Management's Discussion & Analysis

March 16, 2022

The following discussion of Melcor's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2021.

The financial statements underlying this MD&A, including 2020 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

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

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on March 16, 2022.

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-GAAP and Non-standard Measures".

Forward-looking Statements

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

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

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2022 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

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

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

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Our Business

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

Since 1923, our focus has been the business of real estate. We've built over 140 communities across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage 4.75 million square feet (sf) in commercial real estate assets and 593 residential rental units. We have been a public company since 1968 (TSX:MRD).

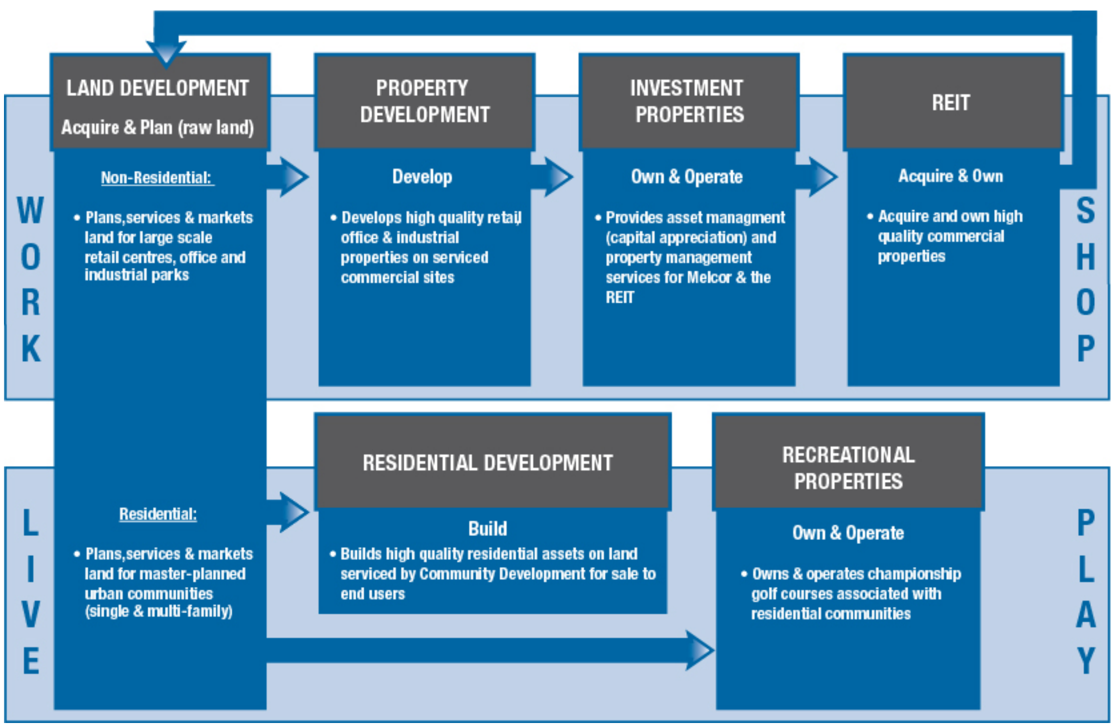
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

- acquiring raw land and planning residential communities and commercial developments (Community Development)
- project managing development, leasing and construction of commercial properties (Property Development)
- operating a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property management of REIT owned properties (Investment Properties)
- acquiring and owning high quality office, retail, industrial and residential assets (Melcor Real Estate Investment Trust or the REIT, formed May 1, 2013 through an IPO). We retain a controlling 55.4% effective interest in the REIT and manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement.

In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreation Properties. Melcor has $2.11 billion in assets.

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



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

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

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

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

Strategy

Our fundamental goals are to:

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

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

We balance our capacity to participate in strategic growth opportunities with sustaining and improving our existing businesses.

Community Development: Hot Housing Market & Keeping Up with Demand

With limited inventory of 684 single-family lots and high demand coming into 2022, our Community Development division had an active construction season in all regions. We launched one new community - Cobblestone Creek in Airdrie, AB - and continue to move other communities through municipal approvals and planning. Momentum throughout the year was strong in new communities launched over the past few years as well as our more established communities. In-migration from other provinces into Alberta has been a notable trend this year.

Over the past few year, we shifted the product type in our residential developments to meet trending changes in market demand to smaller, more affordable product types: townhomes, duplex, zero lot line or traditional single family with secondary suites to assist with mortgage qualifications. While interest in these product types remains strong, we also note that interest in estate product increased in 2021. We sold 90 lots in the category, including 75 in Kelowna.

In late 2020, we launched our initial phase of North Clifton Estates in Kelowna, BC, a high-end Okanagan lake-front community just 20 minutes from downtown Kelowna. With significant interest, the first phase of 44 homes sold out in 2021.

The housing market is also strong south of the border. We sold 280 lots Harmony (Aurora, CO), selling-out the first part of phase 3. We intend to develop the second part of phase 3 in 2022. In 2021, we advanced our strategy of selling paper lot parcels in AZ with two sales totaling 595 paper lots. This strategy, specific to our US land assets, is one where we move land through the municipal approval process and then sell the project to a production builder. We do not develop the land, and therefore we achieve a quicker return on investment with lower risk.

Property Development: Strength in Neighbourhood Shopping Centres

Commercial property development, particularly neighbourhood shopping centres, continues at a solid pace as pre-lease thresholds are met. With a focus on local services – grocer, gas, coffee, pharmacy, dental, restaurant, daycare – these retail hubs face less competition from online shopping options. The Property Development team built and transferred 118,734 sf (9 buildings).

Asset Management: COVID Impacts Linger

Our Investment Properties and REIT divisions performed exceptionally well given the uncertainty introduced by COVID-19 in 2020 and continuing through 2021. By working with our tenants throughout the past few years, we have maintained high rent collectability and very few of our tenants have gone out of business or terminated their leases early, contributing to stable occupancy and a high retention rate.

We note that the leasing environment remains positive and that the REIT, which represents the majority of our portfolio, has 127,358 sf committed for future occupancy, including Innovate Edmonton and Habitat for Humanity ReStore in Red Deer which together comprise over 40,000 sf.

Diversification Strategies Paying Off

Our geographic and revenue source diversification strategies have served to offset the cyclical nature of Canadian residential development. Our commercial property divisions now manage 4.75 million sf of income-generating assets, providing stable results throughout the year to smooth out the seasonal nature of construction related divisions. This represents growth of 21% in GLA over the past 5 years, with Investment Properties and the REIT comprising 31% of total revenue and 51% of segment earnings.

We have 98 years of experience in Alberta's cyclical economy. Throughout this time, we have managed through many downturns and have learned to not only weather the cycle, but to make our business stronger by recognizing and participating in opportunities while balancing our risk and exposure. All economic indicators point to upward momentum in Alberta's economy and we are well-positioned to participate in opportunities while also maintaining our conservative approach to real estate development.

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

Assets

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

Division	Assets	Strategy
Community Development	10,023 acres of raw land inventory in strategic growth corridors	Maintain right mix of inventory, available at the right time to meet market needs Increase market share by maintaining best in class design and community amenities
Property Development	Prospects for 4,603,125 sf of new development based on existing plans Completed and transferred 118,734 sf (9 buildings) in 2021 6,913 sf is currently under construction, while a further 23,247 sf is completed and awaiting lease-up and/or transfer.	Plan, build and lease retail, office, industrial and multi-family residential real estate projects Maintain 3-5 year inventory of developable assets Maximize value of existing assets through vertical development or re-development
Investment Properties & REIT	4,753,285 sf of commercial property and 593 residential units under management, diversified across 4 asset classes in 3 provinces and 2 states As Property Development projects are completed, our GLA continues to grow.	Improve existing assets with value-added investments to achieve higher occupancy rates and increase rent per square foot Be the landlord of choice by providing consistent, high-quality service
Recreational Properties	4 championship golf courses	Maintain strong reputation through consistent course quality and player experience Grow revenue from food and beverage operations

Diversification

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

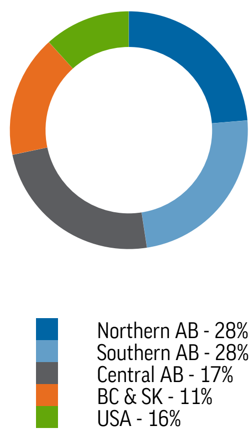
- The mix of land and property types held (residential, office, retail, industrial)
- The regional profile of our assets (Alberta, Saskatchewan, BC & western/southwestern US)
- The type of revenue each asset generates (including steady revenue from income-producing properties and revenue that fluctuates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

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

Melcor has been planning and developing innovative communities since the 1950s. We have developed over 40,000 lots in over 140 communities across Alberta, BC and the United States. We currently have 10,023 acres of land for future development (at Melcor's percentage).

LAND INVENTORY

Inventory by Region



Inventory by Land Use

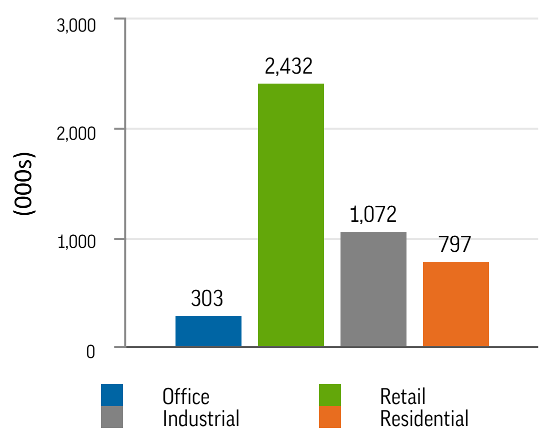
Property Development adds value to raw land by developing retail, office, industrial and multi-family residential properties in Alberta.

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

Melcor has been developing commercial properties since the 1970s and has built over 2.5 million sf. Our future development pipeline is 4.6 million sf based on current development plans.

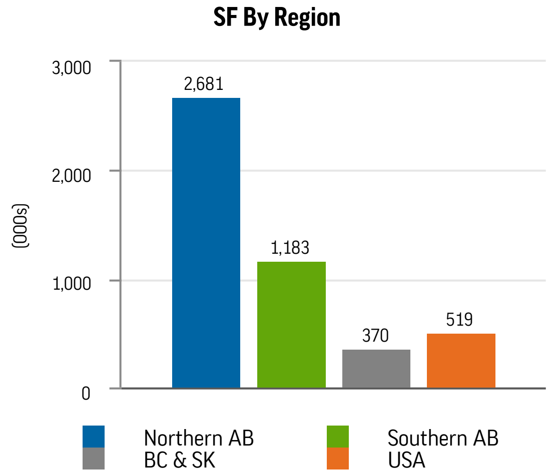
PROPERTY DEVELOPMENT

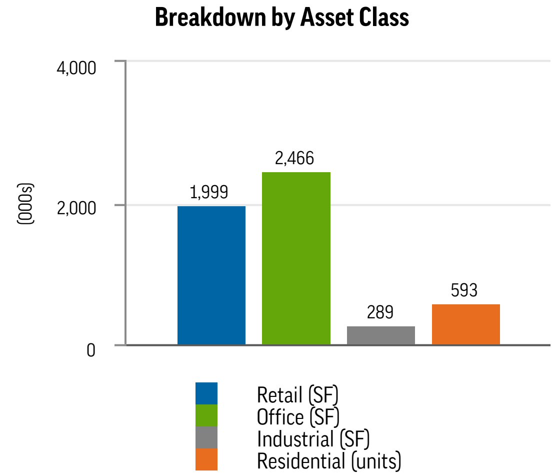
Future Development SF



Investment Properties manages 4.75 million sf of geographically diverse income-producing assets (including those owned by the REIT) to provide consistent annuity income and cash flow. Our total portfolio under management is diversified across asset class, property mix and region. The regional asset mix is primarily commercial in western Canada, with the majority of these assets owned by the REIT. Our US portfolio is a blend of residential and commercial properties. The goal of the Investment Properties division is to be the landlord of choice by providing exceptional customer care. We continually enhance and improve existing properties through capital investment to maximize occupancy, rental rates and tenant retention and prepare properties for vend-in to the REIT.

