

PRESS RELEASE

for immediate distribution

Melcor Developments announces first quarter results, declares quarterly dividend of \$0.13 per share

Edmonton, Alberta | May 8, 2019

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the quarter ended March 31, 2019. Revenue for the quarter was \$34.88 million, down 21% over Q1-2018. Lower sales in the Community Development division led to a 53% decrease in divisional revenue. Investment Properties revenue grew by 27% over Q1-2018 as a result of new transfers from the Property Development division and third party acquisitions, which led to 27% growth in owned gross leasable area.

Net income for the quarter was \$1.59 million or \$0.05 per share (basic) compared with a net income of \$14.65 million or \$0.44 per share (basic) in the same period of 2018. Net income is impacted by non-cash fair value adjustments on investment properties and on REIT units. Funds from operations (FFO) was \$5.68 million or \$0.17 per share compared with \$4.92 million or \$0.15 per share in the same period of 2018. The FFO increase compared with last year is primarily due to the negative tax impact from the sale of assets to Melcor REIT in Q1-2018. FFO eliminates the elements that have no cash impact on our business from net income and management believes FFO better reflects Melcor's true operating performance.

Darin Rayburn, Melcor's President and Chief Executive Officer, commented on the quarter: "We continue to operate in a challenging economic climate in the markets and real estate asset classes where we are active. Income Properties division revenue growth reported this quarter is consistent with our strategy to grow our commercial assets. We increased our owned commercial Gross Leasable Area (excluding REIT) by 27% over Q1-2018 via transfers from Property Development and third party acquisitions. Our income-generating divisions (including REIT) contributed 79% of revenue in the quarter, resulting in a 2% improvement in gross margin and demonstrating the importance of our strategy to diversify business lines to reduce our reliance on revenue sources that are cyclical both over time, depending on broader economic factors, and seasonally with the construction season.

Community Developments sold fewer single-family lots in Q1 2019 vs Q1 2018 as a result of the soft residential market across Canada; however, several factors also lifted revenue beyond normal Q1 levels for the division in the comparable period in 2018 due to timing of land sales and deals. These factors contributed \$7.38 million to revenue in Q1-2018. We continue to move new residential phases and communities forward where market demand exists and when pre-sale thresholds are met.

Property Developments is actively engaged in creating additional phases of existing commercial projects and some new projects for the 2019 construction season. Currently there is 141,590 square feet of commercial properties under development. This growth positions Melcor well for the future as these commercial assets will eventually transfer to Investment Properties for long-term income-generation and may be sold to the REIT to recapture the value created.

We continue to be proactive in all areas of our business, to execute on our strategy of moving cautiously during challenging economic times, reacting to market cycles and changes and seeking out opportunities to benefit from these cycles and generate revenue.

With a strong financial position, including deployable cash, and high quality assets and raw land inventory, we remain well-positioned for 2019."

The Board today declared a quarterly dividend of \$0.13 per share, payable on June 28, 2019 to shareholders of record on June 15, 2019. The dividend is an eligible dividend for Canadian tax purposes.

First Quarter Results

Revenues in Q1-2019 were down 21% as a result of the soft residential market in Canada and the timing of sales in the US residential market contributing to a 53% decrease in Community Development revenues over the prior year. US revenue will continue to be lumpy while we ramp up our Harmony project in Aurora, CO. This decline was partially offset by the 27% increase in Investment Properties revenue as a result of growth in owned gross leasable area (GLA) via transfers from Property Development and third party acquisitions, also 27%. Strategies employed to diversify geographically and by product mix over the past few years continue to positively impact our financial results to offset the impact of softer markets in Alberta.

Highlights of the first quarter include:

- Our Property Development division is actively engaged in a number of projects as we enter the 2019 construction season. Our Property Development team started 18,471 sf of development during the quarter and currently has 141,590 sf of development planned for the 2019 construction season.
- Investment Properties division revenue grew by 27% due to the 27% increase in owned GLA compared to Q1-2018 as a result of transfers from Property Development and third party acquisitions.
- The REIT continued to produce stable results with consistent occupancy and base rents.
- Net income of \$1.59 million in the quarter was negatively impacted by non-cash fair value losses on investment properties of \$0.02 million and on REIT units of \$1.58 million. These losses are driven by market forces outside of Melcor's control.
- Funds from operations were up 15% to \$5.68 million compared with Q1-2018, primarily due to the negative tax impact of the sale to the REIT in that period. Management believes funds from operations (FFO) is a more accurate reflection of our true operating performance.
- We paid a quarterly dividend of \$0.13 per share on March 29, 2019. The REIT paid distributions of \$0.05625 per trust unit in January, February and March for a quarterly payout ratio of 103%.
- On May 8, 2019 we declared a quarterly dividend of \$0.13 per share, payable on June 28, 2019 to shareholders of record on June 15, 2019. The dividend is an eligible dividend for Canadian tax purposes.

Selected Highlights

(\$000s except as noted)		Three months ended		
	31-Mar-19	31-Mar-18	Change	
Revenue	34,884	44,414	(21.5)%	
Gross margin (%) *	53.9%	51.7%	4.3 %	
Net income	1,590	14,647	(89.1)%	
Net margin (%) *	4.6%	33.0%	(86.1)%	
Funds from operations *	5,677	4,920	15.4 %	
Per Share Data (\$)				
Basic earnings (loss)	0.05	0.44	(88.6)%	
Diluted earnings	0.05	0.44	(88.6)%	
Funds from operations *	0.17	0.15	13.3 %	
As at (\$000s except as noted)		31-Mar-19	31-Dec-18	Change
Shareholders' equity	1,061,169	1,067,565	(0.6)%	
Total assets	2,016,422	2,023,076	(0.3)%	
Per Share Data (\$)				
Book value *	31.88	32.01	(0.4)%	

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three months ended March 31, 2019, which can be found on the company's website at www.Melcor.ca or on SEDAR (www.sedar.com).

About Melcor Developments Ltd.

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

Melcor has been focused on real estate since 1923. The company has built over 140 communities and commercial projects across Western Canada and today manages 4.15 million sf in commercial real estate assets and 608 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

Forward Looking Statements

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

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

This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2019 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

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

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Management's Discussion & Analysis

May 8, 2019

The following discussion of Melcor Developments Ltd.'s (Melcor's) financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the quarter ended March 31, 2019 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2018.

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

Melcor's Board of Directors approved the content of this MD&A on May 8, 2019 on the recommendation of the Audit Committee.

Other Information

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

Non-standard Measures

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

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

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TABLE OF CONTENTS

Our Business	<u>2</u>	Share Data	<u>15</u>
First Quarter Highlights	<u>3</u>		
Funds from Operations	<u>4</u>	Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Critical Accounting Estimates, Changes in Accounting Policies	<u>15</u>
Divisional Results`	<u>5</u>	Normal Course Issuer Bid	<u>15</u>
Community Development	<u>5</u>	Quarterly Results	<u>16</u>
Property Development	<u>8</u>	Subsequent Event	<u>16</u>
Investment Properties	<u>10</u>	Internal Control over Financial Reporting & Disclosure Controls	<u>16</u>
REIT	<u>12</u>	Non-standard Measures	<u>17</u>
Recreational Properties	<u>13</u>		
General & Administrative Expense	<u>13</u>		
Income Tax Expense	<u>13</u>		
Liquidity & Capital Resources	<u>14</u>		
Financing	<u>14</u>		
Sources & Uses of Cash	<u>15</u>		

