30,529)**	51,759

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

As at	**September 30, 2021**	December 31, 2020
Assets	**733,330**	724,658
Liabilities	**460,809**	458,367
Net assets	**272,521**	266,291
Cost of NCI	**103,959**	103,959
Fair value of NCI	**88,809**	63,034

	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Rental revenue	**18,089**	18,441	**55,552**	55,830
Net (loss) income and comprehensive (loss) income	**7,470**	(1,645)	**(21,588)**	21,477
Cash flows from operating activities	**4,540**	4,549	**12,332**	10,954
Cash flows used in investing activities	**(790)**	(116)	**(1,956)**	(685)
Cash flows used in financing activities, before distributions to REIT unitholders	**(1,322)**	(2,717)	**(4,374)**	(3,346)
Cash flows used in financing activities - cash distributions to REIT unitholders	**(1,426)**	(1,177)	**(4,092)**	(4,913)
Net increase in cash and cash equivalents	**1,002**	539	**1,910**	2,010

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

11. FAIR VALUE MEASUREMENT

Fair value is the price that market participants would be willing to pay for an asset or liability in an orderly transaction under current market conditions at the measurement date.

The fair value of Melcor's financial instruments are determined as follows:

- the carrying amounts of cash and cash equivalents, restricted cash, accounts receivables, agreements receivable and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.
- fair values of general debt and derivative financial liabilities - interest rate swaps are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).
- fair value of derivative financial liabilities, which is the conversion feature on the REIT convertible debenture are estimated based upon unobservable inputs, including volatility and credit spread (Level 3).
- fair value of REIT units are estimated based on the closing trading price of the REIT's trust units and the fair value of the convertible debenture is estimated based on the closing trading price of the REIT's debenture (Level 1).

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

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

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

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

The following table summarizes Melcor's assets and liabilities carried at fair value and its financial assets and liabilities where carrying value does not approximate fair value.

				September 30, 2021		December 31, 2020	
	Fair Value Hierarchy	**Fair Value**	**Amortized Cost**	**Total Carrying Value**	**Total Fair Value**	**Total Carrying Value**	**Total Fair Value**
Non-financial assets							
Investment properties	**Level 3**	**1,106,611**	**—**	**1,106,611**	**1,106,611**	1,081,077	1,081,077
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	**Level 3**	**—**	**658,920**	**658,920**	**659,013**	654,200	656,510
Convertible debentures	**Level 2**	**—**	**65,323**	**65,323**	**64,265**	64,339	56,779
Derivative financial liability							
Interest rate swaps	**Level 3**	**342**	**—**	**342**	**342**	1,376	1,376
Conversion features on convertible debentures	**Level 3**	**6,006**	**—**	**6,006**	**6,006**	1,871	1,871
REIT units	**Level 1**	**88,809**	**—**	**88,809**	**88,809**	63,034	63,034

Investment properties

Investment properties are remeasured to fair value on a recurring basis, determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows. The application of these valuation methods results in these measurements being classified as level 3 in the fair value hierarchy.

Under the discounted future cash flows method, fair values are determined by discounting the forecasted future cash flows over ten years plus a terminal value determined by applying a terminal capitalization rate to forecasted year eleven cash flows.

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

Under the direct income capitalization method, fair values are determined by dividing the stabilized net operating income of the property by a property specific capitalization rate.

The significant unobservable inputs in the Level 3 valuations are as follows:

- Capitalization rate - based on actual location, size and quality of the property and taking into consideration available market data as at the valuation date;
- Stabilized net operating income - revenue less direct operating expenses adjusted for items such as average lease up costs, vacancies, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items;
- Discount rate - reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Terminal capitalization rate - taking into account assumptions regarding vacancy rates and market rents;
- Estimated costs to complete for properties under development - based on expected completion dates considering development and leasing risks specific to each property and the status of approvals and/or permits; and
- Cash flows - based on the physical location, type and quality of the property and supported by the terms of existing leases, other contracts or external evidence such as current market rents for similar properties.