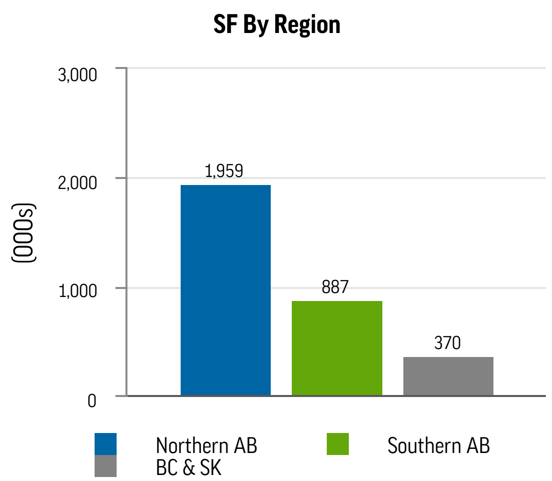
TOTAL GLA MANAGED

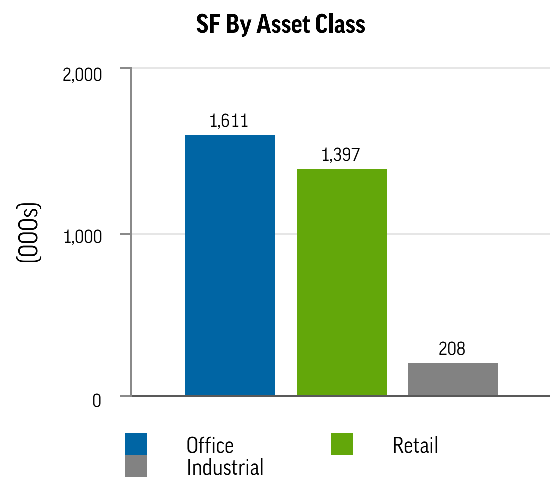




The REIT owns 3.22 million sf of income-producing assets that are managed by the Investment Properties division. The REIT is a vehicle for realizing the value created throughout the Melcor value chain as raw land is developed for commercial use (Community Development) and commercial properties are built (Property Development) or redeveloped (Investment Properties) and sold to the REIT. The REIT will continue to seek and execute acquisitions to grow its portfolio, both through the Property Development pipeline and third party acquisitions. To date, the REIT has acquired over 1.0 million sf from Melcor and 745,000 sf from third parties.

TOTAL GLA OWNED BY THE REIT

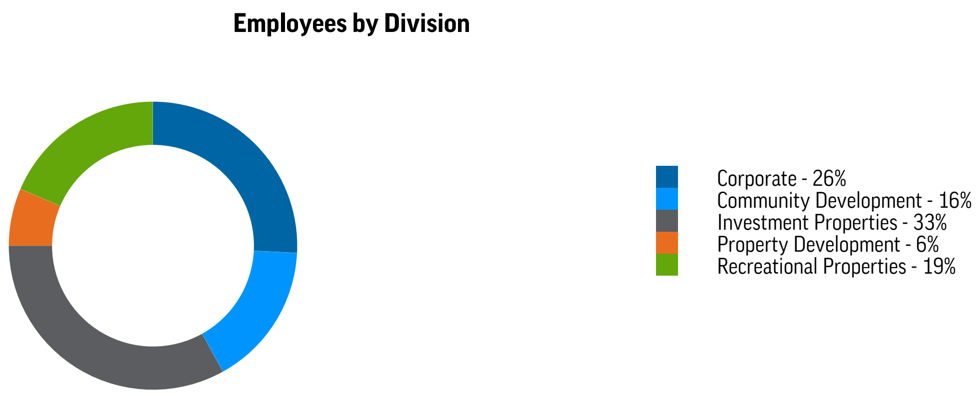




Key Performance Drivers

A High Performance Team

A strong and engaged workforce is a key component of achieving our growth objectives. Our team fuels our success by profitably managing residential and commercial development, continually moving future projects through the municipal approval process, managing our assets and ensuring tenant satisfaction, and developing strong relationships with our suppliers, contractors, builders, tenants and other stakeholders. The average tenure of our team is 9.29 years and we have 22 team members (9 active) on Melcor's Quarter Century Club.



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

Real Estate Inventory

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

- 10,023 acres of developable land
- 4,753,285 sf of leasable commercial property and 593 residential units under management in 3 provinces and 2 states
- Potential to develop over 4.6 million sf of new commercial property (based on current planned development)

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

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

Developed lot inventory

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

	December 31, 2021				December 31, 2020			
	CANADA			USA	CANADA			USA
(including joint arrangements at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)
Open	648	59.00	126.09	4	959	59.00	126.09	64
Transfers	—	—	—	—	—	—	—	—
New developments	1,296	5.30	3.45	277	459	—	—	181
Internal sales	—	—	—	—	—	—	—	—
Sales	(1,261)	(2.59)	(6.24)	(280)	(770)	(9.38)	—	(241)
Year end	683	61.71	123.30	1	648	49.62	126.09	4

Demand for residential product in all of our markets was strong throughout the year and we sold substantially all lots developed. In Canada, we developed 1,296 new single-family lots, an increase of 182% over 2020 and sold 1,261 to our builders. In the US, we developed 277 lots and sold 280. We plan to develop the second half of phase 3 of Harmony (Denver, CO area) containing 234 lots in 2022.

We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development. We are well positioned to respond to current market strength and have a strong development program in place for 2022.

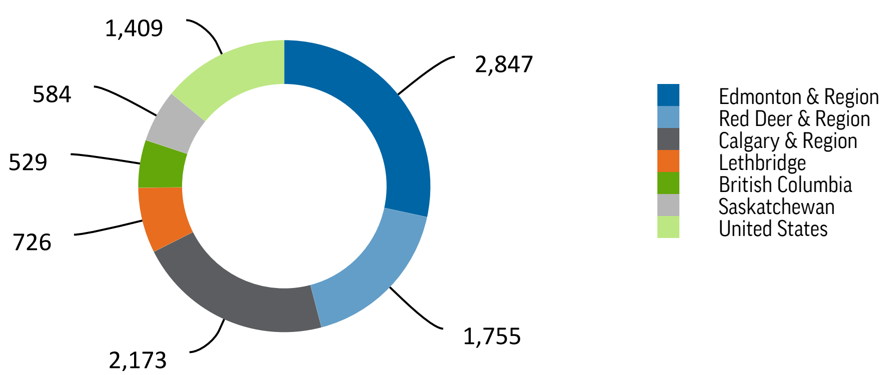
Raw land inventory

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

Land purchases (in acres, net of joint arrangement interests)	**2021**	2020	Total Holdings
Edmonton & Region	–	–	2,847
Red Deer & Region	–	–	2,173
Calgary & Region	–	–	1,755
Lethbridge	–	–	726
British Columbia	–	–	529
Saskatchewan	–	–	584
United States	17	–	1,409
	17	–	10,023

We purchased 17.10 acres adjacent to other holdings in Buckeye, Arizona. This land is immediately developable and fits our strategy of purchasing land to rezone in the US. While we may participate in strategic land purchase opportunities such as this, our primary focus is on harvesting our current inventory of 10,023 acres, located in our operating regions as follows:

Inventory by Region



Financial Resources

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

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

We primarily use fixed rate, long-term mortgage financing on our income-producing assets to raise capital for acquisitions, development activities, and other business expenditures. As such, most of our borrowings are in the form of long-term, property specific financings such as mortgages or project financings secured by specific assets. At the end of 2021, Melcor had project specific financings on one residential and three commercial projects totaling $40.76 million. Subsequent to year end, we received approval for one additional project financing arrangement for up to US$34.20 million for our community of Harmony (Colorado).

The REIT is expected to be an important financial resource going forward as it exercises its option to purchase assets developed by our Property Development division, thus monetizing the value of our Investment Property assets.

Our operations are supported by a syndicated operating line of credit with total availability of $191.41 million, which margins our land development assets (raw land inventory, land under development and agreements receivable). With a strong focus on collecting on receivables and reducing overall leverage throughout 2021, Melcor is well positioned to participate in acquisition and growth opportunities.

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

Corporate Sustainability

We are committed to corporate sustainability - in environmental practice, social responsibility, governance of our company and as stewards of the areas where we operate. Attaining best practice in all aspects of our business is our constant aspiration. Our history and our culture form our strong foundation: the authentic values of a family-run organization, building deep relationships with our clients, our business partners and our employees.

Environmental Commitment

Land Development

We consider the impact of land development on the natural environment. Our goal is to create a habitat where people, plants, birds and wildlife can flourish together. Here are a few examples of our practices and some notable developments. We use:

- low impact development techniques to reduce and absorb runoff (smaller driveways, more greenspace)
- unique naturalized storm water management ponds that mimic the natural environment. Now well-established in several communities, these ponds re-create a very natural environment that attracts a variety of wildlife
- natural raw land features to inform the design of the community
- mature trees and native species in landscaping and require individual home purchasers to do the same to not only beautify the community, but to increase natural absorption of rain water and snow melt
- plentiful community gathering spaces - parks, playgrounds, community gardens and orchards

In addition, Melcor is a partner of Edmonton Area Land Trust, committed to preserving natural treasures like the Larch Sanctuary (Edmonton, AB).

Melcor designed and developed the environmentally intelligent subdivision of Larch Park, which featured LED street-lighting before it was commonplace, narrower roads, bio-swales, soil preservation and a construction waste management program. Larch Park amenities include a community garden, an orchard, trails with plaques about local wildlife and plant species throughout and a truly natural storm pond. The homes meet BuiltGreen Gold, LEED for Homes Gold or R2000 with a minimum Energuide rating of 80. It borders the Larch Sanctuary, a protected natural area reserve.

Property Development

We focus on efficient buildings in our commercial property development. Knowing that we are going to manage for the long-term, we strive to construct buildings that are as energy efficient as possible. Our neighbourhood shopping centres use xeriscaping, which is landscaping designed to reduce or eliminate the need for supplemental water by using native plants and trees.

The majority of our current development projects are neighbourhood shopping centres built for the convenience of our communities, with a quick walk, you can satisfy all your basic needs.

The Fountain Tire building, built by Melcor and completed in 2014, received the ENERGY STAR designation in early 2020. Natural Resources Canada confers this designation on the the most energy efficient office buildings across the country.

Property Management

Our property management practices are designed to improve operating efficiency and reduce cost while at the same time increasing client satisfaction and thus retention rates. Our capital spending strategy focuses on equipment upgrades and maintenance initiatives that will reduce energy consumption in our properties.

