PRESS RELEASE
for immediate distribution

Melcor Developments announces second quarter results, declares quarterly dividend of $0.12 per share

Edmonton, Alberta | August 1, 2019

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the second quarter and six months ended June 30, 2019. Revenue was down 4% to $41.09 million compared to Q2-2018. Year to date revenue was $75.97 million, down 13% compared to the same period last year. Weaker residential markets in Alberta led to a 13% decrease in Community Development revenue. Investment Properties revenue grew by 23% as a result of transfers from the Property Development division and third party acquisitions within the past 12 months, which led to 26% growth in owned gross leasable area.

Q2-2019 net income was up 92% at $3.14 million. Year to date net income was $4.73 million or $0.14 per share (basic) compared with a net income of $16.28 million or $0.49 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 up 4% to $7.98 million or 0.24 per share in the quarter and 8% to $13.65 million or $0.41 per share year to date. The FFO increase over 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: "Our operating results for the first half of 2019 are in line with expectations given the softer market for new homes in Alberta. We anticipate the demand for housing will remain soft in the near to midterm without any job creation catalysts and in turn result in a very challenging environment for sustained housing development. Following the change in our provincial government early in the second quarter, there is a renewed sense of optimism in Alberta; however, we still face the challenges of an Alberta economy without expanded pipelines and a general lack of federal support. Special interest groups continue to impede resource development and prevent access to national and world markets.

Property Development construction in several retail projects continued in the second quarter as we build future assets for our investment property and REIT divisions. These divisions continue to produce stable results while maintaining occupancy and base rents in challenging markets and contributed 72% of revenue year to date.

Community Development construction activity is also progressing although at a tempered rate as we continue to focus on strategic inventory management to ensure that demand is in place prior to putting shovels in the ground. Although the outlook remains very challenging we have a proven ability to adapt product offerings to changing markets."

The Board today declared a quarterly dividend of $0.12 per share, payable on September 30, 2019 to shareholders of record on September 16, 2019. The dividend is an eligible dividend for Canadian tax purposes.

Second Quarter Results

Revenues in Q2-2019 were down 4% over Q2-2018 and 13% over the prior year as a result of the soft residential market in Canada and the timing of sales in the US residential market. Our community development division experienced a 13% decrease in revenue over the prior year, leading to the overall decrease in revenue. This decline was partially offset by the 20% increase in Investment Properties revenue over Q2-2018 and 23% increase over the prior year as a result of growth in owned gross leasable area (GLA) via third party acquisitions and transfers from Property Development over the last 12 months. US revenue will continue to be lumpy while we ramp up our Harmony project in Aurora, CO. Strategies employed to diversify geographically and via product mix over the past few years continue to positively impact our financial results and serve as an offset to the impact of softer residential markets in Alberta.

Highlights of the quarter and year to date periods include:

- Year to date revenue was down 13% to $76.0 million as a result of softer residential sales and the timing of multi-family and commercial sales, which tend to fluctuate quarter to quarter.
- Year to date Funds from operations (FFO) was up 8% to $13.7 million compared with 2018, primarily due to the negative tax impact on the 2018 FFO that resulted from the sale to the REIT during Q1-2018. FFO was up 4% to $8.0 million in Q2-2019

from $7.7 million in Q2-2018. Management believes funds from operations is a more accurate reflection of our true operating performance.

- Our Community Development and Property Development divisions are actively engaged in a number of projects as we continue through the 2019 construction season.
- Our Property Development team started 13,200 sf of new development during the quarter for a total of 31,600 sf currently under construction year to date. A total of 98,330 sf of development is planned for the 2019 construction season. A further 52,560 sf is complete and awaiting lease-up of the building.
- Our income-producing divisions (Investment Properties and REIT) continue to yield stable results, with revenue up 7% over 2018 and consistent occupancy rates and base rents.
- On April 24, 2019 the REIT acquired a 56,084 sf single tenant retail building with warehouse space in Calgary, Alberta.
- Net income of $3.1 million in the quarter was negatively impacted by non-cash fair value losses on investment properties of $1.92 million and on REIT units of $0.92 million. These losses are driven by market forces outside of Melcor's control.
- We continue to return value to our shareholders and unit holders:
    - We paid a quarterly dividend of $0.13 per share on June 28, 2019. The REIT paid distributions of $0.05625 per trust unit in April, May and June for a quarterly payout ratio of 99%.
    - On August 1, 2019 we declared a quarterly dividend of $0.12 per share, payable on September 30, 2019 to shareholders of record on September 16, 2019. The dividend is an eligible dividend for Canadian tax purposes.

Selected Highlights

($000s except as noted)	Three-months			Six-months		
	30-June-19	30-June-18	Change	**30-June-19**	30-June-18	Change
Revenue	**41,085**	42,793	(4.0)%	**75,969**	87,207	(12.9)%
Gross margin (%) *	**53.6%**	48.5%	10.5 %	**53.8%**	50.1%	7.4 %
Net income	**3,137**	1,631	92.3 %	**4,727**	16,278	(71.0)%
Net margin (%) *	**7.6%**	3.8%	100.0 %	**6.2%**	18.7%	(66.8)%
Funds from operations *	**7,975**	7,695	3.6 %	**13,652**	12,615	8.2 %
Per Share Data ($)						
Basic earnings (loss)	**0.09**	0.05	80.0 %	**0.14**	0.49	(71.4)%
Diluted earnings	**0.09**	0.05	80.0 %	**0.14**	0.49	(71.4)%
Funds from operations *	**0.24**	0.23	4.3 %	**0.41**	0.38	7.9 %

As at ($000s except as noted)	**30-June-19**	31-Dec-18	Change
Shareholders' equity	**1,056,906**	1,067,565	(1.0)%
Total assets	**2,026,064**	2,023,076	0.1 %
Per Share Data ($)			
Book value *	**31.76**	32.01	(0.8)%

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three and six months ended June 30, 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 4.20 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

August 1, 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 June 30, 2019 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2018.

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

Melcor's Board of Directors approved the content of this MD&A on August 1, 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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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.