An increase in the cash flows or stabilized net operating income results in an increase in fair value of investment property whereas an increase in the capitalization rate, discount rate or terminal capitalization rate decreases the fair value of the investment property.

In determining the fair value of our investment properties judgment is required in assessing the 'highest and best use' as required under IFRS 13, *Fair value measurement*. We have determined that the current uses of our investment properties are their 'highest and best use'.

Melcor's executive management team is responsible for determining fair value measurements on a quarterly basis, including verifying all major inputs included in the valuation and reviewing the results. Melcor's management, along with the Audit Committee, discuss the valuation process and key inputs on a quarterly basis. At least once every two years, the valuations are performed by qualified external valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Investment properties are valued by Melcor's internal valuation team each quarter, and supported by valuations completed by external valuation professionals. During the nine months ended September 30, 2021, 18 investment properties (of 93 legal phases) with a fair value of $189,883 were valued by external valuation professionals (year ended December 31, 2020 - 85 investment properties (of 93 legal phases) with a fair value of $988,623). Valuations performed during the nine months ended September 30, 2021, resulted in net fair value gains of $10,040 (December 31, 2020 - net fair value losses of $76,480).

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

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

Weighted average annual stabilized net operating income for investment properties as at September 30, 2021 is $1,448 (December 31, 2020 - $1,476) per property. Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

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

	Investment Properties			**Properties under Development**		
September 30, 2021	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.25%**	**10.00%**	**6.68%**	**5.75%**	**6.25%**	**5.98%**
Terminal capitalization rate	**5.75%**	**9.00%**	**6.82%**	**6.00%**	**6.50%**	**6.23%**
Discount rate	**6.25%**	**9.75%**	**7.75%**	**6.75%**	**7.50%**	**7.20%**

	Investment Properties			Properties under Development		
December 31, 2020	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.25%	10.00%	6.85%	6.00%	6.25%	6.14%
Terminal capitalization rate	5.75%	9.00%	6.85%	6.00%	6.50%	6.30%
Discount rate	6.25%	9.75%	7.90%	7.00%	7.50%	7.27%

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by $63,337 (December 31, 2020 - $62,874). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by $73,344 (December 31, 2020 - $72,771). Due to the uncertainty of the economic environment as a result of COVID-19, these estimates could be subject to significant changes and such changes could be material.

General debt, excluding derivative financial liabilities

The fair value of revolving credit facilities approximates the carrying value excluding unamortized financing costs. The facilities bear interest, at our option, at a rate per annum equal to either the bank's prime lending rate plus 0.75% to 2.25% or at the bank's then prevailing banker's acceptance rate plus a stamping fee of 2.25% to 3.00%.

The fair value of project specific financing, secured vendor take back debt on land inventory and debt on investment properties and golf course assets and convertible debenture have been calculated by discounting the expected cash flows of each loan using a discount rate specific to each individual loan. The discount rate is determined using the bond yield for similar instruments of similar maturity adjusted for each individual project's specific credit risk. In determining the adjustment for credit risk, we consider current market conditions and other indicators of credit worthiness.

Derivative financial liabilities

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

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at September 30, 2021, the fair value of interest rate swap contracts was $342 (December 31, 2020 - $1,376).

The significant unobservable inputs used in the fair value measurement of the conversion features on the REIT convertible debentures are volatility and credit spread. As at September 30, 2021 the fair value of the conversion features on our convertible debentures was $6,006 (December 31, 2020 - $1,871). Melcor notes that it is not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity and debt markets. As the valuation of the conversion features on our REIT convertible debentures is dependent on the historical price of the REIT's trust units and the trading price of the convertible debentures, the impact on the valuation of the conversation features on REIT convertible debentures cannot be estimated at this time and such impact could be material.