Examples of our commitment to environmental best practices include:

- All properties have LED lights
- 80% of our buildings have motion-sensing lights that turn off when no one is present
- We have active recycling programs in all buildings
- We engage specialists to monitor and analyze our energy usage and identify potential improvements. Of 12 properties benchmarked from 2012 - 2021 we realized:
    - reduced electricity consumption of ~20%
    - decrease in natural gas consumption of ~6%
    - reduced equivalent greenhouse gases by ~10,557 tonnes of CO_2.
- One building we manage achieved ENERGY STAR certification in early 2020, recognizing the top 25% of office buildings in Canada in terms of efficiency. We are tracking other office buildings in our portfolio for this certification.

Recreational Properties

We clear walking trails and cross country ski tracks through our golf courses to make them a year-round attraction and a benefit to the surrounding neighbourhoods. Nearby residents appreciate the practice.

Social Responsibility

Melcor has been built on relationships since 1923. Treating others with respect has always been a core value. We cultivate and greatly value our relationships with employees, tenants, clients, contractors, shareholders and the communities where we operate.

Our goal is to build places where people want to live, work, shop and play. That means amenities that help to build a sense of community for neighbourhood residents and neighbourhood shopping centres with public space for gathering.

We demonstrate social responsibility through our relationships with all stakeholders and the communities where we operate. Our commitment to customer care and solid relationships with our tenants is paramount to our property management strategy. It is lived by every team member, as demonstrated by the results of our recent tenant survey. We surveyed 16 office buildings in November 2019 and both our property managers and building operators achieved a 92% approval rate. While no surveys were completed in 2021, anecdotal responses to our approach to communicating and working with tenants on COVID matters were remarkably positive.

Diversity & Inclusion

We are committed to fostering a diverse, inclusive and safe work environment. Our people are at the heart of our strategy and one of three core values is to "empower and care for our exceptional team."

Melcor was proud to earn a spot on the Globe & Mail Report on Business Women Lead Here list in 2021. Report on Business conducted an analysis of nearly 500 large publicly traded Canadian companies, evaluating the ratio of female-identifying to male-identifying executives in the top three tiers of executive leadership. In 2022, women make up 71% of Melcor's management committee, 39% of management and 44% of our overall team. Visible minorities also make up 15% of our workforce.

Melcor emphasizes health and wellness, including mental health. In 2020, we doubled the benefit available for psychological services to support the mental well-being of staff. In 2021, managers participated in The Working Mind, management training for recognizing and managing mental health challenges in the workplace. Encouraging managers to check in on the mental and emotional well-being of staff has been a priority.

The focus on a positive, empowering work environment creates an engaged and dedicated workforce with 22 employees having served the company for 25+ years. The average tenure of our employees is 9.29 years.

Community Investment: Supporting Local

Being invested in the communities where we do business is an important part of who we are. As we pursue excellence in our business, we also want the communities where we do business to be the best they can be. We give where we live to build strong communities. Our giving and involvement focuses on key pillars of strong communities: education, health, youth, sports, public gathering places such as libraries, and social programs that lend a helping hand to those in need. Our employees also make meaningful contributions to local charities through fundraising activities and by volunteering their time and talent with local not-for-profit organizations.

This commitment goes beyond financial and volunteer support. We take pride in the way our properties look. Entrances to office buildings have seasonal floral arrangements, beautifying the street. We have public art installations (both temporary and fixed) in, on and around a number of our properties.

Our focus on relationships extends to our service providers as well. The majority of our service providers are local and many are small businesses that support our local economies.

We were proud to sponsor the Indigenous Ice Carving and First Nations Cultural Pavilion at the 2021 All is Bright festival.

Effective Governance

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practices form the foundation of a sustainable company and long-term value creation for share- and unit-holders.

Melcor's Management Committee, which reviews and approves the projects we undertake, is 71% female.

Examples of our commitment to effective corporate governance practices include:

- a board of directors comprised of a majority of independent directors
- as the chair is related to the company, we have appointed a lead director
- 33% of directors are female; 43% of independent directors
- 50% of our executive team is female

SIGNIFICANT EVENT - COVID-19

The COVID-19 global pandemic has had a material impact on our business, particularly some of our tenants. The long-term impact of COVID-19 remains to be seen and it is difficult to estimate the future impact to Melcor's financial performance.

Melcor responded quickly throughout the pandemic, 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 used Alberta Health Services (AHS) guidelines as a baseline for the operations of all business units.

Operations Update

In spite of the favourable results achieved in 2020 and 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 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 December 31, we had collected 97% of fourth quarter rent and 99% of year-to-date rent (excluding amounts owing and receivables related to 2020 year end reconciliations). At December 31, we had $1.50 million in outstanding arrears, of which $0.09 million has been deferred and a further $0.60 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. We recognized $0.02 million in bad debts for the year ended December 31, 2021.

The following table illustrates our outstanding billed receivables (excluding deferred amounts), deferrals and allowances by asset class. Accrued and other receivables of $9.20 million (December 31, 2020 - $10.15 million) are not reflected in the figures illustrated below. Annual recovery reconciliations are posted to ledgers in March of the following year.

Tenant Receivables and Provisions ($000s)

	December 31, 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	**997**	**51**	**(521)**	1,953	424	(764)
Office	**386**	**37**	**(78)**	880	99	(409)
Industrial	**18**	**–**	**(5)**	64	–	(10)
Other	**14**	**–**	**–**	28	–	–
Total	**1,415**	**88**	**(604)**	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.

2021 Highlights

Readers are reminded that established key performance measures may not have standardized meaning under GAAP. For further information on Melcor's non-standard measures, non-GAAP measures, operating measures and non-GAAP ratios, refer to the non-GAAP and non-standard measures section on page 39.

($000s except as noted)	2021	2020	Change
Revenue	315,628	226,818	39.2 %
Gross margin (%)[3]	44.4 %	43.3 %	2.5 %
Fair value adjustment on investment properties	19,370	(76,480)	(125.3)%
Net income	56,311	11,464	391.2 %
Net margin (%)[3]	17.8 %	5.1 %	249.0 %
Funds from operations[1]	81,327	51,424	58.1 %
Shareholders' equity	1,116,469	1,077,429	3.6 %
Total assets	2,113,927	2,001,285	5.6 %
Per Share Data			
Basic earnings	1.70	0.34	400.0 %
Diluted earnings	1.70	0.34	400.0 %
Funds from operations[2]	2.46	1.55	58.7 %
Book value[2]	33.87	32.56	4.0 %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.
(3) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.

2021 revenue was up 39% to a record $315.63 million with net income of $56.31 million and FFO of $81.33 million. Community Development revenue was up 76%, with a robust market for new homes. New home sales in our Canadian markets remain strong, resulting in 1,261 single-family lots being sold compared to 770 lots in 2020. Single-family lot sales in our US markets were up 16% to 280 as we sold all of the Harmony (CO) phase 3 lots that were developed in the year.

Property Development revenue was up 7% contributing $42.80 million and 118,734 sf (9 buildings) to our portfolio of income-generating properties.

Investment Properties revenue was up 2% as a result of transfers from the Property Development division, which increased GLA by 3% over 2020. The REIT was relatively stable over the prior year despite being the division most challenged by the pandemic.

Revenue in the Recreational Properties division was up 30%. Our golf courses 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.

United States revenue was up 22% to $70.38 million, with contributions from Harmony, where we sold 280 single-family lots combined with two sales of paper lot parcels in Arizona (595 lots or 155 acres) for revenue of $24.00 million (US $19.15 million).

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

Investing for growth

We purchased 17.10 acres adjacent to other holdings in Buckeye, Arizona. This land is immediately developable and fits our strategy of purchasing land to rezone in the US. While we may participate in strategic land purchase opportunities such as this, our primary focus is on harvesting our current inventory of 10,023 acres.

Our Property Development division completed and transferred 9 buildings (118,734 sf) in 2021 with a further 6,913 sf under development and 23,247 sf completed and awaiting lease up at year end. Revenue was up 7% over 2020 as interdivisional fair value adjustments related to prior year building transfers were applied. Revenue from the Property Development division is eliminated on consolidation. Transfers to Investment Properties will positively impact results in future years as we continue to grow our income-producing assets for long-term holding or for sale to the REIT. We continued to progress commercial land through the development, approvals and lease-up process and have an additional 7 buildings in 5 projects expected to be completed and transferred to Investment Properties in 2022.

Capital Recycling

We completed the following dispositions of US assets during the year:

- We disposed of one residential unit in Arizona for $0.34 million (US$0.28 million) net of transaction costs.
- We disposed of a residential brownstone complex (10 units) for $7.08 million (US$5.68 million) net of transaction costs.

Return to Shareholders

We continued to distribute profits to our shareholders, In 2021, we paid dividends of $0.44 per share compared to $0.34 per share in 2020 for a growth of 29%.

We declared a dividend of $0.14 per share on March 16, 2022 payable on March 31, 2022 to shareholders of record on March 25, 2022. The dividend is an eligible dividend for Canadian tax purposes.

We have been paying dividends since 1969.

Revenue & Margins

Revenue was up 39% to $315.63 million in 2021 due to exceptionally strong performance from the Community Development division and growth in all other operating divisions, barring the REIT which was relatively stable. During the year we sold 64% more single-family lots in Canada and 16% more lots in the US compared to 2020. Lots sales in the US will remain lumpy due to the nature of development activity and market demand.

Revenue generated from single-family lot sales in Canada was up 59% to $165.62 million and the average lot price remained stable. The increased interest in estate lots in Canada mirrors the overall increase in market activity due to COVID-19.

In the US, revenue from single-family lots and paper lots increased by $20.73 million or 61% over 2020 due to new activity. The average single-family lot price decreased by 27% as our new phase introduced duplex and townhome product to the Harmony community.

Revenue from our income-producing portfolio (including REIT properties) was flat over 2020. Our REIT division saw a nominal decrease of 1% in revenues. Property Development transfer revenue (up 7%) is eliminated on consolidation; however, these properties will contribute to future revenue for our income-producing portfolio.

Gross margin percent and net margin percent are supplementary financial measures of performance. Please refer to the Non-GAAP and Non-Standard Measures section on page 39 for more information. Gross margin was 44% in 2021 compared to 43% in the prior year. Our income-producing portfolio (including REIT properties), which contributed 31% of total revenues in 2021 had a gross margin of 59% compared to 58% last year. Gross margin earned in our Community Development division was up 117% as a result of increased sales of estate product. Margin in this division is affected by a number of factors, including types of lots, development costs, the timing of the original land purchase and the relative real-estate market strength at the time of sale. Land that has been in inventory for many years typically generates higher margin on sale. Gross margin on income properties is more stable by nature and serves to neutralize volatility in Community Development margin.

Net margin increased to 18% from 5% in 2020. Net margin is impacted by swings in fair value adjustments recorded on our investment properties and REIT units. Net income was $56.31 million, up from $11.46 million in 2020, largely as a result of fair value gains of $19.37 million recorded on our investment properties. Adjustments related to the REIT had a negative impact of $31.53 million in 2021. Fair value adjustments on investment properties are a result of market forces that are out of management's control. Adjustments related to REIT units arise as unit fluctuates.