Our Business

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

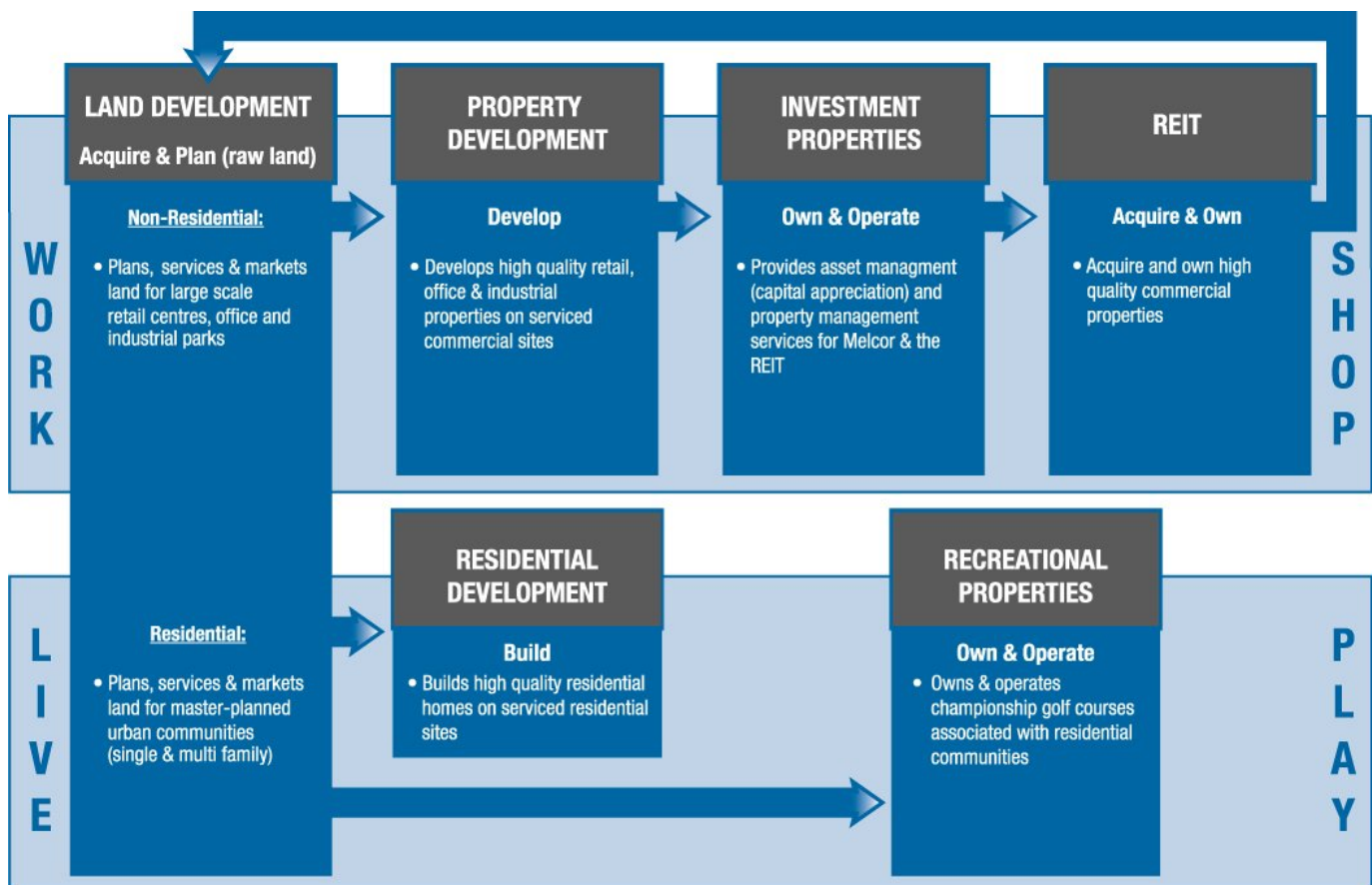
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

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

In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreational Properties. Melcor has \$2.02 billion in assets.

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



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

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

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

First Quarter Highlights

(\$000s except as noted)		Three months ended	
	31-Mar-19	31-Mar-18	Change
Revenue	34,884	44,414	(21.5)%
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Per Share Data (\$)			
Basic earnings (loss)	0.05	0.44	(88.6)%
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Total assets	2,016,422	2,023,076	(0.3)%
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*See non-standard measures for calculation.

Revenues in Q1-2019 were down 21% as a result of the soft residential market in Canada and the timing of sales in the US residential market contributing to a 53% decrease in Community Development revenues over the same period in the prior year. US revenue will continue to be lumpy while we ramp up our Harmony project in Aurora, CO. This decline was partially offset by the 27% increase in Investment Properties revenue as a result of growth in owned gross leasable area (GLA) via transfers from Property Development and third party acquisitions, also 27%. Strategies employed to diversify geographically and by product mix over the past few years continue to positively impact our financial results to offset the impact of softer markets in Alberta.

Highlights of the first quarter include:

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- Funds from operations were up 15% to \$5.68 million compared with Q1-2018, primarily due to the negative tax impact of the sale to the REIT in that period. Management believes funds from operations (FFO) is a more accurate reflection of our true operating performance.
- We paid a quarterly dividend of \$0.13 per share on March 29, 2019. The REIT paid distributions of \$0.05625 per trust unit in January, February and March for a quarterly payout ratio of 103%.
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Revenue & Margins:

Revenue for the quarter was \$34.88 million compared with \$44.41 million in Q1-2018, a decrease of 21%. Community Development division revenue was down by 53% over Q1-2018. Revenue from the sale of commercial and multi-family land decreased to \$1.45 million compared with \$9.51 million in Q1-2018. Community Development division revenue is highly dependent on the real estate market for new homes in the regions where we hold land.

Gross margin increased to 54% in the quarter compared to 52% in Q1-2018. This improvement is due to the greater portion of revenue coming from higher margin income-generating properties (margin of 59%) in our Investment Property and REIT divisions, which represent 79% of total revenue in Q1-2019 compared to 58% of total revenue in Q1-2018. Revenue in our REIT operating division remains stable, while revenue in our Investment property division has increased 27%.

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

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

Funds From Operations (FFO)

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

Below is a reconciliation of net income to FFO:

(\$000s)	Three months ended	
	31-Mar-19	31-Mar-18
Net income for the period	1,590	14,647
Amortization of operating lease incentives	1,720	1,660
Fair value adjustment on investment properties	23	(2,073)
Depreciation on property and equipment	187	197
Stock based compensation expense	177	105
Non-cash finance costs	683	570
Deferred income taxes	(285)	(4,799)
Fair value adjustment on REIT units	1,582	(5,387)
FFO	5,677	4,920
FFO per share	0.17	0.15

FFO increased by 15% compared with Q1-2018. FFO in the comparative period was significantly impacted by the \$3.67 million reclassification between current and deferred tax expense resulting from the asset sale to the REIT in Q1-2018. This tax effect does not impact current year FFO, resulting in the 15% increase. Excluding the effect of this reclassification on the comparative period, FFO decreased by \$2.91 million or 34% as a result of the decline in sales in the Community Development division.

Divisional Results

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

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office and industrial income-producing properties on serviced commercial sites developed by Community Development;
- Investment Properties, which manages and leases the commercial developments produced by the Property Development division and an externally purchased portfolio of assets, as well as assets held in the REIT;
- The REIT, which owns and holds 38 income-producing properties; and
- Recreational Properties, which owns and operates championship golf courses associated with Melcor residential communities.