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

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Our Business

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

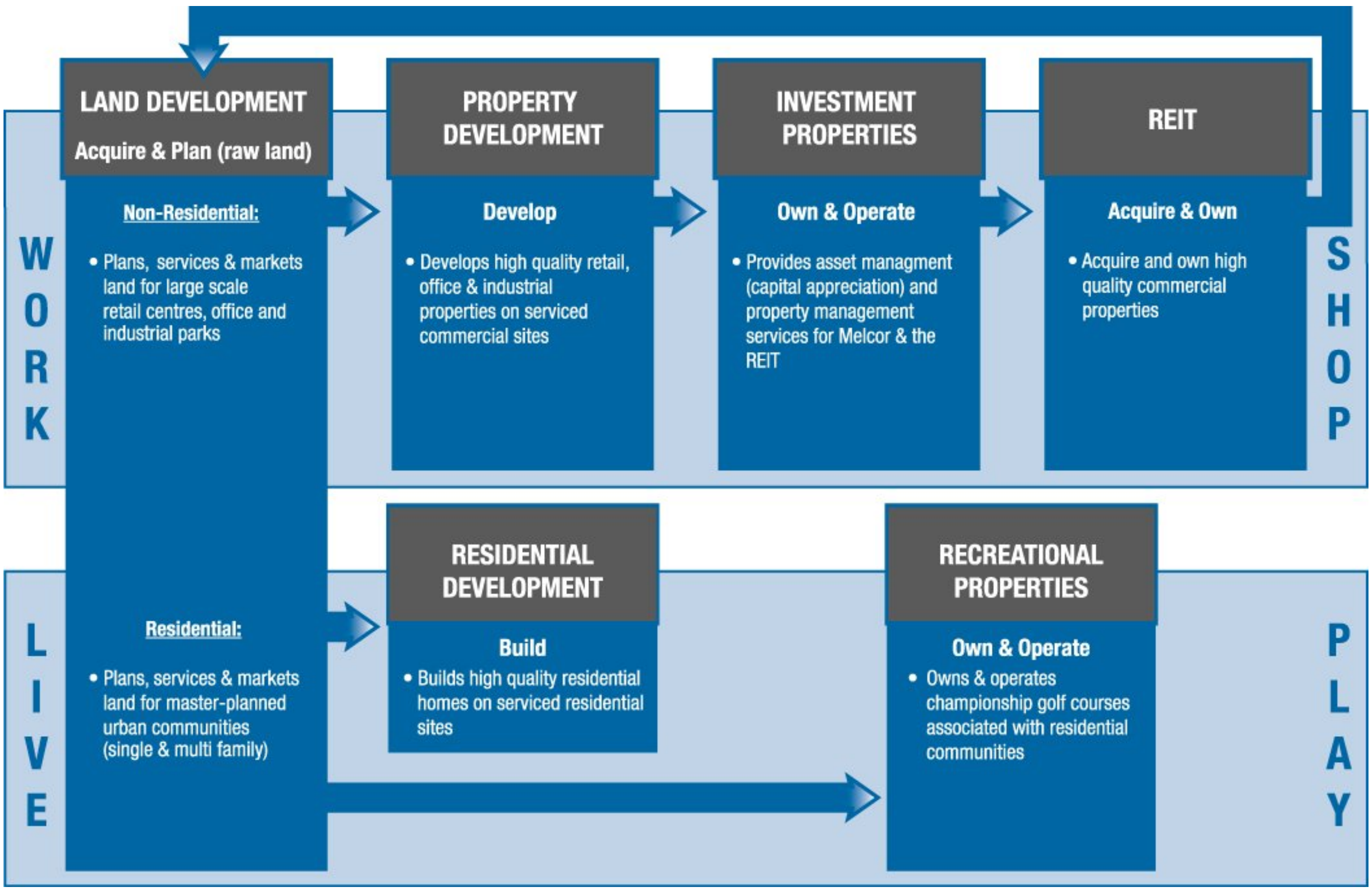
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

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

In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreational Properties. Melcor has $2.03 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**).

Second Quarter Highlights

($000s except as noted)	Three months ended			Six months ended		
	30-June-19	30-June-18	Change	**30-June-19**	30-June-18	Change
Revenue	**41,085**	42,793	(4.0)%	**75,969**	87,207	(12.9)%
Gross margin (%) *	**53.6%**	48.5%	10.5 %	**53.8%**	50.1%	7.4 %
Net income	**3,137**	1,631	92.3 %	**4,727**	16,278	(71.0)%
Net margin (%) *	**7.6%**	3.8%	100.0 %	**6.2%**	18.7%	(66.8)%
Funds from operations *	**7,975**	7,695	3.6 %	**13,652**	12,615	8.2 %
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Basic earnings (loss)	**0.09**	0.05	80.0 %	**0.14**	0.49	(71.4)%
Diluted earnings	**0.09**	0.05	80.0 %	**0.14**	0.49	(71.4)%
Funds from operations *	**0.24**	0.23	4.3 %	**0.41**	0.38	7.9 %

As at ($000s except as noted)	**30-June-19**	31-Dec-18	Change
Shareholders' equity	**1,056,906**	1,067,565	(1.0)%
Total assets	**2,026,064**	2,023,076	0.1 %
Per Share Data ($)			
Book value *	**31.76**	32.01	(0.8)%

**See non-standard measures for calculation.*

Given the longer term nature of real estate development, comparison of any three month period may not be as meaningful as year to date results. Revenues in Q2-2019 were down 4% over Q2-2018 and 13% over the prior year as a result of the soft residential market in Canada and the timing of sales in the US residential market. Our community development division experienced a 13% decrease in revenue over the prior year, leading to the overall decrease in revenue. This decline was partially offset by the 20% increase in Investment Properties revenue over Q2-2018 and 23% increase over the prior year as a result of growth in owned gross leasable area (GLA) via third party acquisitions and transfers from Property Development over the last 12 months. US revenue will continue to be lumpy while we ramp up our Harmony project in Aurora, CO. Strategies employed to diversify geographically and via product mix over the past few years continue to positively impact our financial results and serve as an offset to the impact of softer residential markets in Alberta.

Highlights of the quarter and year to date periods include:

- Year to date revenue was down 13% to $76.0 million as a result of softer residential sales and the timing of multi-family and commercial sales, which tend to fluctuate quarter to quarter.
- Year to date Funds from operations (FFO) was up 8% to $13.7 million compared with 2018, primarily due to the negative tax impact on the 2018 FFO that resulted from a sale made to the REIT during Q1-2018. FFO was up 4% to $8.0 million in Q2-2019 from $7.7 million in Q2-2018. Management believes funds from operations is a more accurate reflection of our true operating performance.
- Our Community Development and Property Development divisions are actively engaged in a number of projects as we continue through the 2019 construction season.
- Our Property Development team started 13,200 sf of new development during the quarter for a total of 31,600 sf currently under construction year to date. A total of 98,330 sf of development is planned for the 2019 construction season. A further 52,560 sf is complete and awaiting lease-up of the building.
- Our income-producing divisions (Investment Properties and REIT) continue to yield stable results, with revenue up 7% over 2018 and consistent occupancy rates and base rents.
- On April 24, 2019 the REIT acquired a 56,084 sf single tenant retail building with warehouse space in Calgary, Alberta.
- Net income of $3.1 million in the quarter was negatively impacted by non-cash fair value losses on investment properties of $1.92 million and on REIT units of $0.92 million. These losses are driven by market forces outside of Melcor's control.
- We continue to return value to our shareholders and unit holders:
    - We paid a quarterly dividend of $0.13 per share on June 28, 2019. The REIT paid distributions of $0.05625 per trust unit in April, May and June for a quarterly payout ratio of 99%.
    - On August 1, 2019 we declared a quarterly dividend of $0.12 per share, payable on September 30, 2019 to shareholders of record on September 16, 2019. The dividend is an eligible dividend for Canadian tax purposes.

Revenue & Margins:

Revenue for the quarter was $41.09 million compared with $42.79 million in Q2-2018, a decrease of 4%. Year to date, revenue was down 13% to $75.97 million over the prior year. Q2-2019 Community Development revenue was up by 42% over the same quarter last year as a result of $12.03 million in revenue on internal transfers to our Property Development division. Adjusting out current and prior year internal sales, revenue was down 20% over Q2-2018 and 43% over the prior year. Revenue from the sale of single family land decreased to $13.29 million from $26.68 million and multi-family and commercial land decreased to $2.98 million compared with $10.51 million over the prior year. Community Development division revenue is highly dependent on the demand for new homes in the regions where we hold land.

Gross margin increased to 54% in the quarter compared to 49% in Q2-2018 due to a higher proportionate share of revenue coming from higher margin income-generating properties in our Investment Property and REIT divisions, which contributed $27.18 million in Q2-2019 at 59% gross margin compared to $25.64 million at 60% gross margin in Q2-2018. Gross margin is also affected by product mix sold in the Community Development division. Year to date revenue in our REIT operating division remains stable, while revenue in our Investment property division has increased 23%.