Fair value gains of $19.37 million were recorded in 2021 compared to fair value losses of $76.48 million in 2020. COVID-19 was a large contributor to the significant losses recognized last year.

Funds From Operations (FFO)

Funds From Operations (FFO) is a non-GAAP measure used in the real estate industry to measure operating performance. Refer to the Non-GAAP Measures section starting on page 39. We believe that FFO is an important measure of the performance of our real estate assets. FFO per share adjusts for certain non-cash items included in income such as fair value adjustments on investment properties and REIT units.

Below is a reconciliation of net income to FFO:

($000s)	Year Ended	
	2021	2020
Net income for the year	**56,311**	11,464
Amortization of operating lease incentives	**8,160**	7,879
Fair value adjustment on investment properties	**(19,370)**	76,480
Depreciation on property and equipment	**1,334**	1,407
Stock based compensation expense	**1,132**	873
Non-cash financing costs	**3,479**	2,043
Gain on sale of asset	**(151)**	(40)
Deferred income taxes	**4,684**	(5,409)
Fair value adjustment on REIT units	**25,748**	(43,273)
FFO(1)	**81,327**	51,424
Per Share Data		
FFO per share(2)	**2.46**	1.55

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.

FFO increased 58% to $81.33 million from $51.42 million in 2020. Gross profit increased 43% in 2021 over the comparative period due to improved Community Development and REIT division margins. Golf courses contributed an additional $0.93 million to gross profit for the year 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.

Divisional Results

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

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office, industrial and multi-family residential revenue-producing properties on serviced commercial sites developed by Community Development or purchased from third parties;
- Investment Properties, which manages and leases the commercial properties developed 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, marketing, administration, legal and human resources.

The following table summarizes operating division results before intersegment eliminations and excludes the corporate division:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31	
($000s except as noted)	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Revenue	**202,754**	115,087	**42,929**	40,186	**38,931**	38,004	**74,094**	74,572	**9,989**	7,703
Portion of total revenue[1]	**55%**	42%	**12%**	15%	**11%**	14%	**20%**	27%	**3%**	3%
Cost of sales	**(127,058)**	(80,269)	**(42,800)**	(39,817)	**(16,296)**	(15,519)	**(30,340)**	(31,240)	**(5,741)**	(4,388)
Gross profit	**75,696**	34,818	**129**	369	**22,635**	22,485	**43,754**	43,332	**4,248**	3,315
Gross margin (%) [1]	**37%**	30%	**–%**	1%	**58%**	59%	**59%**	58%	**43%**	43%
Portion of total gross profit[1]	**52%**	33%	**–%**	–%	**15%**	22%	**30%**	42%	**3%**	3%
General and administrative expense	**(6,902)**	(5,822)	**(1,947)**	(1,766)	**(2,409)**	(2,141)	**(2,953)**	(3,043)	**(2,610)**	(1,862)
Fair value adjustment on investment properties	**–**	–	**2,352**	3,658	**10,850**	(20,392)	**2,879**	(62,748)	**–**	–
Gain on sale of assets	**–**	–	**–**	–	**–**	–	**–**	–	**151**	40
Interest income	**516**	444	**–**	13	**1**	18	**30**	72	**–**	–
Segment Earnings (loss)	**69,310**	29,440	**534**	2,274	**31,077**	(30)	**43,710**	(22,387)	**1,789**	1,493

(1) Supplementary financial measure. Refer to Non-GAAP and Non-Standard Measures section on page 39 for further details.

Community Development

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

Master planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and parcels are sold to 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 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 working closely with our chosen builders.

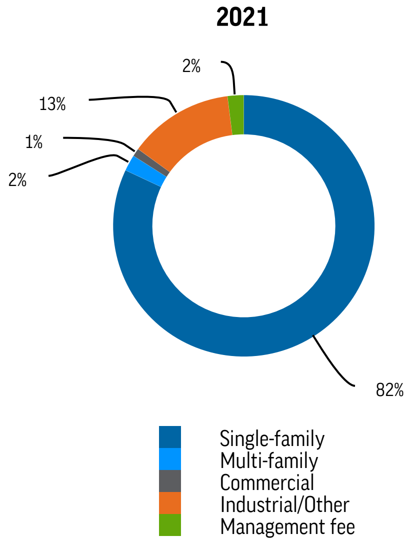
As at December 31, 2021 we held 10,023 acres of land for future development, and developed land inventory included 683 single-family lots in Canada, 1 single-family lot in the US, 62 acres for multi-family development, and 123 acres for commercial and industrial development.

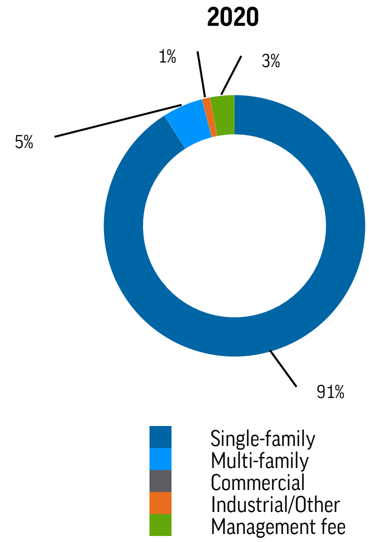
Sales Activity

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

To meet healthy market demand, we brought on 27 new phases in 18 communities to replenish inventory. We continued our focus on clearing out existing inventory held by Melcor (lots) and by our builders (spec homes) throughout 2021 and have active marketing programs in place to support this objective.

REVENUE BY TYPE





The following table summarizes our activity:

Consolidated	2021	2020
Canada Sales data: (including joint operations at 100%)		
Single-family sales (number of lots)	1,261	770
Gross average revenue per single family lot ($)	144,883	144,937
Multi-family sales (acres)	2.59	9.38
Gross average revenue per multi-family acre ($)	1,359,073	1,232,617
Commercial sales (acres)	4.95	–
Gross average revenue per commercial land acre ($)	540,141	–
Other land sales - Industrial, Other (acres)	1.29	1.14
Gross average revenue per other land acre ($)	325,581	200,000
Raw land sales to municipalities (acres)	51.04	5.14
Gross average revenue per raw land acre ($)	56,176	275,000
US Sales data: (including joint operations at 100%)		
Single-family sales (number of lots)	280	241
Gross average revenue per single family lot ($)	102,424	140,548
Other land sales - raw (paper lots), other	595	–
Gross average revenue per paper lot ($)	46,382	–
Financial results: (including joint operations at Melcor's interest)		
Revenue ($000s)	202,754	115,087
Earnings ($000s)	69,310	29,440

Regional Highlights

Edmonton & Region	2021	2020
Sales data:		
Single-family sales (number of lots)	799	495
Multi-family sales (acres)	–	8.58
Other land sales - Industrial & Other (acres)	1.29	1.14
Raw land sales to municipalities (acres)	8.46	5.14
Financial results:		
Revenue ($000s)	77,980	52,246
Earnings ($000s)	23,098	15,220

The strong single-family housing market resulted in a 61% increase in the number of lots sold. Product sold in the year included a broad mix, from price-sensitive townhomes and duplexes to luxury estate lots within our Jagare Ridge and Jensen Lakes communities.

We continue to offer a variety of price-sensitive options in all neighbourhoods, including duplexes, townhomes, detached garage homes, homes with secondary or garage suites and zero lot-line homes. Builder demand for lots remains high.

Edmonton revenue increased by 49% due to the increase in lot sales.

Red Deer & Region	2021	2020
Sales data:		
Single-family (number of lots)	117	109
Commercial sales (acres)	3.45	–
Raw land sales to government bodies	6.42	–
Financial results:		
Revenue ($000s)	11,520	6,112
Earnings ($000s)	4,651	1,445

Single-family lots sold in the central Alberta region increased 7% with all communities in the region contributing to strong sales. Revenue increased 88% as sales in communities owned solely by Melcor were higher. In 2020, the majority of single-family lots sold were in joint venture communities. The region also sold raw and commercial land for $1.62 million. We anticipate current sales velocity to continue in 2022.

Calgary & Region	2021	2020
Sales data:		
Single-family sales (number of lots)	256	107
Commercial sales (acres)	1.50	–
Financial results:		
Revenue($000s)	25,662	8,300
Earnings ($000s)	7,410	2,062

Market demand in all of our Calgary and Area communities was high with an increase in lot sales of 139%. The region also sold 1.50 acres of commercial land for revenue of $1.06 million.

We anticipate similar sales activity in 2022 with development ramping up in our new community of Cobblestone Creek (Airdrie, AB), and new phases of Sunset Ridge (Cochrane, AB) and Lanark Landing (Airdrie, AB) being brought on.

Lethbridge	2021	2020
Sales data:		
Single-family sales (number of lots)	14	27
Multi-family sales (acres)	–	0.80
Financial results:		
Revenue ($000s)	1,453	2,998
Earnings ($000s)	143	790

The 48% decrease in single-family lot sales and lack of land sales in 2021 contributed to the 52% decrease in revenue. Given the smaller market market of the Lethbridge region, lot sales can fluctuate year to year. The prior year had an anomalous jump in sales due to amenity development in one of the three communities in the region.

Kelowna	2021	2020
Sales data:		
Single-family sales (number of lots)	75	32
Multi-family sales (acres)	2.59	–
Raw land sales to municipalities (acres)	1.57	–
Financial results:		
Revenue ($000s)	29,802	11,276
Earnings (loss) ($000s)	8,614	3,079

Our first phase in the new community of North Clifton Estates sold 21 of the 44 lots in 2021, contributing to increased revenues of $18.53 million. This community boasts high-end Okanagan lake-front estate lots, and has received a significant amount of interest as evidenced by lot sales made during the year. We do not anticipate having an additional phase ready for registration in 2022.

An additional phase of 41 lots in the BlueSky community also registered and sold out in the year. We do anticipate bringing on a new phase for BlueSky in 2022.

United States	2021	2020
Sales data:		
Single-family sales (number of lots)	280	241
Other land sales - Industrial & Other (acres)	155	–
Financial results:		
Revenue ($000s)	54,886	34,155
Earnings ($000s)	21,176	6,844

Our builder group bought all 277 lots in the first part of phase 3 and an additional 3 lots from prior phases in our community of Harmony near Aurora, CO. We continue to develop Phase 3 and we plan to bring on an additional 243 lots in 2022.

We continue to actively market and work on municipal 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. In 2021, we sold:

- 293 paper lots (79 acres) in Goodyear, AZ, generating $13.84 million (US$10.99 million) in revenue
- 302 paper lots (76 acres) in Maricopa, AZ, generating $10.23 million (US $8.16 million) in revenue

We also purchased 17.1 acres adjacent to existing holdings in Buckeye, AZ for $3.04 million (US $2.45).

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

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

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

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

Division Highlights

($000s and at JV%, except as noted)	2021	2020
Total revenue	**42,929**	40,186
Revenue from property transfers	**42,800**	39,817
Management fees	**129**	369
Margin (%) on property transfers	**1 %**	15 %
Square footage transferred (sf, at 100%)	**118,734**	132,498
Number of buildings transferred	**9**	11
Fair value gains on investment properties	**2,352**	3,658

Property Development completed and transferred 9 buildings (118,734 sf) to Investment Properties in 2021 and has another 23,247 sf completed and awaiting lease up and/or transfer. A further 6,913 sf remains under development and we continue to move new projects through the planning and development approval process. We plan for another active construction season in 2022 and anticipate commencing construction on an additional 68,200 sf.