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At September 30, 2021 the fair value of the REIT units was $88,809, resulting in a fair value loss during the nine months ended of $26,307 (Q3-2020 - gain of $56,324) in the statement of income and comprehensive income for the period ended ended September 30, 2021 (note 10). Melcor notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity markets. As the valuation of the REIT units is dependent on the trading price of the REIT's trust units, the impact on the fair value cannot be estimated at this time and such impact could be material.

12. RISK MANAGEMENT

As a result of COVID-19, Melcor's exposure to risks as a result of holding financial instruments could be impacted. The impact on these risks is as follows:

a. *Credit Risk*

We manage our credit risk in the Investment Property and REIT Divisions through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan reviews for smaller tenants. We manage our concentration risk in the Investment Property Division by renting to an expansive tenant base, with no dependency on rents from any one specific tenant.

Accounts Receivables have historically been significantly low risk due to their individual immaterial balances, the nature of the party they are due from (including joint venture participants under management by Melcor), and overall lack of historical write offs. Commencing in the first quarter of 2020, in light of COVID-19, management notes that there is risk associated with the receivables pertaining to tenant rent included with accounts receivables. As a result of the risks associated COVID-19 and its effect on the ability of tenants to settle their receivables, as well as government assistance programs put in place, Melcor has adjusted the expected credit losses on this specific group of receivables. At this time, based on management's best estimate of the current economic outlook, management has assessed and recorded the current expected credit loss at $581.

Agreements receivable are collateralized by specific real estate sold. Agreements receivable relate primarily to land sales in Alberta and, accordingly, collection risk is related to the economic conditions of that region. We manage credit risk by selling to certain qualified registered builders. Concentration risk is low as we sell to a large builder base, and no receivables are concentrated to one specific builder and Melcor maintains an approved builder list containing those builders which have a long standing track record, good volumes, positive perception in the industry, and strong history of repayment.

Due to the uncertain economic conditions surrounding COVID-19, Melcor recognizes that our counterparties' credit risk could be negatively impacted. Currently, Melcor's overdue agreements receivable balances as a percent of total agreements receivables has slightly decreased from year end, and as we keep in constant contact with our builders and work with them on extensions, we do not consider any balances to be at risk of not being collected. At this time, the impact to our risk for accounts receivable and expected loss rate for our agreements receivable is not considered material. Melcor will continue to monitor changes to the economic environment during these uncertain times and as such estimates could be subject to changes and such changes may be material.

b. *Liquidity Risk*

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk to ensure that we have sufficient liquid financial resources to finance operations and meet long-term debt repayments. We monitor rolling forecasts of our liquidity, which includes cash and cash equivalents and the undrawn portion of the operating loan, on the basis of expected cash flows. In addition, we monitor balance sheet liquidity ratios against loan covenant requirements and maintain ongoing debt financing plans. We believe that we have access to sufficient capital through internally generated cash flows, external sources and undrawn committed borrowing facilities to meet current spending forecasts. We believe that based on the cash flow models created by management in order to incorporate the effects of COVID-19 we have access to sufficient liquidity through internally generated cash flows, external sources and undrawn committed borrowing facilities to meet current financial obligations.

c. *Market Risk*

We are subject to interest rate cash flow risk as our operating credit facilities and certain of our general debt bear interest at rates that vary in accordance with prime borrowing rates in Canada. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately $2,191 (December 31, 2020 - $2,021). We are not subject to other significant market risks pertaining to our financial instruments.

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

13. EVENTS AFTER THE REPORTING PERIOD

Distributions on REIT trust units

On October 15, 2021 the REIT declared a distribution of $0.04 per unit for the months of October, November and December 2021. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
October 2021	October 29, 2021	November 15, 2021	$0.04 per unit
November 2021	November 30, 2021	December 15, 2021	$0.04 per unit
December 2021	December 31, 2021	January 17, 2022	$0.04 per unit

Dividends declared

On November 9, 2021 our board of directors declared a dividend of $0.12 per share payable on December 31, 2021 to shareholders of record on December 15, 2021.