Revenue in our Investment Properties and REIT operating divisions increased during the quarter due to third party acquisitions and transfers from Property Development in the past 12 months, while margins remain stable. In Q2-2019, these divisions contributed revenue of $27.2 million at 59% gross margin compared with revenue of $25.64 million at 60% gross margin last year.

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

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

Funds From Operations (FFO)

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

Below is a reconciliation of net income to FFO:

($000s)	Three months ended		Six months ended	
	30-June-19	30-June-18	**30-June-19**	30-June-18
Net income for the period	**3,137**	1,631	**4,727**	16,278
Amortization of operating lease incentives	**1,038**	1,595	**2,758**	3,255
Fair value adjustment on investment properties	**1,918**	1,790	**1,941**	(283)
Depreciation on property and equipment	**441**	455	**628**	652
Stock based compensation expense	**182**	107	**359**	212
Non-cash finance costs	**679**	637	**1,362**	1,207
Gain on sale of asset	**(22)**	(5)	**(22)**	(5)
Deferred income taxes	**(321)**	(98)	**(606)**	(4,897)
Fair value adjustment on REIT units	**923**	1,583	**2,505**	(3,804)
FFO	**7,975**	7,695	**13,652**	12,615
FFO per share	**0.24**	0.23	**0.41**	0.38

FFO increased by 4% compared with Q2-2018. The increase over Q2-2018 was driven by a higher gross profit which resulted in a higher net income. Gross profit increase was due to a higher proportionate share of revenue coming from higher margin income-generating properties (margin of 59%) in our Investment Property and REIT divisions. Prior year FFO 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 8% increase. Excluding the effect of this reclassification on the comparative period, FFO decreased by $2.63 million or 16% 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 June 30		Three-months June 30		Three-months June 30		Three-months June 30		Three-months June 30	
($000s except as noted)	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Revenue	**23,797**	16,790	**12**	3,750	**9,709**	8,098	**17,474**	17,537	**3,860**	3,788
Portion of total revenue	**58 %**	39 %	**— %**	9 %	**24 %**	19 %	**43 %**	41 %	**9 %**	9 %
Cost of sales	**(17,766)**	(11,204)	**—**	(3,650)	**(4,035)**	(3,328)	**(7,046)**	(6,924)	**(2,129)**	(2,080)
Gross profit	**6,031**	5,586	**12**	100	**5,674**	4,770	**10,428**	10,613	**1,731**	1,708
Gross margin %	**25 %**	33 %	**100 %**	3 %	**58 %**	59 %	**60 %**	61 %	**45 %**	45 %
Portion of total profit	**27 %**	27 %	**— %**	— %	**26 %**	23 %	**47 %**	51 %	**8 %**	8 %
General and administrative expense	**(1,866)**	(2,320)	**(571)**	(587)	**(505)**	(597)	**(743)**	(709)	**(803)**	(829)
Fair value adjustment on investment properties	**—**	—	**252**	2,062	**(1,369)**	(1,649)	**(1,879)**	(3,414)	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**22**	12
Interest income	**285**	290	**7**	5	**12**	1	**33**	29	**—**	—
Segment Earnings (Loss)	**4,450**	3,556	**(300)**	1,580	**3,812**	2,525	**7,839**	6,519	**950**	891

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Six-months June 30		Six-months June 30		Six-months June 30		Six-months June 30		Six-months June 30	
($000s except as noted)	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Revenue	**34,344**	39,441	**36**	20,043	**19,396**	15,733	**35,418**	35,554	**4,002**	3,935
Portion of total revenue	**45%**	45%	**—%**	23%	**26%**	18%	**47%**	41%	**5%**	5%
Cost of sales	**(23,761)**	(23,808)	**—**	(19,850)	**(7,997)**	(6,332)	**(14,446)**	(14,262)	**(2,631)**	(2,590)
Gross profit	**10,583**	15,633	**36**	193	**11,399**	9,401	**20,972**	21,292	**1,371**	1,345
Gross margin %	**31%**	40%	**100%**	1%	**59%**	60%	**59%**	60%	**34%**	34%
Portion of total profit	**26%**	36%	**—%**	—%	**28%**	22%	**51%**	49%	**3%**	3%
General and administrative expense	**(4,020)**	(4,793)	**(1,204)**	(1,206)	**(1,120)**	(1,180)	**(1,464)**	(1,455)	**(1,190)**	(1,203)
Fair value adjustment on investment properties	**—**	—	**610**	4,803	**(3,980)**	(3,731)	**(720)**	(3,415)	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**22**	12
Interest income	**456**	516	**14**	11	**17**	4	**61**	64	**—**	—
Segment Earnings (Loss)	**7,019**	11,356	**(544)**	3,801	**6,316**	4,494	**18,849**	16,486	**203**	154

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

Community Development

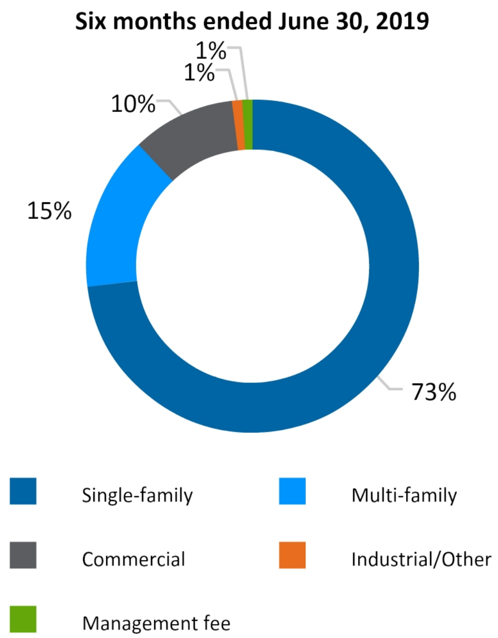
Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning,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

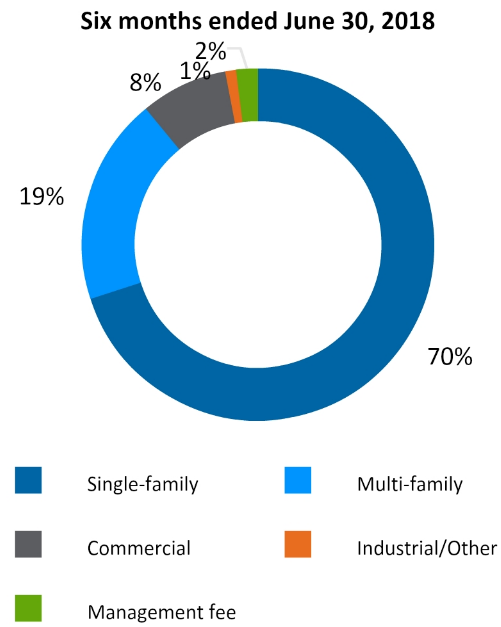
Master-planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and multi-family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