Regional Highlights

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

($000s)	2021	2020
Northern Alberta	**2,266**	1,051
Southern Alberta	**86**	2,607
	2,352	3,658

Northern Alberta completed and transferred 33,312 sf (5 buildings) to Investment Properties:

- Jensen Lakes Crossing (St. Albert): a daycare building (10,338 sf) for fair value gains of $0.31 million
- Vista Ridge (Sylvan Lake): a gas lease (5,158 sf) for fair value gains of $0.21 million
- Clearview Ridge (Red Deer): 3 CRUs including a carwash (17,816 sf) for fair value gains of $0.14 million at JV%

Southern Alberta completed and transferred 85,422 sf (4 buildings) to Investment Properties:

- The District (Calgary): 2 CRUs including a veterinary hospital (22,865 sf) valued at $10.20 million for fair value gains of $1.41 million
- Greenwich (Calgary): 2 CRUs including the Calgary Farmers' Market (62,557 sf) with a fair value loss of $1.84 million as the tenants had not taken occupancy at year end.

Transfers occur upon completion of the buildings, while the fair value gains are recorded over the course of construction. In 2021, interdivisional fair value adjustments were made related to prior year building transfers which impacted the overall divisional fair value gains.

Future development opportunities

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

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

Current Projects					
Project	Location	Type	Total SF [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	143,200	–
West Henday Promenade	West Edmonton	*Regional mixed use centre*	515,000	116,300	–
Kingsview Market	Airdrie	*Regional shopping centre*	319,000	200,600	–
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	278,100	241,600	12,464
Clearview Market 2	Red Deer	*Neighbourhood shopping centre*	80,000	20,810	–
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	1,285,000	586,600	–
Campsite Industrial	Spruce Grove	*Industrial Park*	170,000	23,700	–
Jensen Lakes Crossing	St. Albert	*Neighbourhood shopping centre*	150,000	99,300	6,913
Woodbend Market	Leduc	*Neighbourhood shopping centre*	140,000	–	10,783
Greenwich	West Calgary	*Regional mixed use centre*	325,000	62,600	–
Vista Ridge	Sylvan Lake	*Neighbourhood shopping centre*	20,000	5,200	–

Expected Future Projects					
Project	Location	Type	Total SF [1]	Ownership Interest	Expected Start (year)
Laredo	Red Deer	*Neighbourhood shopping centre*	10,000	100%	2025+
Secord	Edmonton	*Neighbourhood shopping centre*	75,000	60%	2023
Keystone Common	North Calgary	*Regional power centre*	700,000	100%	2024
Mattson	Edmonton	*Neighbourhood shopping centre*	75,000	50%	2024+
Rollyview	Leduc	*Neighbourhood shopping centre*	75,000	100%	2025+
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	100%	2025+
West Pointe Marketplace	Lethbridge	*Regional power centre*	750,000	100%	2026+
Westview Commercial	West Calgary	*Neighbourhood shopping centre*	150,000	100%	2024+
Sora	South Calgary	*Neighbourhood shopping centre*	60,000	50%	2025+

(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.

Investment Properties

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

Our Investment Properties division oversees 4.75 million sf of income-producing commercial GLA and 593 residential units.

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

Our US properties provide the division with a stable income stream that diversifies our exposure to the western Canadian resource economy. We also own 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

($000s except as noted)	2021	2020
Commercial properties GLA under management (sf, total)	**4,753,285**	4,629,675
Properties owned and managed (sf)	**1,101,292**	997,414
Properties managed (sf)	**3,651,993**	3,632,261
Revenue (total)	**38,930**	38,004
Canadian properties	**17,332**	14,899
US properties	**15,494**	16,661
Management fees	**5,617**	5,722
Parking lots and other assets	**487**	722
Net operating income (NOI) (1)	**23,296**	23,660
Funds from operations (1)	**21,851**	22,116
Funds from operations per share (2)	**0.66**	0.66

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.

Since the formation of the REIT in 2013, the Investment Properties division's primary function is asset management and hands on property management. In 2020, we deferred 23 non-essential projects to minimize these activity at our properties and to improve near-term liquidity. The capital expenditures resumed in 2021.

Canadian properties

Our Canadian property portfolio grew in 2021 via completions and transfers from Property Development, adding nine buildings or 118,734 sf to owned and managed GLA and generating an increase in NOI over 2020. In 2020, eleven buildings were transferred from Property Development, adding 132,498 sf of GLA. With 6,913 sf of GLA under active development in the Property Development division, and another 23,247 sf completed and awaiting lease up, we expect our Canadian property portfolio to continue to grow.

Occupancy on properties owned by Investment Properties was 76% at December 31, 2021 (2020 - 79%). Committed occupancy is 88%. Weighted average base rent rate was $26.59 (2020 - $25.49) up $1.10. Occupancy was impacted by transfers from Property Developments during the latter half of 2021, where tenants have not yet occupied the building due to fixturing.

Net operating income (NOI) and same asset NOI are non-standard metrics used in the real estate industry to measure the performance of investment properties. The IFRS measurement most directly comparable to NOI and same asset NOI is segment earnings. The following is a reconciliation of Canadian properties same asset net operating income (NOI) to gross profit:

($000s except as noted)	2021	2020
Same asset NOI (1)	**9,691**	9,671
Properties transferred from PD	**1,184**	235
NOI(1)	**10,875**	9,906
Amortization of operating lease incentives	**(651)**	(596)
Straight-line rent adjustment	**1,308**	584
Gross profit	**11,532**	9,894

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.

Gross profit was $11.53 million up 17% from 2020 as a result of properties transferred from the Property Development Division over the past 12 months.

Same asset NOI was stable over 2020 at $9.69 million.

US properties

In the second quarter, we sold one residential unit in Arizona for a net sale price of $0.34 million (US$0.28 million) net of transaction costs.

In the third quarter, we sold 10 residential units at the Brownstones at Biltmore in Phoenix, AZ for $7.08 million (US $5.68 million) net of transaction costs.

Revenue on US properties was $15.49 million compared to $16.66 million in 2020. Occupancy was 75% at December 31, 2021 down 8% from 2020, 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 of 2021 at Melcor Glendale. The surrendered space previously contributed $0.41 million in base rent annually. Lower revenue was also due to the sale of Perimeter in Q3-2020 and Brownstones at Biltmore in Q3-2021. NOI was up 3% over 2020 due to the termination fee received at Melcor Glendale. Excluding this same-asset NOI was down due to lower occupancy.

At December 31, 2021, Weighted Average Base Rent (WABR) was $20.67 per sf compared to $20.91 at December 31, 2020. 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 except as noted)	2021	2020
Same asset NOI [(1)]	**6,633**	6,051
Third party disposals	**83**	457
NOI [(1)]	**6,716**	6,508
Foreign currency translation	**1,705**	2,243
Amortization of operating lease incentives	**(973)**	(1,150)
Straight-line rent adjustment	**(347)**	68
Gross profit	**7,101**	7,669

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.

Management fees & other

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the asset manager. Management fees were flat compared to 2020.

During 2021 we recognized $0.49 million in revenues on our parking stalls and other assets, down 33% from 2020 revenue of $0.72 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

FFO was flat over 2020 as a result of increased segment revenue due to the termination fee of $1.94 million 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.

Fair Value of Investment Portfolio

The fair value of our portfolio increased by $47.71 million over 2020. The increase in fair value was the result of $42.80 million in transfers of completed properties from Property Development and $3.29 million in property improvements. Other changes included fair value gains of $10.85 million, disposals of $7.43 million ($US5.96), foreign currency translation loss of $0.50 million, and changes to tenant improvements and straight line rent.

For the year ended December 31, 2021, Melcor's internal valuation team performed valuation assessments of 29 legal phases. Our qualified external valuation professionals valued 19 of the 29 legal phases with a fair value of $186.29 million. In 2021, we realized a fair value gain of $10.85 million throughout the year. In Q2-2020 our total Canadian portfolio was revalued by our external professionals. 2020 valuations resulted in a fair value loss of $20.39 million for the year.

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

($000s)	2021	2020
Alberta - all assets	**4,323**	(14,936)
US - residential	**204**	390
US - commercial	**6,323**	(5,846)
	10,850	(20,392)

We recognized fair value gains on our US portfolio as a result of the increase in stabilized NOI and a decrease in capitalization rates on certain commercial properties; partially offset by capital and tenant spending which did not result in a significant increase in fair value. Gains on our Alberta assets were primarily due to a decrease in capitalization rates on several properties and gains on:

- Northridge in St. Albert, AB,
- Clearview Market Square in Red Deer, AB and
- Jensen Lakes retail properties in St. Albert, AB.

Refer to note 28 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

REIT

The REIT owned 39 income-producing office, retail and industrial properties, representing 3,216,175 sf in GLA and a land lease community at December 31, 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.

We held a controlling 55.4% effective interest in the REIT through ownership of all Class B LP Units at December 31, 2021 (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 REIT's key performance measures:

($000s except as noted)	2021	2020
Rental revenue	**74,094**	74,572
Net operating income (NOI) (1)	**47,764**	46,456
Same asset NOI *(see calculation following)* (1)	**47,764**	46,456
Fair value adjustments	**2,879**	(62,748)
Occupancy	**87 %**	88 %
Funds from operations (1)	**45,049**	44,140
Funds from operations per share (2)	**1.37**	1.33

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.

Rental revenue was flat over 2020. During the year higher other revenue offset lower rent revenue (base rent and straight-line rent adjustments). Other revenue was up due to a lease that was terminated early in the first quarter resulting in $1.00 million in lease break fees.

In 2021 we completed 240,006 sf of lease renewals (including holdovers) and had 76,639 sf in new leases commence for steady occupancy of 87.1%. While the market is slightly soft, activity and opportunity across our portfolio in all asset classes continues.

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. We typically expect recovery revenue to correlate with changes in recoverable operating expenses. Recovery revenue was flat while direct operating expenses decreased 3% over 2020. Our recovery ratio (recoveries divided by direct operating expenses) was slightly increased over 2020 due to elevated bad debt in the comparative period. Excluding this anomaly, our recovery ratio was down 5% over 2020 due to a higher proportion of gross leases and fluctuations in expenditures incurred within the portfolio year to year.

Operating expenses were down 5% over 2020 due to the comparative period elevated bad debt. Excluding bad debt, operating expenses were up 9% over 2020. We have recognized $0.06 million in bad debt expense in 2021 (2020 - $1.04 million and an additional $0.71 million related to CECRA provisions).

Overall, direct operating expenses were down 3% over 2020 due to elevated bad debt in the comparative period.

($000s except as noted)	2021	2020
Same asset NOI (1)	**47,764**	46,456
NOI before adjustments	**47,764**	46,456
Amortization of operating lease incentives	**(4,218)**	(3,779)
Straight-line rent adjustment	**208**	655
Net rental income	**43,754**	43,332

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.

Net operating income (NOI) and same-asset NOI are non-GAAP financial measures 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. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.

NOI and same-asset NOI were up 3% over 2020. For 2021 and the comparative period, same-asset NOI is equal to NOI as there have been no asset acquisitions or dispositions in either period.