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

The following tables summarize the results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three months ended March 31		Three months ended March 31		Three months ended March 31		Three months ended March 31		Three months ended March 31	
(\$000s except as noted)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue	10,547	22,651	24	16,293	9,687	7,635	17,944	18,017	142	147
Portion of total revenue	30%	51%	—%	37%	28%	17%	51%	41%	— %	— %
Cost of sales	(5,995)	(12,604)	—	(16,200)	(3,962)	(3,004)	(7,400)	(7,338)	(502)	(510)
Gross profit	4,552	10,047	24	93	5,725	4,631	10,544	10,679	(360)	(363)
Gross margin %	43%	44%	100%	1%	59%	61%	59%	59%	(254)%	(247)%
Portion of total profit	24%	44%	—%	—%	30%	20%	56%	47%	(2)%	(2)%
General and administrative expense	(2,154)	(2,473)	(633)	(619)	(615)	(583)	(721)	(746)	(387)	(374)
Fair value adjustment on investment properties	—	—	358	2,741	(2,611)	(2,082)	1,159	(1)	—	—
Interest income	171	226	7	6	5	3	28	35	—	—
Segment Earnings (Loss)	2,569	7,800	(244)	2,221	2,504	1,969	11,010	9,967	(747)	(737)

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

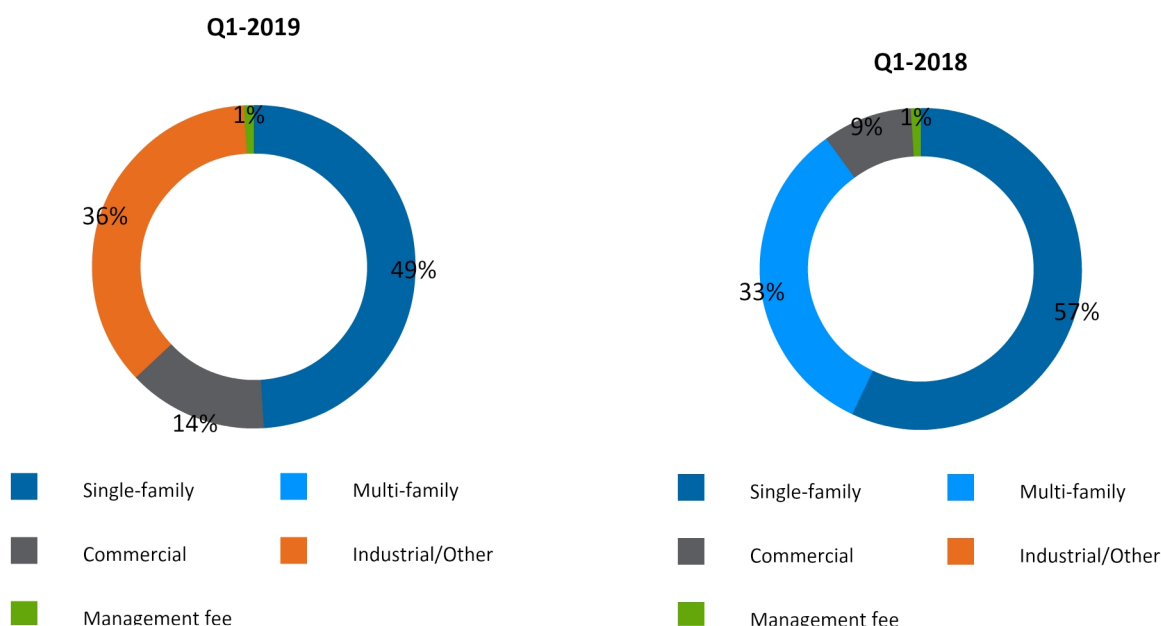
Community Development

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

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

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

REVENUE BY TYPE



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

Consolidated	Three months ended	
	31-Mar-19	31-Mar-18
Canada Sales data: (including joint ventures at 100%)		
Single family sales (number of lots)	29	54
Gross average revenue per single-family lot (\$)	188,750	182,400
Multi-family sales (acres)	—	5.57
Gross average revenue per multi-family acre (\$)	—	1,558,900
Commercial sales (acres)	1.45	4.10
Gross average revenue per commercial land acre (\$)	1,000,000	1,000,000
Other land sales - Raw, Other (acres)	4.05	—
Gross average revenue per other land acre (\$)	91,111	—
US Sales data: (including joint ventures at 100%)		
Single family sales (number of lots)	—	154
Gross average revenue per single-family lot (\$)	—	37,900
Other land sales - Raw, Other (acres)	1.98	—
Gross average revenue per other land acre (\$)	769,853	—
Divisional results: (including joint ventures at Melcor's interest)		
Revenue (\$000s)	10,547	22,651
Earnings (\$000s)	2,569	7,800

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

Constrained real estate markets led to fewer sales of multi-family and commercial acres in Q1-2019. Single-family lot sales were also down in Canada at 29 compared to 54 in Q1-2018. This was partially offset by sales of raw land in BC and the US. In the comparative period, 154 single-family lots were also sold in the US. US lot sales will remain lumpy while we continue to build out the Harmony community in Aurora, CO. The average selling price on single-family lots in Canada increased 3% compared with last year. Average revenue per single-family lot fluctuates period to period based on the mix of product sold.

The decline in Community Development revenue was driven by a 60% decrease in revenue from single-family lot sales, which went from \$12.84 million in Q1-2018 to \$5.16 million in Q1-2019. Commercial acre revenue also declined by 29% to \$1.45 million from \$2.05 million in Q1-2018.

Regional Sales Analysis

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

Regional Sales Analysis <i>(including joint ventures at 100%)</i>	Three months ended 31-Mar-19			Three months ended 31-Mar-18		
	Single- family (Lots)	Multi-family (Acres)	Non- Residential (Acres)	Single- family (Lots)	Multi-family (Acres)	Non- Residential (Acres)
Edmonton Region	22	—	—	36	1.98	4.10
Red Deer Region	3	—	—	6	—	—
Calgary Region	3	—	1.45	12	3.59	—
Lethbridge	1	—	—	—	—	—
Kelowna	—	—	—	—	—	—
United States	—	—	—	154	—	—
	29	—	1.45	208	5.57	4.10

Single-family lot sales in the first quarter may vary significantly as plan registrations typically occur in the third and fourth quarters. Lot sales were down in our Canadian regions due to soft markets. Our community development business in the US has shown strong but lumpy results and we expect US results to continue into the latter part of the year.

During the quarter, we sold 1.45 acres of commercial land to our Property Development division for \$1.45 million. This land is under development for a veterinary clinic in Calgary.

Inventory

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

Developed Inventory <i>(including joint ventures at 100%)</i>	Three months ended 31-Mar-19			Three months ended 31-Mar-18		
	Single- family (Lots)	Multi-family (Acres)	Non- Residential (Acres)	Single- family (Lots)	Multi-family (Acres)	Non- Residential (Acres)
Open	1,448	59.00	130.44	1,481	68.56	136.13
Purchases	—	—	—	—	—	1.01
New developments	—	—	—	2	—	—
Internal sales	—	—	—	—	—	—
Sales	(29)	—	(1.45)	(208)	(5.57)	(4.10)
	1,419	59.00	128.99	1,275	62.99	133.04

Our primary market is Alberta. Market conditions are uncertain throughout the province and we remain cautious with development and continue to commit resources outside of Alberta to diversify our land holdings portfolio.

Raw land inventory

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

During the quarter, we purchased 80.00 acres in the Edmonton region for \$2.45 million, 160.00 acres in Lethbridge for \$9.75 million and 72.57 acres in the US for \$3.61 million (US\$2.70 million). In Q1-2018, we purchased 1.01 acres in the Calgary region for a total purchase price of \$0.98 million.

Although the Community Development division is expecting slower activity in Canada during 2019, Melcor has consistently managed its cash in order to take advantage of a down market if land acquisition opportunities arise. We are well placed to respond to

stronger market conditions when they return and continue to focus on clearing out existing inventory held by Melcor and by our builders using active marketing programs to support this objective. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development.

Property Development

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

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

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

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

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

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

Division Highlights

(\$000s except as noted)	Three months ended	
	31-Mar-19	31-Mar-18
Total revenue	24	16,293
Revenue from property transfers	—	16,200
Management fees	24	93
Gross margin (%) on property transfers	—%	4%
Square footage transferred (sf, at 100%)	—	35,365
Number of buildings transferred	—	1
Fair value adjustment on investment properties	358	2,741

There were no buildings transferred to Investment Properties in Q1-2019. The Property Development division currently has approximately 141,590 sf under active development.