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

Sales Activity

REVENUE BY TYPE





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

Consolidated	Three months ended		Six months ended	
	30-June-19	30-June-18	**30-June-19**	30-June-18
Canada Sales data: (including joint ventures at 100%)				
Single family sales (number of lots)	**106**	147	**135**	201
Gross average revenue per single-family lot ($)	**149,161**	162,800	**157,665**	168,100
Multi-family sales (acres)	**—**	—	**—**	5.57
Gross average revenue per multi-family acre ($)	**—**	—	**—**	1,558,900
Commercial sales (acres)	**1.97**	1.15	**3.42**	5.25
Gross average revenue per commercial land acre ($)	**776,650**	900,000	**871,345**	971,700
Industrial sales (acres)	**0.99**	1.48	**0.99**	1.48
Gross average revenue per industrial land acre ($)	**338,383**	345,300	**338,383**	345,300
Other land sales - Raw, Other (acres)	**14.55**	—	**18.60**	—
Gross average revenue per other land acre ($)	**721,650**	—	**762,903**	—
US Sales data: (including joint ventures at 100%)				
Single family sales (number of lots)	**—**	—	**—**	154
Gross average revenue per single-family lot ($)	**—**	—	**—**	37,900
Other land sales - Raw, Other (acres)	**—**	—	**1.98**	—
Gross average revenue per other land acre ($)	**—**	—	**1,026,676**	—
Divisional results: (including joint ventures at Melcor's interest)				
Revenue ($000s)	**23,797**	16,790	**34,344**	39,441
Earnings ($000s)	**4,450**	3,556	**7,019**	11,356

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

Expected strain on real estate markets continues to negatively impact land sales with fewer sales of commercial acres and no multi-family lot sales in Q2-2019. Single-family lot sales were also down in Canada at 106 compared to 147 in Q2-2018 resulting in revenue (at JV%) of $9.31 million in Q2-2019 compared to $14.78 million. In the comparative year, 154 single-family lots were also sold in the US compared to no lot sales in the US so far this year. US lot sales will remain lumpy while we continue to build out the Harmony community in Aurora, CO. The average selling price of single-family lots in Canada decreased 6% compared with last year. Average revenue per single-family lot fluctuates period to period based on the type of product sold.

The decline in Community Development revenue was driven by a 37% decrease in revenue from single-family lot sales over Q2-2018 and 50% over the prior year.

The Community Development division is continuing to develop new phases in communities that show market demand for diverse products. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development.

Regional Sales Analysis

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

Regional Sales Analysis	**Three months ended 30-June-19**			Three months ended 30-June-18		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	**73**	**—**	**15.54**	101	—	1.48
Red Deer Region	**5**	**—**	**—**	14	—	—
Calgary Region	**18**	**—**	**1.97**	28	—	1.15
Lethbridge	**10**	**—**	**—**	1	—	—
Kelowna	**—**	**—**	**4.05**	3	—	—
United States	**—**	**—**	**1.98**	—	—	—
	106	**—**	**23.54**	147	—	2.63

Regional Sales Analysis	**Six months ended June 30, 2019**			Six months ended June 30, 2018		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	**95**	**—**	**15.54**	137	1.98	5.58
Red Deer	**8**	**—**	**—**	20	—	—
Calgary Region	**21**	**—**	**3.42**	40	3.59	1.15
Lethbridge	**11**	**—**	**—**	1	—	—
Kelowna	**—**	**—**	**4.05**	3	—	—
United States	**—**	**—**	**1.98**	154	—	—
	135	**—**	**24.99**	355	5.57	6.73

Single-family lot sales in the second 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.

During the quarter, we sold 16.52 acres of commercial land to our Property Development division for $12.03 million. This land is under development for a gas station and other retail tenants in Edmonton and Calgary.

Inventory

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

Developed Inventory	**Six months ended 30-Jun-19**			Six months ended 30-Jun-18		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	**1,248**	**59.00**	**130.44**	1,481	68.56	136.13
Purchases	**—**	**—**	**—**	—	—	1.01
New developments	**28**	**—**	**—**	36	—	—
Internal sales	**—**	**—**	**(1.97)**	—	—	(5.25)
Sales	**(135)**	**—**	**(2.44)**	(355)	(5.57)	(1.48)
	1,141	**59.00**	**126.03**	1,162	62.99	130.41

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.

No purchases of raw land were made during the quarter. Year to date, 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 Q2-2018, we purchased 0.63 acres of raw land in our Kelowna region for $0.09 million.

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

Property Development

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

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

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

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

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

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

Division Highlights

($000s except as noted)	Three months ended		Six months ended	
	30-June-19	30-June-18	**30-June-19**	30-June-18
Total revenue	**12**	3,750	**36**	20,043
Revenue from property transfers	**—**	3,650	**—**	19,850
Management fees	**12**	193	**36**	193
Gross margin (%) on property transfers	**—%**	40%	**—%**	11%
Square footage transferred (sf, at 100%)	**—**	10,532	**—**	45,897
Number of buildings transferred	**—**	2	**—**	3
Fair value adjustment on investment properties	**252**	2,062	**610**	4,803

There were no buildings transferred to Investment Properties in Q2-2019. The Property Development division currently has approximately 150,890 sf under active development or completed and awaiting lease-up.

Regional Highlights

($000s except as noted)	Three months ended		Six months ended	
Fair value adjustments by region	**30-June-19**	30-June-18	**30-June-19**	30-June-18
Northern Alberta	**1**	2,062	**77**	4,803
Southern Alberta	**251**	—	**533**	—
	252	2,062	**610**	4,803

Northern Alberta: Year to date fair value gains of $0.08 million are 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: During the quarter we recognized $0.25 million in fair value gains bringing year to date fair value gains to $0.53 million related to our properties under development in southern Alberta. A CRU at the District that is fully leased and near completion resulted in the $0.25 million fair value gain in the quarter. We expect to transfer this 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	18,400
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
Greenwich	West Calgary	*Regional mixed use centre*	325,000	—	—

Expected Future Projects					
Project	Location	Type	Total SF *	Ownership Interest	Expected Start (year)
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 4,204,300 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		Six months ended	
	30-June-19	30-June-18	**30-June-19**	30-June-18
Commercial properties GLA under management (sf, total)	**4,204,300**	3,919,140	**4,204,300**	3,919,140
Properties owned and managed (sf)	**897,778**	711,391	**897,778**	711,391
Properties managed (sf)	**3,306,522**	3,207,749	**3,306,522**	3,207,749
Revenue (total)	**9,709**	8,098	**19,396**	15,733
Canadian properties	**3,131**	2,844	**6,510**	5,444
US properties	**4,778**	3,504	**9,539**	7,027
Management fees	**1,466**	1,439	**2,706**	2,612
Parking lots and other assets	**334**	311	**641**	650
Net operating income (NOI) *	**5,745**	4,643	**11,273**	9,181
Funds from operations *	**5,743**	4,372	**11,166**	8,686
Funds from operations per share *	**0.17**	0.13	**0.34**	0.26

** 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 98,330 sf of GLA under active construction with construction and leasing underway. No properties were transferred during the quarter. The majority of transfers typically occur in the second half of the year due to construction timing. Over the past twelve months, Property Development has transferred two buildings representing 21,443 sf (at 100%). Revenue generated on assets acquired from Property Development and held through the six-month period was $2.14 million (2018 - $1.07 million).

Occupancy on Canadian properties was 91% at June 30, 2019, down 1% from Q1-2019 and stable compared to year end. Commercial weighted average base rents (WABR) were $28.20, up $0.66 compared with year-end. The decline in occupancy was primarily due to tenant turnover at our retail property in Fort McMurray, AB. The property has committed occupancy of 96%, a significant accomplishment considering the challenges facing that market.