Funds from Operations

Funds From Operations (FFO) is a non-GAAP financial measures used in the real estate industry to measure the operating performance of investment properties. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information. FFO within this division increased by 2% over 2020 as a result of the fluctuations in fair value adjustments on investment properties and the amortization of operating lease incentives. Stability in FFO demonstrates the REIT's consistency in stabilizing Melcor's overall operating results.

Fair Value of REIT Portfolio

	2021	2020
Number of properties	**39**	39
Total GLA (sf)	**3,346,274**	3,338,397
GLA (REIT owned %) (sf)	**3,216,175**	3,208,298
Fair value of portfolio ($000s) [1]	**723,729**	716,292
Weighted average capitalization rate	**6.81 %**	7.00 %
Weighted average terminal cap rate	**6.90 %**	6.92 %
Weighted average discount rate	**7.86 %**	8.02 %

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.

For the year ended December 31, 2021, Melcor's Internal valuation team performed the valuation assessment. In 2021, 10 phases of 53 legal phases with a fair value of $130.25 million were valued by qualified independent external valuations professionals. Valuations performed during the year resulted in fair value gains of $2.88 million for the year. In 2020, the REIT's entire portfolio with a fair value of $716.29 million was valued by qualified independent external valuation professionals, resulting in a fair value loss of $62.75 million. Please refer to note 28 to the consolidated statements for additional information on the calculation of fair value adjustments.

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

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

($000s)	2021	2020
Northern Alberta	**1,273**	(40,553)
Southern Alberta	**2,089**	(18,488)
Saskatchewan & British Columbia	**(483)**	(3,707)
	2,879	(62,748)

We recognized gains on eight assets during the year, one Edmonton area office property; two Edmonton area retail properties; and five Calgary area retail properties (on account of a 25 bps decrease in cap rates). We recognized losses on one asset during the year, a Calgary area office property due to a decrease in average market rents. There were no other significant changes to fair value during the year. Fair value adjustments represent a change of less than 1% in the fair value of our portfolio.

The REIT will continue to monitor its portfolio and the market in assessing fair value changes and cautions readers that further fair value adjustments may be required in the future.

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 course fees, number of rounds played and customer satisfaction and enjoyment.

Operating Results

($000s except as noted)	2021	2020
Revenue	9,989	7,703
Gross profit	4,248	3,315
Gross margin (%) [1]	42.5 %	43.0 %
Earnings	1,789	1,493

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.

Our Black Mountain course opened on April 1, 2021, and the Edmonton and Spruce Grove courses under management opened on April 2, 2021. 2020 course openings were delayed due to health regulations in place as a result of COVID-19. In spite of restrictions, each of our golf courses achieved records for the number of rounds played, contributing to Recreational Properties revenue growth of 30%. As a relatively safe recreational and social activity, golf enjoyed renewed popularity in 2021. Coupled with favourable weather conditions, rounds played in 2021 increased by 17% to 136,779. Melcor operated golf courses in Alberta closed on October 28 and Kelowna closed on October 31. Gross margin remained flat at 43% as a result of reduced staffing and improved operating efficiencies.

Food and beverage contributed revenue of $2.46 million compared to $1.77 million in 2020 when additional dining restrictions were in place.

				2021
	Ownership interest	Season opened	Season closed	Rounds of golf [1]
Managed by Melcor:				
Lewis Estates (Edmonton)	60 %	April 2	October 28	34,823
The Links (Spruce Grove)	100 %	April 2	October 28	33,407
Black Mountain (Kelowna)	100 %	April 1	October 31	39,591
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50 %	April 14	October 17	28,958

				2020
	Ownership interest	Season opened	Season closed	Rounds of golf [1]
Managed by Melcor:				
Lewis Estates (Edmonton)	60 %	May 7	October 18	29,523
The Links (Spruce Grove)	100 %	May 7	October 18	27,900
Black Mountain (Kelowna)	100 %	May 1	November 6	33,531
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50 %	May 5	October 15	25,519

[1] Rounds of golf indicated at 100%.

General and Administrative Expense

General and administrative expenses was up 20% over 2020, as a result of increased activity and the reversal of various cost constraint initiatives put in place during 2020 in response to the COVID-19 pandemic. As a percentage of revenue, G&A was 7% (2020 - 8%) as a result of increased revenue. Management continues to prudently monitor and manage controllable expenses.

Income Tax Expense

The statutory tax rate for the year ended December 31, 2021 is 23% (2020 - 24%). The most significant adjustment impacting the 2021 effective tax rate was the fair value gain 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 the loss in the REIT (after removal of fair value gain on Class B units) which is not deductible for tax purposes.

Financing

As at December 31, 2021, our total general debt outstanding was $716.91 million compared to $721.79 million in 2020. The financing function is managed by our corporate division and decisions on how to deploy operating and acquisition funds are a centrally managed corporate decision. We use various forms of financing to fund our development and acquisition activities. We are often able to leverage the assets in one division to fund development opportunities in others.

A summary of our debt is as follows:

As at ($000s)		2021	2020
Melcor - revolving credit facilities	a	87,050	59,925
REIT - revolving credit facility	b	–	9,986
Project specific financing	c	40,758	66,248
Secured vendor take back debt on land inventory	d	11,794	28,616
Debt on investment properties and golf course assets	e	506,382	490,801
REIT - convertible debentures	f	70,929	66,210
		716,913	721,786

a) Melcor - revolving credit facilities

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

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

Under the terms of the facilities, Melcor pledges specific agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral. The facilities that mature on July 31, 2023 are renewable one year in advance of expiry and may be modified.

A summary of the credit facilities is as follows:

As at ($000s)		2021	2020
Credit limit approved	i)	191,410	188,550
Supportable credit limit	ii)	174,790	150,613
Credit used		(87,050)	(59,925)
Credit available		87,740	90,688

i. The portion of these loan limits that relate solely to Melcor Developments Ltd. is $120.00 million (2020 - $120.00 million) with the remaining balance pertaining to specific joint arrangements.

ii. Our supportable credit limit is calculated based on a formula and tests as required by the bank. The supportable credit limit is calculated based on agreements receivable balances and land inventory. As such, the supportable limit fluctuates in response to increases or decreases in these balance sheet accounts. Management monitors the supportable credit limit and keeps the bank informed at all times of its current collections and inventory production plans.

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

As at ($000s)	2021	2020
Total letter of credit facility	75,947	76,097
Letters of credit issued	(27,050)	(25,304)
Available for issue	48,897	50,793

b) REIT - revolving credit facility

The REIT has an available credit limit based on the carrying values of specific investment properties up to a maximum of $35.00 million for general purposes, including a $5.00 million swingline sub-facility. An additional $15.00 million is available by way of an accordion feature, subject to lender approval. Depending on the form under which the facility is accessed, rates of interest will vary between prime plus 1.25% or bankers' acceptance plus

2.25% stamping fee. The agreement also provides the REIT with $5.00 million in available letters of credit which bear interest at 2.25%. The facility matures June 1, 2024.

As at December 31, 2021 we had $nil (December 31, 2020 - $9.99 million) drawn from the facility (net of unamortized transaction fees and unamortized discount on bankers acceptance); no letters of credit were posted in the current or comparative periods.

c) Project specific financing

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

The composition of our project specific financing is as follows:

As at ($000s)	2021	2020
Project specific debt on investment properties under development, with interest rates between 2.75% and 2.95% (2020 - 2.75% to 2.95%)	38,471	45,858
Project specific debt on land, with 3.83% interest rate (2020 - 3.45% to 9.48%)	2,287	20,390
	40,758	66,248
Weighted average effective interest rate	2.92 %	3.89 %

Project specific debt is due on demand. All USD project specific financing in 2020 was paid off in 2021.

d) Secured vendor take back debt on land inventory

This debt is primarily comprised of loans on the acquisition of land that are held by the land vendor (fixed and variable rate financing with repayments over 2 years). Current debts mature from 2022 to 2023.

As at ($000s)	2021	2020
Agreements payable with interest at the following contractual rates:		
Fixed rates of 4.00% - 4.25% (2020 - 4.00% to 5.00%)	11,794	24,167
Variable rate of nil% (2020 - 4.45%)	–	4,449
	11,794	28,616
Weighted average effective interest rate	4.13 %	4.33 %

As at December 31, 2021 no debt was payable in US dollars (2020 - $nil).

e) Debt on investment properties and golf course assets

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

Debt on investment properties and golf course assets in the amount of $506.38 million, excluding fair value adjustments and deferred finance fees, reflects financing placed on investment properties that have a carrying value of $807.76 million.

Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. New mortgage rates from Canadian lending institutions ranged from 3.24% to 3.83% in 2021.

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

As at ($000s)	2021	2020
Canadian mortgages at fixed rates	387,385	377,657
Canadian mortgages at variable rates	60,035	49,431
Canadian mortgage with interest only payments	–	440
US mortgages at fixed rates	45,184	52,303
US mortgages at variable rates	17,315	12,023
	509,919	491,854
Interest rate ranges	(1.75% - 4.90%)	(2.54% - 5.55%)
Weighted average effective interest rate	3.42 %	3.39 %

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

Year	Loan renewal amount ($000s)	Weighted average interest rate	Number of loans
2022	42,906	2.82%	6
2023	56,471	3.89%	5
2024	61,536	3.99%	9
2025	60,682	3.63%	10
2026	81,547	3.17%	11
2027	–	–%	–
2028	57,820	3.94%	6
2029	74,493	3.36%	6
2030	37,206	2.82%	4
2031	37,258	2.82%	4

As at December 31, 2021, $62.50 million of debt was payable in US dollars (2020: $64.33 million).

f) REIT - convertible debentures

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

On October 29, 2019, the REIT issued a 5.10% extendible convertible unsecured subordinated debenture ("2019 Debenture") to the public for gross proceeds of $46.00 million, including $6.00 million issued pursuant to the exercise of an over-allotment option. The 2019 Debenture bears interest at an annual rate of 5.10% payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2019. The maturity date of the 2019 Debenture is December 31, 2024. The 2019 Debenture can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 112.3596 trust units per one thousand principal amount of convertible debenture.

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

Liquidity & Capital Resources

The following table represents selected information as at December 31, 2021, compared to December 31, 2020.

As at ($000s except as noted)	**2021**	**2020**
Cash & cash equivalents	**59,920**	29,201
Accounts receivable	**10,097**	12,414
Agreements receivable	**127,739**	73,336
Revolving credit facilities	**87,050**	69,911
Accounts payable and accrued liabilities	**50,476**	36,096
Total assets	**2,113,927**	2,001,285
Total liabilities	**997,458**	923,856
Debt to equity ratio (1)	**0.89**	0.86

(1) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.

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.

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

Cash requirements

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

Contractual obligations include:

		Payments due by period			
	Total	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**
Debt on investment properties and golf course assets	509,919	57,839	136,796	139,250	176,034
Revolving credit facilities	87,050	87,050	–	–	–
Secured vendor take back debt on land inventory	11,794	6,077	5,717	–	–
Project specific financing	40,758	40,758	–	–	–
REIT debenture	68,975	22,975	46,000	–	–
Interest expense	119,021	24,734	36,682	25,176	32,429
Operating leases	228	182	46	–	–
Total contractual obligations	837,745	239,615	225,241	164,426	208,463

We also have a contractual obligation of $88.28 million on the non-controlling interest portion of REIT units as they are redeemable at the option of the holder.