Regional Highlights

(\$000s except as noted)	Three months ended	
	31-Mar-19	31-Mar-18
<i>Fair value adjustments by region</i>		
Northern Alberta	76	2,741
Southern Alberta	282	—
	358	2,741

Northern Alberta: We have recognized year to date fair value gains of \$0.08 million related to our properties under development. Continued lease up of the Shoppes of Jagare Ridge, which has two buildings near completion which are expected to transfer to Investment Properties later in the year, resulted in a fair value gain of \$0.15 million (\$0.08 million at JV%) recorded on consolidation.

Southern Alberta: We have recognized year to date fair value gains of \$0.28 million related to our properties under development in southern Alberta. A CRU at the District is fully leased and is near completion. We expect to transfer the property to Investment Properties later in the year.

Future development opportunities

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

The following tables illustrate our current and future project expectations:

Current Projects					
Project	Location	Type	Total SF *	Developed to Date *	SF Under Development
The Village at Blackmud Creek	South Edmonton	Regional business park	725,000	56,800	52,560
Telford Industrial	Leduc	Industrial Park	500,000	143,100	—
West Henday Promenade	West Edmonton	Regional mixed use centre	726,000	116,300	—
Kingsview Market	Airdrie	Regional shopping centre	331,000	181,900	9,100
Chestermere Station	Chestermere	Neighbourhood shopping centre	278,100	241,600	12,360
Clearview Market	Red Deer	Neighbourhood shopping centre	230,100	150,100	—
The District at North Deerfoot	North Calgary	Regional business / industrial park	2,250,000	522,250	6,450
Campsite Industrial	Spruce Grove	Industrial Park	170,000	13,700	—
The Shoppes at Jagare Ridge	South Edmonton	Neighbourhood shopping centre	105,000	20,500	35,560
Jensen Lakes Crossing	St. Albert	Neighbourhood shopping centre	150,000	45,700	22,560
Woodbend Market	Leduc	Neighbourhood shopping centre	140,000	—	3,000

Expected Future Projects					
Project	Location	Type	Total SF *	Ownership Interest	Expected Start (year)
Greenwich	West Calgary	Regional mixed use centre	325,000	100%	2019
Laredo	Red Deer	Neighbourhood shopping centre	30,000	100%	2020
Vista Ridge	Sylvan Lake	Neighbourhood shopping centre	25,000	50%	2020
Secord/Rosenthal	Edmonton	Neighbourhood shopping centre	120,000	55%	2021
The Shoppes at Canyons	Lethbridge	Neighbourhood shopping centre	105,000	100%	2020
Mattson	Edmonton	Neighbourhood shopping centre	78,000	50%	2021
Rollyview	Leduc	Neighbourhood shopping centre	150,000	100%	2021
Keystone Common	North Calgary	Regional power centre	775,000	100%	2022+
West Pointe Marketplace	Lethbridge	Regional power centre	750,000	100%	2022+
Westview Commercial	West Calgary	Neighbourhood shopping centre	150,000	100%	2022+

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

Investment Properties

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

Our Investment Properties division manages 4,146,767 sf of income-producing commercial GLA and 608 residential units.

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

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

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

Operating results

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

(\$000s except as noted)	Three months ended	
	31-Mar-19	31-Mar-18
Commercial properties GLA under management (sf, total)	4,146,767	3,933,952
Properties owned and managed (sf)	896,714	705,505
Properties managed (sf)	3,250,053	3,228,447
Revenue (total)	9,687	7,635
Canadian properties	3,379	2,600
US properties	4,761	3,523
Management fees	1,240	1,173
Parking lots and other assets	307	339
Net operating income (NOI) *	5,529	4,538
Funds from operations *	5,421	4,314
Funds from operations per share *	0.16	0.13

* See non-standard measures for definition and calculation.

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

Canadian properties

Investment Properties continues to grow as properties are developed and transferred from our Property Development division and third party acquisitions are made. The Property Development division has 141,590 sf of GLA under active construction with construction and leasing underway. No properties were transferred during the quarter, with the majority of transfers occurring in the second half of the year due to timing of construction. Over the past twelve months, Property Development has transferred four buildings representing 19,741 sf (at 100%). Revenue generated on assets acquired from Property Development and held through the period was \$1.14 million (2018 - \$0.29 million).

Occupancy on Canadian properties was 92.5% at March 31, 2019, up 2% from year end. Commercial weighted average base rents (WABR) were \$27.29, down \$0.25 compared with year-end. Occupancy gains were primarily due to new leasing at our retail property in Fort McMurray, AB which has committed occupancy of 96% a significant accomplishment considering the many challenges facing that market.

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

(\$000s except as noted)	Three months ended	
	31-Mar-19	31-Mar-18
Same asset NOI *	1,626	1,508
Third party acquisition	43	—
Properties transferred from PD	537	167
Properties transferred to REIT	—	89
NOI*	2,206	1,764
Amortization of operating lease incentives	(71)	(104)
Straight-line rent adjustment	188	276
Gross profit	2,323	1,936

* See non-standard measures for definition.

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

Gross profit was up \$0.39 million or 20% over Q1-2018, while NOI was up \$0.44 million or 25%. Properties transfers from the Property Development division over the past 12 months drove the increase in Canadian property NOI and gross profit, adding \$0.54 million in NOI in the first quarter of 2019 (Q1-2018 - \$0.17 million). On a same asset basis, NOI was up \$0.12 million or 8% over Q1-2018 due to higher occupancy.

US properties

Revenue on US properties was \$4.76 million compared with \$3.52 million in Q1-2018 as a result of a third party acquisition made in Arizona during Q3-2018. In Q1-2019 we disposed of one residential unit at one of our properties in Arizona, US for \$0.31 million (US \$0.24 million).

Occupancy on our commercial portfolio remained stable over year end at 85%. Weighted average rental rates on our US commercial properties were up 1% over year-end at US\$19.82, from US\$19.64 at year end. Residential occupancy remained stable at 98%.

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

(\$000s except as noted)	Three months ended	
	31-Mar-19	31-Mar-18
Same asset NOI *	1,157	1,297
Third party acquisitions	497	—
NOI before adjustments	1,654	1,297
Foreign currency translation	557	343
Amortization of operating lease incentives	(237)	(160)
Straight-line rent adjustment	317	80
Gross profit	2,291	1,560

* See non-standard measures for definition.

Gross profit was up \$0.73 million or 47% over Q1-2018, while NOI before adjustments was up \$0.36 million or 28%. Gross profit and NOI were up due to the acquisition completed in Q3-2018 as well as stronger foreign currency gains on account of the lower Canadian dollar. Same asset NOI was down \$0.14 million over Q1-2018 due to lease rollover in our Denver, CO assets.

Management fees & other

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the manager. Management fees were up \$0.07 million or 6% due to internalization of management on one of our joint venture assets.

Funds from operations (FFO) increased 26% or \$1.11 million as a result of third party acquisitions and transfers from Property Developments over the past 12 months.

REIT

The REIT owned 37 income-producing office, retail and industrial properties, comprising 2,869,743 square feet of gross leasable area (GLA) at March 31, 2019. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants, operating in a variety of industries. Subsequent to the quarter, the REIT acquired a 56,084 sf retail building with warehouse space in Calgary, AB for \$12.45 million.

We have a controlling 53.1% effective interest in the REIT through ownership of all Class B LP Units (December 31, 2018 - 56.7%). As Melcor controls the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities.

Operating results

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

(\$000s except as noted)	Three months ended	
	31-Mar-19	31-Mar-18
Rental revenue	17,944	18,017
Net operating income (NOI) *	11,012	11,075
Same asset NOI * (see calculation following)	9,639	9,766
Fair value adjustment on investment properties	1,159	(1)
Gross leasable area (GLA) (sf)	2,869,743	2,861,546
Occupancy % (weighted by GLA)	89.3%	90.5%
Fair value of portfolio	706,775	718,178
Funds from operations *	10,616	10,736
Funds from operations per share *	0.32	0.32

* See non-standard measures for definition and calculation.