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

($000s except as noted)	Three months ended		Six months ended	
	30-June-19	30-June-18	**30-June-19**	30-June-18
Same asset NOI *	**1,695**	1,571	**3,321**	3,103
Third party acquisition	**7**	—	**50**	—
Properties transferred from PD	**712**	224	**1,249**	373
Properties transferred to REIT	—	(28)	—	55
NOI*	**2,414**	1,767	**4,620**	3,531
Amortization of operating lease incentives	**(301)**	(62)	**(372)**	(166)
Straight-line rent adjustment	**108**	366	**296**	642
Gross profit	**2,221**	2,071	**4,544**	4,007

** 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 7% to $2.22 million in the quarter and up $0.54 million or 13% over 2018, while NOI was up 37% to $2.41 million in the quarter and up $1.09 million or 31% year to date. Properties transferred from the Property Development division over the past 12 months drove the increase in Canadian property NOI and gross profit, adding $0.71 million in NOI in the second quarter of 2019 and $1.25 million in NOI year to date (Q2-2018 - $0.22 and $0.37 million). On a same asset basis, NOI was up 8% to $1.70 million in the quarter and up 7% year to date due to higher occupancy.

US properties

Revenue on US properties was $4.78 million compared with $3.50 million in Q2-2018 as a result of a third party acquisition made in Arizona during Q3-2018 and a slight increase in occupancy.

Occupancy on our commercial portfolio remained stable over year end at 88%. Weighted average rental rates on our US commercial properties were down 1% over year-end at US$19.47, from US$19.64 at year end. Residential occupancy remained stable at 99%.

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

($000s except as noted)	Three months ended		Six months ended	
	30-June-19	30-June-18	**30-June-19**	30-June-18
Same asset NOI *	**1,135**	1,254	**2,292**	2,646
Third party acquisitions	**420**	—	**917**	—
NOI before adjustments	**1,555**	1,254	**3,209**	2,646
Foreign currency translation	**525**	407	**1,082**	734
Amortization of operating lease incentives	**(262)**	(216)	**(499)**	(376)
Straight-line rent adjustment	**383**	(30)	**700**	50
Gross profit	**2,201**	1,415	**4,492**	3,054

** See non-standard measures for definition.*

Gross profit was up $0.79 million or 56% over Q2-2018, while NOI before adjustments was up $0.30 million or 24%. Gross profit was up due to the acquisition completed in Q3-2018 generating higher NOI as well as an increase in straight-line rent adjustments due to new leasing completed. Same asset NOI was down $0.12 million over Q2-2018 and $0.35 million year to date 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 $0.03 million or 2% over Q2-2018 due to the acquisition fee earned on a third party REIT purchase offset by lower leasing fees.

Funds from operations (FFO) increased 31% or $1.37 million in the quarter and 29% or $2.48 million year to date as a result of third party acquisitions and transfers from Property Developments over the past 12 months as well as higher straight-line rent adjustments on account of new leasing completed.

REIT

The REIT owned 38 income-producing office, retail and industrial properties, comprising 2,925,998 square feet of gross leasable area (GLA) at June 30, 2019. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants, operating in a variety of industries. During the 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**		**Six months ended**	
	30-June-19	30-June-18	**30-June-19**	30-June-18
Rental revenue	**17,474**	17,537	**35,418**	35,554
Net operating income (NOI) *	**11,382**	11,057	**22,394**	22,132
Same asset NOI * *(see calculation following)*	**9,856**	9,833	**19,495**	19,599
Fair value adjustment on investment properties	**(1,879)**	(3,414)	**(720)**	(3,415)
Gross leasable area (GLA) (sf)	**2,925,998**	2,834,133	**2,925,998**	2,834,133
Occupancy % (weighted by GLA)	**89.2%**	90.1%	**89.2%**	90.1%
Fair value of portfolio	**719,284**	702,972	**719,284**	702,972
Funds from operations *	**10,756**	10,690	**21,372**	21,426
Funds from operations per share *	**0.32**	0.32	**0.64**	0.64

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

Rental revenue for the three and six-months ended June 30, 2019 was stable over 2018. Properties acquired within the past eighteen months (Staples Centre on April 24, 2019, LFS Building on December 3, 2018 and the Melcor Acquisition on January 12, 2018) contributed rental revenue of $2.16 million in the second quarter and $4.15 million year to date (2018 - $1.84 million and $3.42 million respectively). The increase in rental revenue was offset by a decrease in same-asset performance in our office portfolio as well as the sale of two retail assets in 2018, which contributed $0.38 million to prior year revenues.

Year to date we signed 116,934 sf of new and renewed leasing (including holdovers) and maintained steady occupancy at 89.2%. In 2019, 85 leases representing 279,560 sf or 9.7% of our portfolio are up for renewal. We have retained 78.0% of expiring leases (representing 115,047 sf) as at June 30, 2019 in spite of challenging market conditions in many of our operating regions. In the first quarter we received notice that one of our major tenants, Royal Bank of Canada, will be vacating their office space 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 $16.83, up $0.32 compared to December 31, 2018 and up $0.30 over Q2-2018 due to leasing activity and fewer tenants on rent free periods. Weighted average base rent was stable over Q2-2018.

Direct operating expenses were up 1% year to date in 2019. On a same-asset basis, property taxes and utilities increased by 4% due to higher utility riders and fees as well as increases in property taxes, primarily on our retail assets. The timing of maintenance projects led to a 1% decrease in same-asset operating expenses in the first half of 2019. As a cornerstone of our property management strategy, we are committed to efficient and cost effective maintenance of our buildings to ensure maximum value to our tenants and unitholders.

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

($000s except as noted)	Three months ended		Six months ended	
	30-June-19	30-June-18	**30-June-19**	30-June-18
Same asset NOI *	**9,856**	9,833	**19,495**	19,599
Acquisitions	**1,526**	1,178	**2,899**	2,252
Disposals	**—**	46	**—**	281
NOI*	**11,382**	11,057	**22,394**	22,132
Amortization of operating lease incentives	**(1,038)**	(757)	**(1,803)**	(1,525)
Straight-line rent adjustment	**84**	313	**381**	685
Gross profit	**10,428**	10,613	**20,972**	21,292

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

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

NOI was up 3% in the second quarter and 1% year to date over 2018. On a same-asset basis NOI was flat over Q2-2018 and down 1% year to date over 2018 as a result of lower occupancy and weighted average base rates. Second quarter same-asset NOI was up 2% over Q1-2019.

Funds from operations

Funds from operations (FFO) was up 1% in the second quarter at $10.76 million compared with $10.69 million in Q2-2018.

Recreational Properties

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

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

The Recreational Properties division earned revenue of $4.00 million year to date, an increase of 2% over 2018 due to earlier course opening dates and favourable weather.

	Ownership interest	Season opened 2019	Rounds of Golf	Season opened 2018	Rounds of Golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	**April 12**	**10,150**	**April 27**	10,273
The Links (Spruce Grove)	100%	**April 13**	**10,118**	**April 27**	9,516
Black Mountain (Kelowna)	100%	**April 3**	**13,562**	**April 6**	12,148
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	**April 19**	**9,415**	**May 1**	8,474

General and Administrative Expense

General and administrative expenses (G&A) were down 10% over Q2-2018 and down 6% over 2018 as a result of decreased activity in our Community Development division and careful monitoring of expenses. Corporate G&A also decreased by 5% over Q2-2018 and 1% over 2018 as we continue to prudently monitor our controllable expenses. Community Development year to date G&A decreased $0.77 million over 2018, 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 Q2-2018.

Income Tax Expense

The statutory tax rate is 27% for the three and six months ended June 30, 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 June 30, 2019, compared with December 31, 2018.