Sources and uses of cash

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

	2021	**2020**
Cash flows from operating activities	**72,822**	53,120
Cash flows used in investing activities	**(17,678)**	(17,414)
Cash flows from (used in) financing activities	**(24,556)**	(43,216)

Cash from operations was $19.70 million higher in 2021. Net income, adjusted for non-cash items, contributed $80.47 million to cash from operations compared to $50.63 million in the comparative period. In 2021 we purchased land for $3.04 million(net of transaction costs). Development activities resulted in $35.08 million in net cash inflows in 2021 compared to $16.66 million in net cash inflows in 2020.

Agreements receivables at year end were $127.74 million, up from $73.34 million as a result of the volume of plan registrations and sales in the forth quarter of 2021. This had a negative impact of cash in the year of $54.40 million compared to a positive impact of $3.07 million in 2020, when we saw a decrease in year end agreements receivable over 2019. We also incurred $8.05 million in tenant incentives and direct leasing costs in 2021 to renew and secure new leases.

Cash used in investing activities was $17.68 million, an increase of $0.26 million over 2020. During 2021, there was $1.36 million cash outflows related to land purchased by our property development division for commercial development.

During 2021 we disposed of a residential brownstone complex (10 units) in Phoenix, AZ as well as one residential unit in Arizona for net proceeds of $7.43 million.

We continue to invest in improving our asset base through value enhancing projects. Additions to investment properties include development activities in Property Development and enhancements to properties held in the Investment Properties and REIT operating divisions. In 2021 we invested $22.81 million in properties under development, property improvements and capitalized borrowing costs, compared with $23.59 million in 2020.

Cash from financing activities was down $18.66 million over 2020 largely a result of net repayments made towards our revolving credit facilities balance of $17.14 million compared to draws on our credit facilities in 2020 of $23.40 million. General debt contributed to a net cash outflows of $23.50 million through financings received and repayments made, compared to net cash outflows of $7.23 million in 2020.

During the year, we repurchased 244,726 shares which were canceled and returned to treasury for $3.35 million.

In 2021, we paid dividends of $0.44 per share (2020 - $0.50 per share), for a total cash outflow of $14.53 million, compared to $11.27 million paid in 2020.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at December 31, 2021 there were 32,961,015 common shares issued and outstanding, 494,300 stock options, and 288,667 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of shares issued. As at March 16, 2022 there were 32,840,734 common shares issued and outstanding, 403,700 stock options, and 276,999 restricted share units.

Please refer to note 16 to the consolidated financial statements for information pertaining to our outstanding shares and options.

Normal Course Issuer Bid

On April 1, 2020, Melcor commenced a Normal Course Issuer Bid (NCIB) which expired on March 31, 2021. Under the bid, we were allowed to purchase up to 1,661,033 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 1,000 common shares.

On April 1, 2021 Melcor commenced a new Normal Course Issuer (NCIB) which allowed us to purchase up to 1,654,553 shares 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. During the year, there were 244,726 common shares purchased for cancellation by Melcor.

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

Also, on April 1, 2021 the REIT commenced a normal course issuer bid ("2021 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 repurchase 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 NCIB will end one year from commencement on March 31, 2022. During the year the REIT purchased a total of 85,683 units for cancellation.

On April 1, 2020 the REIT commenced a normal course issuer bid ("2020 NCIB") which allowed the REIT to purchase up to 655,792 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 3,207. 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 NCIB ended one year from commencement, on March 31, 2021.

In connection with the commencement of the REIT NCIB, we entered into an automatic share purchase plan agreement with a broker to allow for the purchase of trust units under the NCIB at times when we ordinarily would not be active in the market due to regulatory restrictions or self-imposed trading blackout periods. This plan was cancelled during 2020 in order to conserve cash as a response to COVID-19 and then subsequently reinstated effective April 1, 2021.

Off Balance Sheet Arrangements

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

A discussion of our letter of credit facility arrangement can be found in the Financing section. Refer to note 19 to the consolidated financial statements for information pertaining to our guarantees and letters of credit.

Quarterly Results

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

	2021				2020			
($000s)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	150,598	56,213	65,547	43,270	80,947	73,051	39,053	33,767
Net income (loss)	44,769	16,561	9,014	(14,033)	(112)	7,526	(62,590)	66,640
FFO [2]	42,311	12,516	16,326	10,174	21,908	14,315	9,276	5,925
Per Share								
Basic earnings (loss)	1.35	0.50	0.27	(0.42)	(0.01)	0.23	(1.88)	2.00
Diluted earnings (loss)	1.35	0.50	0.27	(0.42)	(0.01)	0.23	(1.88)	2.00
FFO basic [1]	1.28	0.38	0.49	0.31	0.66	0.43	0.28	0.18
FFO diluted [1]	1.28	0.38	0.49	0.31	0.66	0.43	0.28	0.18
Book value [1]	33.87	32.83	32.76	34.88	32.56	32.83	32.76	34.88

(1) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.
(2) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 39 for further information.

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, and construction is often completed with corresponding transfers in the fourth quarter.

Fourth Quarter

Three months ended December 31 ($000s)	2021	2020
Revenue	150,598	80,947
Cost of sales	(89,963)	(45,870)
Gross profit	60,635	35,077
General and administrative expense	(6,873)	(4,260)
Fair value adjustment on investment properties	9,330	(6,940)
Adjustments related to REIT units	(997)	(14,225)
Gain (loss) on sale of assets	24	1
Operating earnings	62,119	9,653
Interest income	125	120
Foreign exchange gain (loss)	76	(369)
Finance costs	(5,337)	(7,620)
Net finance costs	(5,136)	(7,869)
Income before income taxes	56,983	1,784
Income tax expense	(12,214)	(1,896)
Net income (loss) for the period	44,769	(112)
Earnings (loss) per share attributable to Melcor's shareholders:		
Basic earnings (loss) per share	1.35	(0.01)
Diluted earnings (loss) per share	1.35	(0.01)

Highlights of the fourth quarter include:

- Our Property Development division completed and transferred 7 buildings (95,869 sf) to Investment Properties.
- Our Community Development division registered 23 plans in 14 communities, which added 1,358 lots to inventory with 1,133 lots sold in Q4-2021. This compares to 9 plan registrations in 8 communities adding 365 lots to inventory with 491 lots sold in Q4-2020.

Segmented information for the fourth quarter is as follows:

Three months ended December 31, 2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	123,922	30,918	9,501	18,542	698	–	183,581	(32,983)	**150,598**
Cost of sales	(77,475)	(30,900)	(4,343)	(8,009)	(987)	–	(121,714)	31,751	**(89,963)**
Gross profit	46,447	18	5,158	10,533	(289)	–	61,867	(1,232)	**60,635**
General and administrative expense	(1,831)	(603)	(777)	(738)	(657)	(2,976)	(7,582)	709	**(6,873)**
Fair value adjustment on investment properties	–	1,219	7,374	214	–	–	8,807	523	**9,330**
Loss on sale of assets	–	–	–	–	24	–	24	–	**24**
Interest income	111	–	–	10	–	4	125	–	**125**
Segment Earnings (loss)	44,727	634	11,755	10,019	(922)	(2,972)	63,241	–	**63,241**
Foreign exchange gain									**76**
Finance costs									**(5,337)**
Adjustments related to REIT units									**(997)**
Income before income taxes									**56,983**
Income tax expense									**(12,214)**
Net income for the period									**44,769**

Three months ended December 31, 2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	54,294	26,015	9,433	18,742	563	–	109,047	(28,100)	80,947
Cost of sales	(34,572)	(25,950)	(3,979)	(7,618)	(271)	–	(72,390)	26,520	(45,870)
Gross profit	19,722	65	5,454	11,124	292	–	36,657	(1,580)	35,077
General and administrative expense	(997)	(446)	(296)	(764)	(214)	(2,264)	(4,981)	721	(4,260)
Fair value adjustment on investment properties	–	588	(5,470)	(2,917)	–	–	(7,799)	859	(6,940)
Loss on sale of assets	–	–	–	–	1	–	1	–	1
Interest income	100	–	–	12	–	8	120	–	120
Segment Earnings (loss)	18,825	207	(312)	7,455	79	(2,256)	23,998	–	23,998
Foreign exchange loss									(369)
Finance costs									(7,620)
Adjustments related to REIT units									(14,225)
Income before income taxes									1,784
Income tax expense									(1,896)
Net loss for the period									(112)

Outlook

Melcor owns a high quality portfolio of assets, including raw land, developed land inventory (residential lots and acres for multi-family and commercial development), income-producing properties and championship golf courses. Alberta, our largest market, has undergone dramatic changes throughout the past few years, primarily related to volatile oil prices. We have diversified our business across asset class and geography, including investment in the US with raw land and commercial property acquisitions and the continued development of our community in Aurora, CO.

The recent increase in the price of oil, coupled with the hot housing market in Alberta and a trend toward in-migration from across the country are hallmarks of a bullish market in Alberta; we hope that this will reverse the negative sentiment towards Alberta that has been prevalent since late 2014.

To continue to meet housing market demand, we expect to bring on new phases in 2022. On the commercial side, retail activity remains steady and we expect that to continue in 2022. Our US assets continue to deliver positive results and we expect the US to continue to grow as a percentage of our overall revenues.

Our business model has adapted to changing times and economic cycles over the years. We will maintain our disciplined, conservative approach to operations to ensure that we remain profitable while achieving our fundamental goals of protecting shareholder investment and sharing corporate profit with our shareholders.

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

Interest in the REIT

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

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

As of March 16, 2022, Melcor holds a 55.4% (December 31, 2020 - 55.3% and 2021 - 55.4%) effective interest in the REIT through ownership of all Class B LP units of the partnership through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

As we retain control over the REIT, we consolidate the REIT and record 100% of its revenues, expenses, assets and liabilities. We reflect the public's 44.6% interest (December 31,2020 - 44.7% and 2021 - 44.6%) in the REIT as a financial liability.

Arrangements between Melcor and the REIT

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

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

a. a base annual management fee calculated and payable on a quarterly basis, equal to 0.25% of the REIT’s gross book value;
b. a capital expenditures fee equal to 5.0% of all hard construction costs incurred on capital projects in excess of $0.10 million;
c. an acquisition fee equal to 0.5% - 1.0% of the purchase price;
d. a financing fee equal to 0.25% of the debt and equity of all financing transactions completed for the REIT to a maximum of actual expenses incurred by Melcor.

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

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

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

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

Business Environment & Risks

A discussion of credit risk, liquidity risk and market risk can be found in note 27 to the consolidated financial statements.

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

General Risks

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

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

We participate in joint arrangements under the normal course of business that may have an effect on certain assets and businesses. These joint arrangements may involve risks that would not otherwise be present if the third parties were not involved, including the possibility that the partners have different economic or business interests or goals. Also, within these arrangements, Melcor may not have sole control of major decisions relating to these assets and businesses, such as: decisions relating to the sale of the assets and businesses; timing and amount of distributions of cash from such entities to Melcor and its joint arrangement partners; and capital expenditures.

Real Estate Risk

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

Other real property risks include:

- The value of the property and any improvements made to it;
- Rollover of leases and the ability to rent unleased suites;
- Financial stability of tenants and their ability to pay rent and fulfill their lease obligations; and
- Geographic concentration.