Rental revenue for the period was stable over Q1-2018. Properties acquired within the past fifteen months (LFS Building on December 3, 2018 and the Melcor Acquisition on January 12, 2018) contributed rental revenue of \$1.99 million (2018 - \$1.58 million). The increase in rental revenue was offset by a decrease in same-asset performance in our office portfolio as well as the sale of two retail assets in 2018, which contributed \$0.32 million to prior quarter revenues.

Year to date we signed 56,939 sf of new and renewed leasing (including holdovers) and maintained steady occupancy at 89.3%. In 2019, 85 leases representing 279,560 sf or 9.7% of our portfolio are up for renewal. We have retained 88.9% of expiring leases (representing 52,640 sf) as at March 31, 2019 in spite of challenging market conditions in many of our operating regions. We have received notice that one of our major tenants, Royal Bank of Canada, will be vacating their space at the Royal Bank Building in Edmonton, AB at the end of their lease in September 2019. The lease represents 47,088 sf and will significantly impact our retention rate in 2019. We are actively working on various strategies for the property to re-brand and lease-up and have already pre-leased one floor (7,900 sf) to an existing tenant who is outgrowing their space in another downtown building owned by the REIT.

Weighted average base rent was \$16.60, up \$0.09 compared to December 31, 2018 due to leasing activity and fewer tenants on rent free periods. Weighted average base rent was down \$0.18 over Q1-2018 due to changes in the portfolio composition following the acquisition of LFS Building (office) and disposal of Miller Crossing (retail) in 2018.

Direct operating expenses were up 1% in Q1-2019. On a same-asset basis, property taxes and utilities increased by 3% due to higher mill rates and increased utility consumption due to cold weather. The timing of maintenance projects led to a 1% decrease in same-asset operating expenses in the first quarter. As a cornerstone of our property management strategy, we are committed to efficient and cost effective maintenance of our buildings to ensure maximum value to our tenants and unitholders.

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

(\$000s except as noted)	Three months ended	
	31-Mar-19	31-Mar-18
Same asset NOI *	9,639	9,766
Acquisitions	1,373	1,074
Disposals	—	235
NOI*	11,012	11,075
Amortization of operating lease incentives	765	768
Straight-line rent adjustment	(297)	(372)
Gross profit	10,544	10,679

* See non-standard measures for definition and calculation.

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

Gross profit and NOI were down 1% over Q1-2018. On a same-asset basis, NOI was down 1% over Q1-2018 as a result of lower occupancy and weighted average base rates.

Funds from operations

Funds from operations (FFO) was down in the first quarter at \$10.62 million compared with \$10.74 million in the prior year.

Recreational Properties

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

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

The golf courses were closed during the first quarter.

	Ownership interest	Season opened 2019	Season opened 2018
<i>Managed by Melcor:</i>			
Lewis Estates (Edmonton)	60%	April 12	April 27
The Links (Spruce Grove)	100%	April 13	April 27
Black Mountain (Kelowna)	100%	April 3	April 6
<i>Managed by a Third Party:</i>			
Jagare Ridge (Edmonton)	50%	April 19	May 1

General and Administrative Expense

General and administrative expenses (G&A) were consistent with the comparable period. Corporate G&A also remained consistent with Q1-2018. Community Development G&A decreased \$0.32 million, primarily due to decreased activity within Canada and the timing of activity in the US compared to the prior year. Our other operating divisions remained fairly steady over Q1-2018.

Income Tax Expense

The statutory tax rate is 27% for the three months ended March 31, 2019, consistent with 2018. Significant adjustments that impacted the 2019 effective tax rate include permanent differences related to revaluation adjustments on investment properties and REIT units. These adjustments are partially offset by the non-taxable portion of REIT income.

Liquidity & Capital Resources

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

As at (\$000s except as noted)	31-Mar-19	31-Dec-18
Cash & cash equivalents	31,558	26,727
Accounts receivable	12,014	10,849
Agreements receivable	102,540	126,490
Revolving credit facilities	67,350	46,529
Accounts payable and accrued liabilities	36,822	44,825
Total assets	2,016,422	2,023,076
Total liabilities	955,253	955,511
Debt to equity ratio*	0.90	0.90

*See non-standard measures for definition and calculation.

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

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

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

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

Financing

As at March 31, 2019, our total general debt outstanding was \$677.67 million. A summary of our debt is as follows:

As at (\$000s)	31-Mar-19	31-Dec-18
Melcor - revolving credit facilities	57,398	46,529
REIT - revolving credit facility	9,952	—
Project specific financing	62,939	62,639
Secured vendor take back debt on land inventory	43,126	40,842
Debt on investment properties and golf course assets	448,797	454,342
REIT - convertible debentures	55,459	55,204
General debt	677,671	659,556

We are subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to total capital ratio of 125%, a minimum debt service coverage ratio of 3.00, and a minimum net book value of shareholder's equity of \$300.00 million. As at March 31, 2019 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT's \$35.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.50, and a minimum adjusted unitholders' equity of \$140.00 million. As at March 31, 2019 and throughout the period, we were in compliance with our financial covenants.

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

Sources and uses of cash

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

(\$000s)	Three months ended	
	31-Mar-19	31-Mar-18
Cash flows from operating activities	3,210	850
Cash flows used in investing activities	(5,296)	(1,731)
Cash flows from (used in) financing activities	6,995	(9,175)

During Q1-2019, cash flows from operating activities were \$3.21 million, an increase of \$2.36 million over Q1-2018. Collections on agreements receivables of \$23.95 million, compared to \$8.83 million collected in Q1-2018, were offset by cash used in operating assets and liabilities of \$20.80 million (\$3.02 million - Q1-2018) related to taxes and the settlement of liabilities.

Cash flows used in investing activities were \$5.30 million in Q1-2019 compared with cash used in investing activities of \$1.73 million during Q1-2018. Disposals of investment properties resulted in cash inflows of \$0.31 million in Q1-2019 compared to \$3.59 million cash inflows on disposals of investment properties and properties held for sale in Q1-2018. We continue to develop commercial properties and invest in our portfolio, cash flows used in the development of investment properties remained steady at \$5.53 million compared to \$5.22 million in Q1-2018.

Cash flows from financing activities were \$7.00 million during the quarter, a change of \$16.17 million over Q1-2018. Repayments on our general debt of \$24.72 million were offset by net proceeds of \$16.04 million. Net proceeds on our revolving credit facility were \$20.82 million compared to net repayments of \$18.10 million in Q1-2018. In the quarter, we paid a \$0.13 per share dividend for a total of \$4.33 million (Q1-2018 - \$0.13 per share) as well as purchased \$0.83 million of shares for cancellation through our normal course issuer bid.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at March 31, 2019 there were 33,282,143 common shares issued and outstanding, 1,015,600 options, and 65,600 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

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

There are no material changes to the above titled sections at March 31, 2019 in comparison to the December 31, 2018 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

Normal Course Issuer Bid

On March 29, 2018 we announced a Normal Course Issuer Bid ("NCIB") commencing March 31, 2018 and ending March 30, 2019. Under the bid, we may acquire up to 1,669,782 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 1,262 common shares. During the quarter ended March 31, 2019, we purchased a total of 64,352 shares for cancellation.

On March 28, 2019 we announced an NCIB commencing April 1, 2019 and ending March 31, 2020. Under the bid, we may acquire up to 1,665,080 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 1,000 common shares. As of May 8, 2019, no shares were purchased for cancellation.

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

Also on March 28, 2019 the REIT announced an NCIB commencing April 1, 2019 and ending March 31, 2020. Under the bid, we may acquire up to 659,339 trust units in total (approximately 5% of our issued and outstanding trust units) with a daily repurchase restriction of 2,908 trust units. As of May 8, 2019, 13,432 units have been purchased and cancelled.