As at ($000s except as noted)	**30-June-19**	31-Dec-18
Cash & cash equivalents	**29,460**	26,727
Accounts receivable	**11,394**	10,849
Agreements receivable	**90,295**	126,490
Revolving credit facilities	**90,515**	46,529
Accounts payable and accrued liabilities	**37,312**	44,825
Total assets	**2,026,064**	2,023,076
Total liabilities	**969,158**	955,511
Debt to equity ratio*	**0.92**	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 June 30, 2019, our total general debt outstanding was $700.89 million. A summary of our debt is as follows:

As at ($000s)	**30-June-19**	31-Dec-18
Melcor - revolving credit facilities	**71,180**	46,529
REIT - revolving credit facility	**19,335**	—
Project specific financing	**64,399**	62,639
Secured vendor take back debt on land inventory	**38,319**	40,842
Debt on investment properties and golf course assets	**451,942**	454,342
REIT - convertible debentures	**55,714**	55,204
General debt	**700,889**	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 June 30, 2019 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT's $35.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of $140.00 million. As at June 30, 2019 and throughout the period, we were in compliance with our financial covenants.

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

Sources & Uses of Cash

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

($000s)	Three months ended		Six months ended	
	30-June-19	30-June-18	30-June-19	30-June-18
Cash flows from operating activities	**(3,882)**	(2,594)	**(672)**	(1,744)
Cash flows used in investing activities	**(17,448)**	5,992	**(22,744)**	4,261
Cash flows from (used in) financing activities	**19,120**	(4,692)	**26,115**	(13,867)

During Q2-2019, cash flows used in operating activities were $3.88 million, an increase in use of $1.29 million over Q2-2018. Collections on agreements receivables of $12.25 million in the quarter were offset by $17.12 million cash used in development activities. Cash used in development activities increased by 17% to $17.12 million compared to $14.65 million used in Q2-2018.

Cash flows used in investing activities were $17.45 million in Q2-2019 compared with cash flows from investing activities of $5.99 million during Q2-2018. During the quarter, the REIT purchased a commercial building resulting in cash used to purchase investment properties of $12.48 million compared to no cash outflows from purchases of investment properties in Q2 2018. During Q2-2019 there were no disposals of investment properties held for sale compared to Q2 2018 where disposals of investment properties held for sale resulted in cash inflows of $13.39 million. We continue to develop commercial properties and invest in our portfolio. Cash flows used in the development of investment properties was $4.67 million compared to $7.11 million in Q2-2018.

Cash flows from financing activities were $19.12 million during the quarter, a change of $23.81 million over Q2-2018. Repayments on our general debt of $17.04 million were offset by net proceeds of $17.47 million in the quarter. Net proceeds on our revolving credit facility were $23.17 million in the quarter compared to net repayments of $8.30 million in Q2-2018. In the quarter, we paid a $0.13 per share dividend for a total of $8.65 million paid year to date. (Q2-2018 - $0.13 per share).

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at June 30, 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 June 30, 2019 in comparison to the December 31, 2018 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

Normal Course Issuer Bid

On March 29, 2018 we announced a Normal Course Issuer Bid ("NCIB") that commenced March 31, 2018 and ended March 30, 2019. Under this bid, we could have acquired up to 1,669,782 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 1,262 common shares. Under this now expired NCIB, we purchased a total of 64,352 shares for cancellation during Q1-2019.

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

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

Also on March 28, 2019 the REIT announced an NCIB commencing April 1, 2019 and ending March 31, 2020. Under the bid, we may acquire up to 659,339 trust units in total (approximately 5% of our issued and outstanding trust units) with a daily repurchase restriction of 2,908 trust units. As of August 1, 2019, 35,064 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.

	Three Months Ended							
($000s)	**30-June-19**	31-Mar-19	31-Dec-18	30-Sept-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sept-17
Revenue	**41,085**	34,884	119,982	60,245	42,793	44,414	109,633	62,795
Net income (loss)	**3,137**	1,590	36,526	11,469	1,631	14,647	32,084	11,517
FFO	**7,975**	5,677	30,671	12,841	7,695	4,920	30,850	12,787
Per Share								
Basic earnings (loss)	**0.09**	0.05	1.09	0.34	0.05	0.44	0.96	0.34
Diluted earnings (loss)	**0.09**	0.05	1.09	0.34	0.05	0.44	0.96	0.34
FFO	**0.24**	0.17	0.92	0.38	0.23	0.15	1.21	0.38
FFO Diluted	**0.21**	0.17	0.92	0.35	0.23	0.15	0.93	0.38
Book value	**31.76**	31.88	30.21	30.78	30.64	30.63	30.21	29.39

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 cyclicality.

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 June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

Non-standard Measures

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

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

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

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

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

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

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

Investment Properties

($000s)	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	**June 30, 2019**	June 30, 2018
Segment Earnings	**3,812**	2,525	**6,316**	4,494
Fair value adjustment on investment properties	**1,369**	1,649	**3,980**	3,731
General and administrative expenses	**505**	597	**1,120**	1,180
Interest income	**(12)**	(1)	**(17)**	(4)
Amortization of operating lease incentives	**562**	198	**870**	461
Straight-line rent adjustment	**(491)**	(325)	**(996)**	(681)
Divisional NOI	**5,745**	4,643	**11,273**	9,181

REIT

($000s)	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	**June 30, 2019**	June 30, 2018
Segment Earnings	**7,839**	6,519	**18,849**	16,486
Fair value adjustment on investment properties	**1,879**	3,414	**720**	3,415
General and administrative expenses	**743**	709	**1,464**	1,455
Interest income	**(33)**	(29)	**(61)**	(64)
Amortization of operating lease incentives	**1,038**	757	**1,803**	1,525
Straight-line rent adjustment	**(84)**	(313)	**(381)**	(685)
Divisional NOI	**11,382**	11,057	**22,394**	22,132

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		Six months ended	
	June 30, 2019	June 30, 2018	**June 30, 2019**	June 30, 2018
Net income for the period	**3,137**	1,631	**4,727**	16,278
Amortization of operating lease incentives	**1,038**	1,595	**2,758**	3,255
Fair value adjustment on investment properties	**1,918**	1,790	**1,941**	(283)
Depreciation on property and equipment	**441**	455	**628**	652
Stock based compensation expense	**182**	107	**359**	212
Non-cash finance costs	**679**	637	**1,362**	1,207
Gain on sale of asset	**(22)**	(5)	**(22)**	(5)
Deferred income taxes	**(321)**	(98)	**(606)**	(4,897)
Fair value adjustment on REIT units	**923**	1,583	**2,505**	(3,804)
FFO	**7,975**	7,695	**13,652**	12,615

Investment Properties

($000s)	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	**June 30, 2019**	June 30, 2018
Segment Earnings	**3,812**	2,525	**6,316**	4,494
Fair value adjustment on investment properties	**1,369**	1,649	**3,980**	3,731
Amortization of operating lease incentives	**562**	198	**870**	461
Divisional FFO	**5,743**	4,372	**11,166**	8,686

REIT

($000s)	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	**June 30, 2019**	June 30, 2018
Segment Earnings	**7,839**	6,519	**18,849**	16,486
Fair value adjustment on investment properties	**1,879**	3,414	**720**	3,415
Amortization of operating lease incentives	**1,038**	757	**1,803**	1,525
Divisional FFO	**10,756**	10,690	**21,372**	21,426