Cash available for dividends will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of space in our properties becomes vacant and cannot be leased on economically favourable lease terms.

General declines in real estate markets, including changes in demand for real estate resulting from COVID-19 and related economic conditions, will impact fair values reported or the cash flows associated with owning or disposing of such properties. Market assumptions applied for valuation purposes do not necessarily reflect Melcor's specific history or experience, and the conditions for realizing the fair values through a sale may change or may not be realized. Consequently, there is a risk that the actual fair values may differ, and the differences may be material. In addition, there is an inherent risk related to the reliance on and use of a single appraiser as this approach may not adequately capture the range of fair values that market participants would assign to the real estate properties. Certain ratios and covenants could be negatively affected by downturns in the real estate market and could have significant impact on the REIT's operating revenues and cash flows, as well as the fair values of the real estate properties.

Concentration of Assets Risk

The majority of our assets are located in Alberta. Adverse changes in economic conditions in Alberta may have a material adverse effect on our business, cash flows, financial condition and results of operations and ability to pay dividends. The Alberta economy is sensitive to the price of oil and gas. To mitigate against this risk, we endeavor to diversify our revenue mix by product and location. On the flip-side, growth in the price of oil and gas may have a positive affect. Melcor's shareprice has traditionally tracked with oil prices.

Financing Risk

We use debt and other forms of leverage in the ordinary course of business to enhance returns to shareholders. Most leveraged debt within the business has recourse only to the assets being financed or margined and has no recourse to Melcor.We are subject to general risks associated with debt financing. The following risks may adversely affect our financial condition and results of operations:

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

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

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

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

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

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

Environmental Risk

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

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

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

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

Environmental laws and other requirements can change and we may become subject to more stringent environmental laws or other requirements in the future. Compliance with more stringent environmental laws or requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on our business, cash flows, financial condition and results of operations and ability to pay dividends to shareholders.

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

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

Pandemics, Natural Disasters or Other Unanticipated Events

The occurrence of pandemics, natural disasters, or other unanticipated events, in any of the areas where we or our partners and suppliers operate could disrupt operations. In addition, pandemics, natural disasters or other unanticipated events could have a material adverse effect on our business, financial condition, results of operations and cash flows. The outbreak of the novel strain of the coronavirus (COVID-19) has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. Future outbreaks of viruses or other contagions, epidemic or pandemic diseases including subsequent outbreaks of COVID-19 may lead to prolonged voluntary or mandatory building and/or business closures, restrictions on travel and gatherings, quarantines, self-isolation and physical distancing. The impact of these measures may cause a general shutdown of economic activity and disrupt workforce and business operations in the regions where we operate. An occurrence such as this, including the COVID-19 pandemic, could have material adverse effects and increased risk, including but not limited to:

- negative impact on pricing and availability of Canadian debt and equity capital markets
- material reduction in rental revenue and related collections due to financial hardship and government ordered closures of certain business
- reduced demand for commercial real estate leading to a material increase in vacancy and decline in revenue
- trading price of the Melcor's securities
- negative impact to real estate valuations from declining revenue and lack of market activity
- ability to access capital markets at a reasonable cost
- uncertainty regarding delivering services due to illness, Melcor or government imposed isolation programs, restrictions on the movement of personnel, closures and supply chain disruptions
- supply chain disruptions lengthening delivery times for construction materials and increasing their costs
- impact of additional legislation, regulation, fiscal and monetary policies and other government interventions

This is not an exhaustive list of all risk factors. To mitigate these risks, we have a comprehensive health and safety program and have expanded it to include pandemics. We have introduced new policies and practices both internally and at the properties that we manage to reduce the spread of COVID-19.

We continually monitor the situation and will take additional measures if necessary. We will continue to transparently communicate our response plans with our staff, tenants and stakeholders.

Cyber Security Risk

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

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

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

Volatile Market Price of the Melcor's Securities

Financial markets have experienced significant price and volume fluctuations in recent years. In many cases volatile market movement impacts a wide variety of issuers unrelated to the operating performance, underlying asset values or prospects of such issuers. The market price of Melcor's securities may decline even if our financial performance, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in losses. As well, certain institutional investors may base their investment decisions on consideration of Melcor's environmental, governance and social practices and performance according to such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited investment or no investment in Melcor's securities by those institutions. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil exist for a protracted period of time, our operations and the trading price of our securities could be adversely affected.

Community Development

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

In addition, supply chain delays and other issues have recently caused volatility in pricing and delivery times for homes under construction.

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

Property Development

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

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

Investment Properties and REIT

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

Recreational Properties

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

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

Other Financial Information

Critical Accounting Estimates

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

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

Changes in Accounting Policies and Adoption of IFRS

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

Subsequent Events

Please refer to note 29 to the consolidated financial statements for information pertaining to subsequent events.

Joint Arrangement Activity

We record only our proportionate share of the assets, liabilities, revenue and expenses of our joint arrangements. Refer to note 23 to the consolidated financial statements for a listing of our current joint arrangements. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to Melcor.

Joint arrangement activity at 100% ($000s)	2021	2020
Revenue	**192,650**	161,800
Earnings	**62,219**	21,937
Assets	**1,081,983**	939,945
Liabilities	**472,594**	328,459

Joint arrangement activity at Melcor's ownership % ($000s) [1]	2021	2020
Revenue	**90,823**	73,126
Earnings	**29,608**	13,303
Assets	**488,178**	427,745
Liabilities	**205,691**	146,766

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

Internal Control over Financial Reporting and Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant and material information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely manner. Under the supervision of the CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Canada by National Instrument 52-109 as of December 31, 2021. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures related to Melcor and its subsidiaries and joint arrangements were effective.

Internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management designed these controls based on the criteria set out in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). The CEO and CFO have certified that the internal controls over financial reporting were properly designed and effective for the year ended December 31, 2021.

There has been no change to Melcor's disclosure controls and procedures or internal control over financial reporting during the year ended December 31, 2021, that materially affected, or is reasonably likely to materially affect, Melcor's internal control over financial reporting.

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

Non-GAAP and Non-standard Measures

Melcor's financial statements are prepared in accordance with IFRS. Throughout this MD&A, we refer to terms known as non-GAAP financial performance measures that are not specifically defined in the CPA Canada Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We use REALpac definitions for items such as FFO except for FFO we have included an adjustment for amortization of deferred financing fees, which is included in non-cash financing costs.

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

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

Calculations

Net operating income (NOI): NOI is a non-GAAP financial measure and is defined as rental revenue, adjusted for amortization of tenant improvements and straight-line rent adjustments, less direct operating expenses as presented in the statement of income and comprehensive income. A reconciliation of NOI to the most comparable IFRS measure, net income, is as follows:

Investment Properties

($000s)	Year Ended	
	2021	2020
Segment earnings [1]	**31,077**	(30)
Fair value adjustment on investment properties	**(10,850)**	20,392
General and administrative expenses	**2,409**	2,141
Interest income	**(1)**	(18)
Amortization of operating lease incentives	**1,624**	1,754
Straight-line rent adjustments	**(963)**	(579)
Divisional NOI	**23,296**	23,660

(1) Refer to note 24 to the consolidated financial statements

REIT

($000s)	Year Ended	
	2021	2020
Segment earnings [1]	**43,710**	(22,387)
Fair value adjustment on investment properties	**(2,879)**	62,748
General and administrative expenses	**2,953**	3,043
Interest income	**(30)**	(72)
Amortization of operating lease incentives	**4,218**	3,779
Straight-line rent adjustments	**(208)**	(655)
Divisional NOI	**47,764**	46,456

(1) Refer to note 24 to the consolidated financial statements

Further discussion over NOI can be found in the Investment Property and REIT Divisional Results sections starting on page 20 of the MD&A.

Same-asset NOI: Same-asset NOI is a non-GAAP financial measure that compares the NOI on assets that have been owned for the entire current and comparative period and are classified for continuing use. Further discussion over same-asset NOI can be found in the Investment Property and REIT Divisional Results sections starting on page 20 of the MD&A.

Fair value of investment properties: Fair value of investment properties in the REIT Divisional results section of the MD&A starting on page 23 is a supplementary financial measure and is calculated as the sum of the balance sheet balances for investment properties and other assets (TI's and SLR).

Gross margin (%): Gross margin percent is a supplementary that indicates the relative efficiency with which we earn revenue. This ratio is calculated by dividing gross profit by revenue. Please refer to the 2021 Highlights section on page 11 of the MD&A for further discussion.

Net margin (%): Net margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn income. This ratio is calculated by dividing net income by revenue. Please refer to the 2021 Highlights section on page 11 of the MD&A for further discussion.

Book value per share: Book value per share is a non-GAAP financial ratio and is calculated as shareholders' equity over number of common shares outstanding. Please refer to the 2021 Highlights section on page 11 of the MD&A for further discussion.

Debt to equity ratio: this is a non-GAAP financial ratio and is calculated as total debt over total equity. Refer to the Liquidity & Capital Resources section on page 28 of the MD&A for further discussion.

Portion of total revenue: Portion of total revenue is a supplementary financial measure and is calculated as divisional revenue over total consolidated revenue. Refer to the Divisional Results section on page 14 of the MD&A for further information.

Portion of total gross profit: Portion of total gross profit is a supplementary financial measure and is calculated as divisional gross profit over total consolidated gross profit. Refer to the Divisional Results section on page 14 of the MD&A for further information.

Funds from operations (FFO): FFO is a non*GAAP financial measure and is defined as net income in accordance with IFRS, excluding (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; (vi) adjustment for amortization of deferred financing fees, which is included in non-cash financing costs and (vii) fair value adjustment on derivative instrument, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties. Further discussion over FFO, including a reconciliation from net income, can be found in the Funds from Operations section on page 14 of the MD&A and in the tables below:

Consolidated

($000s)	Year Ended	
	2021	2020
Net income for the year	**56,311**	11,464
Amortization of operating lease incentives	**8,160**	7,879
Fair value adjustment on investment properties	**(19,370)**	76,480
Depreciation on property and equipment	**1,334**	1,407
Stock based compensation expense	**1,132**	873
Non-cash financing costs	**3,479**	2,043
Gain on sale of asset	**(151)**	(40)
Deferred income taxes	**4,684**	(5,409)
Fair value adjustment on REIT units	**25,748**	(43,273)
FFO	**81,327**	51,424

Investment Properties

($000s)	Year Ended	
	2021	2020
Divisional income for the year (1)	**31,077**	(30)
Fair value adjustment on investment properties	**(10,850)**	20,392
Amortization of operating lease incentives	**1,624**	1,754
Divisional FFO	**21,851**	22,116

(1) Refer to note 24 to the consolidated financial statements

REIT

($000s)	Year Ended	
	2021	2020
Divisional income for the year (1)	**43,710**	(22,387)
Fair value adjustment on investment properties	**(2,879)**	62,748
Amortization of operating lease incentives	**4,218**	3,779
Divisional FFO	**45,049**	44,140

(1) Refer to note 24 to the consolidated financial statements

FFO per share: FFO per share is a non-GAAP financial ratio and is defined as FFO over basic weighted average common shares outstanding. Refer to the Funds From Operations Section on page 14 of the MD&A for further discussion.