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

Quarterly Results

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

(\$000s)	Three Months Ended							
	31-Mar-18	31-Dec-18	30-Sept-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sept-17	30-Jun-17
Revenue	34,884	119,982	60,245	42,793	44,414	109,633	62,795	46,955
Net income (loss)	1,590	36,526	11,469	1,631	14,647	32,084	11,517	3,927
FFO	5,677	30,671	12,841	7,695	4,920	30,850	12,787	9,306
<i>Per Share</i>								
Basic earnings (loss)	0.05	1.09	0.34	0.05	0.44	0.96	0.34	0.12
Diluted earnings (loss)	0.05	1.09	0.34	0.05	0.44	0.96	0.34	0.12
FFO	0.17	0.92	0.38	0.23	0.15	0.93	0.38	0.28
FFO Diluted	0.17	0.92	0.35	0.23	0.15	0.93	0.38	0.28
Book value	31.88	30.21	30.78	30.64	30.63	30.21	29.39	29.30

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

Subsequent Events

Refer to note 13 of the interim consolidated financial statements for information pertaining to subsequent events.

Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

Non-standard Measures

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

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

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

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

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

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

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

Investment Properties

(\$000s)	Three months ended	
	March 31, 2019	March 31, 2018
Segment Earnings	2,504	1,969
Fair value adjustment on investment properties	2,611	2,082
General and administrative expenses	615	583
Interest income	(5)	(3)
Amortization of operating lease incentives	306	263
Straight-line rent adjustment	(502)	(356)
Divisional NOI	5,529	4,538

REIT

(\$000s)	Three months ended	
	March 31, 2019	March 31, 2018
Segment Earnings	11,010	9,967
Fair value adjustment on investment properties	(1,159)	1
General and administrative expenses	721	746
Interest income	(28)	(35)
Amortization of operating lease incentives	765	768
Straight-line rent adjustment	(297)	(372)
Divisional NOI	11,012	11,075

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

Consolidated

(\$000s)	Three months ended	
	March 31, 2019	March 31, 2018
Net income for the period	1,590	14,647
Amortization of operating lease incentives	1,720	1,660
Fair value adjustment on investment properties	23	(2,073)
Depreciation on property and equipment	187	197
Stock based compensation expense	177	105
Non-cash finance costs	683	570
Deferred income taxes	(285)	(4,799)
Fair value adjustment on REIT units	1,582	(5,387)
FFO	5,677	4,920

Investment Properties

(\$000s)	Three months ended	
	March 31, 2019	March 31, 2018
Segment Earnings	2,504	1,969
Fair value adjustment on investment properties	2,611	2,082
Amortization of operating lease incentives	306	263
Divisional FFO	5,421	4,314

REIT

(\$000s)	Three months ended	
	March 31, 2019	March 31, 2018
Segment Earnings	11,010	9,967
Fair value adjustment on investment properties	(1,159)	1
Amortization of operating lease incentives	765	768
Divisional FFO	10,616	10,736

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



Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

Unaudited (\$000s)	For the three months ended	
	March 31, 2019	March 31, 2018
Revenue (note 7)	34,884	44,414
Cost of sales	(16,075)	(21,461)
Gross profit	18,809	22,953
General and administrative expense	(5,671)	(5,812)
Fair value adjustment on investment properties (note 5 and 11)	(23)	2,073
Adjustments related to REIT units (note 10)	(3,807)	1,674
Operating earnings	9,308	20,888
Interest income	263	322
Finance costs	(6,971)	(5,520)
Net finance costs	(6,708)	(5,198)
Income before income taxes	2,600	15,690
Income tax expense	(1,010)	(1,043)
Net income for the period	1,590	14,647
Income per share:		
Basic earnings per share	0.05	0.44
Diluted earnings per share	0.05	0.44

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income (Loss)

Unaudited (\$000s)	For the three months ended	
	March 31, 2019	March 31, 2018
Net income for the period	1,590	14,647
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income (loss):		
Currency translation differences	(3,009)	3,780
Comprehensive income (loss)	(1,419)	18,427

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited (\$000s)	March 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	31,558	26,727
Accounts receivable	12,014	10,849
Income taxes recoverable	3,104	—
Agreements receivable	102,540	126,490
Land inventory (note 4)	763,097	758,940
Investment properties (note 5 and 11)	1,036,544	1,032,687
Property and equipment	13,914	14,020
Other assets	53,651	53,363
	2,016,422	2,023,076
LIABILITIES		
Accounts payable and accrued liabilities	36,822	44,825
Income taxes payable	—	8,605
Provision for land development costs	74,633	77,658
General debt (note 6)	677,671	659,556
Deferred income tax liabilities	66,171	66,493
REIT units (note 10 and 11)	99,956	98,374
	955,253	955,511
SHAREHOLDERS' EQUITY		
Share capital (note 8)	72,680	72,821
Contributed surplus	3,543	3,366
Accumulated other comprehensive income (AOCI)	26,120	29,129
Retained earnings	958,826	962,249
	1,061,169	1,067,565
	2,016,422	2,023,076

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited (\$000's)	Equity attributable to Melcor's shareholders				Total equity
	Share capital	Contributed surplus	AOCI	Retained earnings	
Balance at January 1, 2019	72,821	3,366	29,129	962,249	1,067,565
Net income for the period	—	—	—	1,590	1,590
Cumulative translation adjustment	—	—	(3,009)	—	(3,009)
Transactions with equity holders					
Dividends	—	—	—	(4,327)	(4,327)
Share repurchase (note 8)	(141)	—	—	(686)	(827)
Employee share options					
Value of services recognized	—	177	—	—	177
Share issuance	—	—	—	—	—
Balance at March 31, 2019	72,680	3,543	26,120	958,826	1,061,169
Unaudited (\$000's)	Equity attributable to Melcor's shareholders				Total equity
	Share capital	Contributed surplus	AOCI	Retained earnings	
Balance at January 1, 2018	72,729	2,939	16,948	915,974	1,008,590
Net loss for the period	—	—	—	14,647	14,647
Cumulative translation adjustment	—	—	3,780	—	3,780
Transactions with equity holders					
Dividends	—	—	—	(4,341)	(4,341)
Employee share options					
Value of services recognized	—	105	—	—	105
Share issuance	95	(9)	—	—	86
Balance at March 31, 2018	72,824	3,035	20,728	926,280	1,022,867

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

Unaudited (\$'000's)	For the three months ended	
	March 31, 2019	March 31, 2018
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the period	1,590	14,647
Non cash items:		
Amortization of tenant incentives	1,720	1,660
Depreciation of property and equipment	187	197
Stock based compensation expense	177	105
Non-cash finance costs	683	570
Straight-line rent adjustment	(705)	(713)
Fair value adjustment on investment properties (note 5 and 11)	23	(2,073)
Fair value adjustment on REIT units (note 10 and 11)	1,582	(5,387)
Deferred income taxes	(285)	(4,799)
	4,972	4,207
Agreements receivable	23,950	8,831
Development activities	5,425	(6,386)
Purchase of land inventory (note 4)	(8,496)	(975)
Payment of tenant lease incentives and direct leasing costs	(1,844)	(1,807)
Operating assets and liabilities	(20,797)	(3,020)
	3,210	850
INVESTING ACTIVITIES		
Additions to investment properties (note 5)	(5,529)	(5,223)
Net proceeds from disposal of investment properties (note 5)	314	516
Net proceeds from disposal of asset held for sale	—	3,070
Purchase of property and equipment	(81)	(94)
	(5,296)	(1,731)
FINANCING ACTIVITIES		
Proceeds from issuance of trust units	—	17,302
Revolving credit facilities	20,821	(18,102)
Proceeds from general debt	16,043	19,084
Repayment of general debt	(24,715)	(23,204)
Dividends paid	(4,327)	(4,341)
Common shares repurchased (note 8)	(827)	—
Share capital issued	—	86
	6,995	(9,175)
FOREIGN EXCHANGE LOSS ON CASH HELD IN A FOREIGN CURRENCY	(78)	(207)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	4,831	(10,263)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	26,727	42,505
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	31,558	32,242
Total income taxes paid	3,320	464
Total interest paid	7,433	5,910

See accompanying notes to these condensed interim consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

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

Melcor Developments Ltd. ("Melcor" or "we") is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD". As at March 31, 2019 Melton Holdings Ltd. holds approximately 47.1% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at May 8, 2019, Melcor through an affiliate, holds an approximate 53.1% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

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

2. BASIS OF PRESENTATION

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

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 8, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES AND NEW STANDARDS ADOPTED

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those of the previous financial year, except as described below.