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

MELCOR

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

	For the three months ended		For the six months ended	
Unaudited ($000s)	**June 30, 2019**	June 30, 2018	**June 30, 2019**	June 30, 2018
Revenue (note 7)	**41,085**	42,793	**75,969**	87,207
Cost of sales	**(19,059)**	(22,058)	**(35,134)**	(43,519)
Gross profit	**22,026**	20,735	**40,835**	43,688
General and administrative expense	**(5,448)**	(6,026)	**(11,119)**	(11,838)
Fair value adjustment on investment properties (note 5 and 11)	**(1,918)**	(1,790)	**(1,941)**	283
Adjustments related to REIT units (note 10)	**(3,146)**	(3,809)	**(6,953)**	(2,135)
Gain on sale of assets	**22**	5	**22**	5
Operating earnings	**11,536**	9,115	**20,844**	30,003
Interest income	**391**	379	**654**	701
Finance costs	**(7,095)**	(6,117)	**(14,066)**	(11,637)
Net finance costs	**(6,704)**	(5,738)	**(13,412)**	(10,936)
Income before income taxes	**4,832**	3,377	**7,432**	19,067
Income tax expense	**(1,695)**	(1,746)	**(2,705)**	(2,789)
Net income for the period	**3,137**	1,631	**4,727**	16,278
Income per share:				
Basic earnings per share	**0.09**	0.05	**0.14**	0.49
Diluted earnings per share	**0.09**	0.05	**0.14**	0.49

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income (Loss)

	For the three months ended		For the six months ended	
Unaudited ($000s)	**June 30, 2019**	June 30, 2018	**June 30, 2019**	June 30, 2018
Net income for the period	**3,137**	1,631	**4,727**	16,278
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income (loss):				
Currency translation differences	**(3,255)**	3,012	**(6,264)**	6,792
Comprehensive income (loss)	**(118)**	4,643	**(1,537)**	23,070

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	**June 30, 2019**	December 31, 2018
ASSETS		
Cash and cash equivalents	**29,460**	26,727
Accounts receivable	**11,394**	10,849
Income taxes recoverable	**7,613**	—
Agreements receivable	**90,295**	126,490
Land inventory (note 4)	**756,736**	758,940
Investment properties (note 5 and 11)	**1,060,738**	1,032,687
Property and equipment	**13,792**	14,020
Other assets	**56,036**	53,363
	2,026,064	2,023,076
LIABILITIES		
Accounts payable and accrued liabilities	**37,312**	44,825
Income taxes payable	**—**	8,605
Provision for land development costs	**64,454**	77,658
General debt (note 6)	**700,889**	659,556
Deferred income tax liabilities	**65,770**	66,493
REIT units (note 10 and 11)	**100,733**	98,374
	969,158	955,511
SHAREHOLDERS' EQUITY		
Share capital (note 8)	**72,680**	72,821
Contributed surplus	**3,725**	3,366
Accumulated other comprehensive income (AOCI)	**22,865**	29,129
Retained earnings	**957,636**	962,249
	1,056,906	1,067,565
	2,026,064	2,023,076

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited ($000's)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2019	**72,821**	**3,366**	**29,129**	**962,249**	**1,067,565**
Net income for the period	—	—	—	4,727	4,727
Cumulative translation adjustment	—	—	(6,264)	—	(6,264)
Transactions with equity holders					
Dividends	—	—	—	(8,654)	(8,654)
Share repurchase (note 8)	(141)	—	—	(686)	(827)
Employee share options					
Value of services recognized	—	359	—	—	359
Balance at June 30, 2019	**72,680**	**3,725**	**22,865**	**957,636**	**1,056,906**

Unaudited ($000's)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2018	72,729	2,939	16,948	915,974	1,008,590
Net loss for the period	—	—	—	16,278	16,278
Cumulative translation adjustment	—	—	6,792	—	6,792
Transactions with equity holders					
Dividends	—	—	—	(8,683)	(8,683)
Employee share options					
Value of services recognized	—	212	—	—	212
Share issuance	217	(23)	—	—	194
Balance at June 30, 2018	72,946	3,128	23,740	923,569	1,023,383

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

	For the three months ended		For the six months ended	
Unaudited ($000's)	**June 30, 2019**	June 30, 2018	**June 30, 2019**	June 30, 2018
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	**3,137**	1,631	**4,727**	16,278
Non cash items:				
Amortization of tenant incentives	**1,038**	1,595	**2,758**	3,255
Depreciation of property and equipment	**441**	455	**628**	652
Stock based compensation expense	**182**	107	**359**	212
Non-cash finance costs	**679**	637	**1,362**	1,207
Straight-line rent adjustment	**(498)**	(505)	**(1,203)**	(1,218)
Fair value adjustment on investment properties (note 5 and 11)	**1,918**	1,790	**1,941**	(283)
Fair value adjustment on REIT units (note 10 and 11)	**923**	1,583	**2,505**	(3,804)
Gain on sale of assets	**(22)**	(5)	**(22)**	(5)
Deferred income taxes	**(321)**	(98)	**(606)**	(4,897)
	7,477	7,190	**12,449**	11,397
Agreements receivable	**12,245**	12,206	**36,195**	21,037
Development activities	**(17,120)**	(14,646)	**(11,695)**	(21,032)
Purchase of land inventory (note 4)	**—**	(91)	**(8,496)**	(1,066)
Payment of tenant lease incentives and direct leasing costs	**(2,640)**	(1,931)	**(4,484)**	(3,738)
Operating assets and liabilities	**(3,844)**	(5,322)	**(24,641)**	(8,342)
	(3,882)	(2,594)	**(672)**	(1,744)
INVESTING ACTIVITIES				
Purchase of investment properties	**(12,478)**	—	**(12,478)**	—
Additions to investment properties (note 5)	**(4,673)**	(7,110)	**(10,202)**	(12,333)
Net proceeds from disposal of investment properties (note 5)	**—**	—	**314**	516
Net proceeds from disposal of asset held for sale	**—**	13,389	**—**	16,459
Purchase of property and equipment	**(325)**	(311)	**(406)**	(405)
Proceeds on disposal of property and equipment	**28**	24	**28**	24
	(17,448)	5,992	**(22,744)**	4,261
FINANCING ACTIVITIES				
Proceeds from issuance of trust units	**—**	—	**—**	17,302
Revolving credit facilities	**23,165**	(8,297)	**43,986**	(26,399)
Proceeds from general debt	**17,466**	23,022	**33,509**	42,106
Repayment of general debt	**(17,039)**	(15,183)	**(41,754)**	(38,387)
Repurchase of REIT units	**(145)**	—	**(145)**	—
Dividends paid	**(4,327)**	(4,342)	**(8,654)**	(8,683)
Common shares repurchased (note 8)	**—**	—	**(827)**	—
Share capital issued	**—**	108	**—**	194
	19,120	(4,692)	**26,115**	(13,867)
FOREIGN EXCHANGE LOSS ON CASH HELD IN A FOREIGN CURRENCY	**112**	672	**34**	465
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**(2,098)**	(622)	**2,733**	(10,885)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**31,558**	32,242	**26,727**	42,505
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**29,460**	31,620	**29,460**	31,620
Total income taxes paid	**5,314**	680	**8,634**	1,144
Total interest paid	**7,955**	5,752	**15,388**	11,662

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 June 30, 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 August 1, 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 August 1, 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;

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

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

	June 30, 2019	December 31, 2018
Raw land held	**392,988**	387,356
Land under development	**146,005**	136,534
Developed land	**217,743**	235,050
	756,736	758,940

During the six month period ended June 30, 2019, we purchased 313 acres of land at a cost of $15,808 and received vendor financing of $7,312.

During the comparative six month period ended June 30, 2018, we purchased 1.64 acres of land at a cost of $1,066.