We have adopted the following new IFRS standards effective January 1, 2019

a) IFRS 16, Leases was issued in January 2016 by the IASB to replace IAS 17. IFRS 16 includes several changes in the method of accounting for operating leases including:

- i. All leases will be on the balance sheet of the lessees, except those that meet the limited exception criteria;
- ii. Rent expense for the leases on the balance sheet will be recorded as depreciation and finance expenses;
- iii. Timing of expenses will change as the finance lease model results in an accelerated recognition of expenses compared to a straight-line operating lease model.

Impact of Adoption

As the changes implemented through IFRS 16 are directed mainly towards lessees, the adoption of IFRS 16 did not result in any adjustments upon transition, change in recognition, or changes to our accounting policy as Melcor is a lessor. Adoption does require additional disclosures to the year end financial statements to show variable lease revenues earned and minimum lease payments under non-cancellable operating leases of investment properties for each year for up to 5 years. This standard was adopted through the modified retrospective approach.

b) IFRIC 23, Uncertainty over income tax treatments clarifies the application of the recognition and measurement requirements in AIS12, "Income Taxes" ("IAS 12"), for situations where there is uncertainty over income tax treatments, IFRIC 23 specifically addresses whether;

- i. an entity considers income tax treatments separately;

- ii. assumptions that an entity makes regarding the examination of tax treatments by taxation authorities;
- iii. how an entity considers changes in facts and circumstances.

IFRIC 23 does not apply to taxes or levies outside the scope of IAS 12. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

Impact of Adoption

The adoption of IFRIC 23 did not result in any adjustments upon transition, change in recognition, additional disclosures or changes to our accounting policy.

The following standards are effective January 1, 2020 and have not yet been adopted

- a) **IFRS 3, Business combinations** amendments were made to IFRS 3, Business combinations in order to clarify that obtaining control of a business that is a joint operation is a business combination achieved in stages. Amendments to IFRS 3 are effective for annual period beginning on or after January 1, 2020.

We are currently evaluating the impact of adopting the amendments to this standard to the consolidated financial statements.

4. LAND INVENTORY		
	March 31, 2019	December 31, 2018
Raw land held	401,135	387,356
Land under development	138,678	136,534
Developed land	223,284	235,050
	763,097	758,940

During the three month period ended March 31, 2019, we purchased 313 acres of land at a cost of \$15,808 and received vendor financing of \$7,312.

During the comparative three month period ended March 31, 2018, we purchased 1.01 acres of land at a cost of \$975.

5. INVESTMENT PROPERTIES		
	March 31, 2019	December 31, 2018
Investment properties	962,807	965,339
Properties under development	73,737	67,348
Total	1,036,544	1,032,687

Investment properties consists of the following:

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

			Three months ended March 31, 2019
	Investment Properties	Properties under Development	Total
Balance - beginning of period	965,339	67,348	1,032,687
Additions			
Transfer from land inventory	—	1,095	1,095
Direct leasing costs	389	69	458
Property improvements	1,017	—	1,017
Development costs	—	4,390	4,390
Capitalized borrowing costs	—	122	122
Disposals	(314)	—	(314)
Fair value adjustment on investment properties	(736)	713	(23)
Foreign currency translation (included in OCI)	(2,888)	—	(2,888)
Balance - end of period	962,807	73,737	1,036,544

			Year ended December 31, 2018
	Investment Properties	Properties under Development	Total
Balance - beginning of year	907,310	68,546	975,856
Additions			
Direct acquisition	33,541	—	33,541
Transfer from land inventory	—	2,070	2,070
Direct leasing costs	1,054	803	1,857
Property improvements	3,897	—	3,897
Development costs	3	16,574	16,577
Capitalized borrowing costs	—	943	943
Disposals	(13,321)	—	(13,321)
Transfers	29,959	(29,959)	—
Fair value adjustment on investment properties	(7,508)	8,371	863
Foreign currency translation (included in OCI)	10,404	—	10,404
Balance - end of year	965,339	67,348	1,032,687

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

Disposals

On March 12, 2019, we disposed of one residential unit in Arizona for a sales price of \$314 (US\$235) (net of transaction costs). The sale price was settled through cash.

6. GENERAL DEBT

	March 31, 2019	December 31, 2018
Melcor - revolving credit facilities	57,398	46,529
REIT - revolving credit facility	9,952	—
Project specific financing	62,939	62,639
Secured vendor take back debt on land inventory	43,126	40,842
Debt on investment properties and golf course assets	448,797	454,342
REIT - convertible debentures	55,459	55,204
General debt	677,671	659,556

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

	March 31, 2019	December 31, 2018
Balance - beginning of period	62,639	20,926
Cash movements		
Loan repayments	(1,768)	(11,629)
New project financing	2,482	52,319
Non-cash movements		
Foreign currency translation included in OCI	(414)	1,023
Balance end of year	62,939	62,639

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

	March 31, 2019	December 31, 2018
Balance - beginning of period	40,842	64,891
Cash movements		
Principal repayments		
Scheduled amortization on debt	(4,979)	(26,742)
Non-cash movements		
New secured vendor take back debt	7,313	2,625
Amortization of non-cash interest	(50)	(280)
Foreign currency translation included in OCI	—	348
Balance end of year	43,126	40,842

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

	March 31, 2019	December 31, 2018
Balance - beginning of period	454,342	444,807
Cash movements		
Principal repayments		
Scheduled amortization on debt	(3,430)	(15,964)
Mortgage repayments	(14,538)	(51,909)
New mortgages	13,630	75,918
Non-cash movements		
Mortgage payable disposed through sale during the period	—	(3,662)
Deferred financing fees capitalized	(114)	(627)
Amortization of deferred financing fees	214	341
Change in derivative fair value swap	176	254
Foreign currency translation included in OCI	(1,483)	5,184
Balance end of year	448,797	454,342

7. REVENUE

Total Revenues

<i>For three months ended</i>	March 31, 2019	March 31, 2018
Revenue from contracts	14,178	25,098
Revenue from other sources	20,706	19,316
	34,884	44,414

Timing of contract revenue recognition

<i>For three months ended</i>	March 31, 2019	March 31, 2018
At a point in time	8,981	20,405
Over time	5,197	4,693
	14,178	25,098

8. SHARE CAPITAL

Issued and outstanding common shares at March 31, 2019 are 33,282,143 (December 31, 2018 – 33,346,495). During the three months ended March 31, 2019, there were no options exercised (Q1-2018 – 6,200).

Also during the three months ended March 31, 2019 there were 64,352 common shares purchased for cancellation by Melcor pursuant to the Normal Course Issuer Bid (NCIB) at a cost of \$827 (December 31, 2018 - 57,156 common shares purchased at a cost of \$761). The NCIB commenced March 31, 2018 and ended March 30, 2019.

9. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues

For the three months ended

	March 31, 2019	March 31, 2018
United States	6,821	8,243
Canada	28,063	36,171
Total	34,884	44,414

Total Assets

As at

	March 31, 2019	December 31, 2018
United States	269,845	272,537
Canada	1,746,577	1,750,539
Total	2,016,422	2,023,076

9. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

For the three months ended March 31, 2019	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	10,547	24	9,687	17,944	142	—	38,344	(3,460)	34,884
Cost of sales	(5,995)	—	(3,962)	(7,400)	(502)	—	(17,859)	1,784	(16,075)
Gross profit	4,552	24	5,725	10,544	(360)	—	20,485	(1,676)	18,809
General and administrative expense	(2,154)	(633)	(615)	(721)	(387)	(1,766)	(6,276)	605	(5,671)
Fair value adjustment on investment properties	—	358	(2,611)	1,159	—	—	(1,094)	1,071	(23)
Interest income	171	7	5	28	—	52	263	—	263
Segment Earnings (Loss)	2,569	(244)	2,504	11,010	(747)	(1,714)	13,378	—	13,378
Finance costs									(6,971)
Adjustments related to REIT units									(3,807)
Income before tax									2,600
Income tax expense									(1,010)
Net income for the period									1,590

For the three months ended March 31, 2018	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	22,651	16,293	7,635	18,017	147	—	64,743	(20,329)	44,414
Cost of sales	(12,604)	(16,200)	(3,004)	(7,338)	(510)	—	(39,656)	18,195	(21,461)
Gross profit	10,047	93	4,631	10,679	(363)	—	25,087	(2,134)	22,953
General and administrative expense	(2,473)	(619)	(583)	(746)	(374)	(1,736)	(6,531)	719	(5,812)
Fair value adjustment on investment properties	—	2,741	(2,082)	(1)	—	—	658	1,415	2,073
Interest income	226	6	3	35	—	52	322	—	322
Segment Earnings (Loss)	7,800	2,221	1,969	9,967	(737)	(1,684)	19,536	—	19,536
Finance costs									(5,520)
Adjustments related to REIT units									1,674
Income before tax									15,690
Income tax expense									(1,043)
Net loss for the period									14,647

10. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 46.9% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at March 31, 2019 the REIT units had a fair value of \$99,956. We recorded adjustments related to REIT units for the three months ended March 31, 2019 of \$3,807 (Q1-2018 - \$1,674).

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

For the three months ended	March 31, 2019	March 31, 2018
Fair value adjustment on REIT units (note 11)	(1,582)	5,387
Transaction costs on REIT unit issuance		
Capitalized against REIT trust units	—	(1,190)
Capitalized to investment properties	—	(298)
Distributions to REIT unitholders	(2,225)	(2,225)
Adjustments related to REIT units	(3,807)	1,674

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

As at	March 31, 2019	December 31, 2018
Assets	712,376	709,603
Liabilities	400,826	400,094
Net assets	311,550	309,509
Cost of NCI	103,959	103,959
Fair value of NCI	99,956	98,374

For the three months ended	March 31, 2019	March 31, 2018
Revenue	17,944	18,017
Net income and comprehensive income	2,478	9,544
Cash flows from operating activities	2,751	3,697
Cash flows used in investing activities	(882)	(31,288)
Cash flows from financing activities, before distributions to REIT unitholders	322	18,773
Cash flows used in financing activities - cash distributions to REIT unitholders	(2,225)	(2,113)
Net decrease in cash and cash equivalents	(34)	(10,931)

11. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

	March 31, 2019					December 31, 2018	
	Fair Value Hierarchy	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
Non-financial assets							
Investment properties	Level 3	1,036,544	—	1,036,544	1,036,544	1,032,687	1,032,687
Financial liabilities							
General debt, excluding convertible debenture and derivative financial liability	Level 3	—	622,839	622,839	625,447	604,352	589,890
Convertible debenture	Level 2	—	55,272	55,272	57,960	55,017	56,738
Derivative financial liability							
Interest rate swaps	Level 3	(627)	—	(627)	(627)	(803)	(803)
Conversion feature on convertible debenture	Level 3	187	—	187	187	187	187
REIT units	Level 1	99,956	—	99,956	99,956	98,374	98,374

Investment properties

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

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

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

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

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

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

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

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

Investment properties were valued by Melcor's internal valuation team as at March 31, 2019 of which 9 investment properties (of 86 legal phases) with a fair value of \$97,097 were valued by qualified independent external valuation professionals during the period. Valuations performed during the period resulted in fair value losses of \$23. As at December 31, 2018 Melcor's internal valuation team valued investment properties of which 32 investment properties (of 82 legal phases valued) with a fair value of \$420,145 were valued by qualified independent external valuation professionals during the year. Valuations performed during 2018 resulted in fair value gains of \$863.

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

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

Weighted average annual stabilized net operating income for investment properties as at March 31, 2019 is \$1,509 (December 31, 2018 - \$1,506) per property. Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties			Properties under Development		
	Min	Max	Weighted Average	Min	Max	Weighted Average
March 31, 2019						
Capitalization rate	5.50%	10.50%	6.66%	5.75%	6.50%	6.19%
Terminal capitalization rate	5.75%	9.00%	6.76%	6.25%	6.25%	6.25%
Discount rate	6.50%	9.75%	7.66%	7.00%	7.00%	7.00%

	Investment Properties			Properties under Development		
	Min	Max	Weighted Average	Min	Max	Weighted Average
December 31, 2018						
Capitalization rate	5.50%	10.50%	6.66%	6.00%	6.50%	6.23%
Terminal capitalization rate	5.75%	9.00%	6.76%	6.25%	6.25%	6.25%
Discount rate	6.50%	9.75%	7.66%	7.00%	7.00%	7.00%

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by \$56,331 (December 31, 2018 - \$56,215). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by \$65,469 (December 31, 2018 - \$65,343).

General debt, excluding derivative financial liabilities

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

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

Derivative financial liabilities

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

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at March 31, 2018, the fair value of interest rate swap contracts was \$627 (December 31, 2018 - \$803).

The significant unobservable inputs used in the fair value measurement of the conversion feature on the REIT convertible debenture as at March 31, 2019 are as follows:

- Volatility - expected volatility as at March 31, 2019 was derived from the historical prices of the REIT's trust units. As the REIT was formed on May 1, 2013, we have used the entire historical data up until March 31, 2019. Volatility was 17.80% (December 31, 2018 - 17.80%).
- Credit spread - the credit spread of the convertible debenture was imputed from the traded price of the convertible debenture as at March 31, 2019. The credit spread used was 3.92% (December 31, 2018 - 3.92%).

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At March 31, 2019 the fair value of the REIT units was \$99,956, resulting in a fair value loss during the quarter of \$1,582 (2018 - gain of \$5,387) in the statement of income and comprehensive income for the period ended March 31, 2019 (note 10).

12. CREDIT RISK

Agreements receivable are collateralized by specific real estate sold. Agreements receivable relate primarily to land sales in Alberta and, accordingly, collection risk is related to the economic conditions of that region. We manage credit risk by selling to certain qualified registered builders.

13. EVENTS AFTER THE REPORTING PERIOD

Normal Course Issuer Bid

On April 1, 2019 Melcor commenced a NCIB which allows Melcor to purchase up to 1,665,080 common shares for cancellation, representing approximately 5% of the issued and outstanding common shares. The common shares may be repurchased up to a maximum daily limit of 1,000. The price which Melcor will pay for common shares repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement, on March 31, 2020.

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

As of May 8, 2019, there were no common share units purchased for cancellation by Melcor pursuant to the NCIB.

Distributions on REIT trust units

On April 15, 2019 the REIT declared a distribution of \$0.05625 per unit for the months of April, May and June 2019. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
April 2019	April 30, 2019	May 15, 2019	\$0.05625 per unit
May 2019	May 31, 2019	June 17, 2019	\$0.05625 per unit
June 2019	June 28, 2019	July 15, 2019	\$0.05625 per unit

Asset acquisition

On April 24, 2019 the REIT acquired a retail investment property in Calgary, Alberta for a purchase price of \$12,450. This purchase was accounted for as an asset purchase in accordance with our policy.

Dividends declared

On May 8, 2019 our board of directors declared a dividend of \$0.13 per share payable on June 28, 2019 to shareholders of record on June 15, 2019.