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	June 30, 2019	December 31, 2018
Investment properties	**970,667**	965,339
Properties under development	**90,071**	67,348
Total	**1,060,738**	1,032,687

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

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

Six months ended June 30, 2019	Investment Properties	Properties under Development	Total
Balance - beginning of period	965,339	67,348	**1,032,687**
Additions			
Direct acquisition	12,478	—	**12,478**
Transfer from land inventory	—	12,305	**12,305**
Direct leasing costs	859	142	**1,001**
Property improvements	1,711	—	**1,711**
Development costs	—	8,342	**8,342**
Capitalized borrowing costs	—	149	**149**
Disposals	(314)	—	**(314)**
Fair value adjustment on investment properties	(3,726)	1,785	**(1,941)**
Foreign currency translation (included in OCI)	(5,680)	—	**(5,680)**
Balance - end of period	**970,667**	**90,071**	**1,060,738**

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.

Acquisitions

On April 24, 2019 the REIT acquired a retail investment property in Calgary, Alberta for a purchase price of $12,478 (including transaction costs). This purchase was accounted for as an asset acquisition in accordance with our policy.

Disposals

During the six-month period ended June 30, 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.

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

6. GENERAL DEBT

	June 30, 2019	December 31, 2018
Melcor - revolving credit facilities	71,180	46,529
REIT - revolving credit facility	19,335	—
Project specific financing	64,399	62,639
Secured vendor take back debt on land inventory	38,319	40,842
Debt on investment properties and golf course assets	451,942	454,342
REIT - convertible debentures	55,714	55,204
General debt	700,889	659,556

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

	June 30, 2019	December 31, 2018
Balance - beginning of period	62,639	20,926
Cash movements		
Loan repayments	(2,593)	(11,629)
New project financing	5,124	52,319
Non-cash movements		
Foreign currency translation included in OCI	(771)	1,023
Balance end of year	64,399	62,639

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

	June 30, 2019	December 31, 2018
Balance - beginning of period	40,842	64,891
Cash movements		
Principal repayments		
Scheduled amortization on debt	(9,744)	(26,742)
Non-cash movements		
New secured vendor take back debt	7,312	2,625
Amortization of non-cash interest	(91)	(280)
Foreign currency translation included in OCI	—	348
Balance end of year	38,319	40,842

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

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

	June 30, 2019	December 31, 2018
Balance - beginning of period	**454,342**	444,807
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(7,867)**	(15,964)
Mortgage repayments	**(21,550)**	(51,909)
New mortgages	**28,385**	75,918
Non-cash movements		
Mortgage payable disposed through sale during the period	**—**	(3,662)
Deferred financing fees capitalized	**(113)**	(627)
Amortization of deferred financing fees	**550**	341
Change in derivative fair value swap	**912**	254
Foreign currency translation included in OCI	**(2,717)**	5,184
Balance end of year	**451,942**	454,342

7. REVENUE

Total Revenues	**For the three months ended**		**For the six months ended**	
	June 30, 2019	June 30, 2018	**June 30, 2019**	June 30, 2018
Revenue from contracts	**19,713**	23,127	**33,891**	48,225
Revenue from other sources	**21,372**	19,666	**42,078**	38,982
	41,085	42,793	**75,969**	87,207

Timing of contract revenue recognition	**For the three months ended**		**For the six months ended**	
	June 30, 2019	June 30, 2018	**June 30, 2019**	June 30, 2018
At a point in time	**14,553**	18,297	**23,534**	38,702
Over time	**5,160**	4,830	**10,357**	9,523
	19,713	23,127	**33,891**	48,225

8. SHARE CAPITAL

Issued and outstanding common shares at June 30, 2019 are 33,282,143 (December 31, 2018 – 33,346,495). During the three and six months ended June 30, 2019, there were no options exercised (Q2-2018 – 8,000 and 14,200).

During the first quarter 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.

On April 1, 2019 Melcor commenced a new 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 June 30, 2019, there were no common share units purchased for cancellation by Melcor pursuant to the NCIB.

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

9. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	**June 30, 2019**	June 30, 2018
United States	**4,795**	3,524	**11,616**	11,767
Canada	**36,290**	39,269	**64,353**	75,440
Total	**41,085**	42,793	**75,969**	87,207

Total Assets

As at	**June 30, 2019**	December 31, 2018
United States	**260,823**	272,537
Canada	**1,765,241**	1,750,539
Total	**2,026,064**	2,023,076

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

9. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

For the three months ended June 30, 2019	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	23,797	12	9,709	17,474	3,860	—	54,852	(13,767)	41,085
Cost of sales	(17,766)	—	(4,035)	(7,046)	(2,129)	—	(30,976)	11,917	(19,059)
Gross profit	6,031	12	5,674	10,428	1,731	—	23,876	(1,850)	22,026
General and administrative expense	(1,866)	(571)	(505)	(743)	(803)	(1,732)	(6,220)	772	(5,448)
Fair value adjustment on investment properties	—	252	(1,369)	(1,879)	—	—	(2,996)	1,078	(1,918)
Gain on sale of assets	—	—	—	—	22	—	22	—	22
Interest income	285	7	12	33	—	54	391	—	391
Segment Earnings (Loss)	4,450	(300)	3,812	7,839	950	(1,678)	15,073	—	15,073
Finance costs									(7,095)
Adjustments related to REIT units									(3,146)
Income before tax									4,832
Income tax expense									(1,695)
Net income for the period									3,137

For the three months ended June 30, 2018	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	16,790	3,750	8,098	17,537	3,788	—	49,963	(7,170)	42,793
Cost of sales	(11,204)	(3,650)	(3,328)	(6,924)	(2,080)	—	(27,186)	5,128	(22,058)
Gross profit	5,586	100	4,770	10,613	1,708	—	22,777	(2,042)	20,735
General and administrative expense	(2,320)	(587)	(597)	(709)	(829)	(1,815)	(6,857)	831	(6,026)
Fair value adjustment on investment properties	—	2,062	(1,649)	(3,414)	—	—	(3,001)	1,211	(1,790)
Gain on sale of assets	—	—	—	—	12	(7)	5	—	5
Interest income	290	5	1	29	—	54	379	—	379
Segment Earnings (Loss)	3,556	1,580	2,525	6,519	891	(1,768)	13,303	—	13,303
Finance costs									(6,117)
Adjustments related to REIT units									(3,809)
Income before tax									3,377
Income tax expense									(1,746)
Net loss for the period									1,631

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

9. SEGMENTED INFORMATION (continued)

For the six months ended June 30, 2019	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	34,344	36	19,396	35,418	4,002	—	**93,196**	(17,227)	**75,969**
Cost of sales	(23,761)	—	(7,997)	(14,446)	(2,631)	—	**(48,835)**	13,701	**(35,134)**
Gross profit	10,583	36	11,399	20,972	1,371	—	**44,361**	(3,526)	**40,835**
General and administrative expense	(4,020)	(1,204)	(1,120)	(1,464)	(1,190)	(3,498)	**(12,496)**	1,377	**(11,119)**
Fair value adjustment on investment properties	—	610	(3,980)	(720)	—	—	**(4,090)**	2,149	**(1,941)**
Gain on sale of assets	—	—	—	—	22		**22**	—	**22**
Interest income	456	14	17	61	—	106	**654**	—	**654**
Segment Earnings (Loss)	7,019	(544)	6,316	18,849	203	(3,392)	**28,451**	—	**28,451**
Finance costs									**(14,066)**
Adjustments related to REIT units									**(6,953)**
Income before tax									**7,432**
Income tax expense									**(2,705)**
Net income for the period									**4,727**

For the six months ended June 30, 2018	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	39,441	20,043	15,733	35,554	3,935	—	**114,706**	(27,499)	**87,207**
Cost of sales	(23,808)	(19,850)	(6,332)	(14,262)	(2,590)	—	**(66,842)**	23,323	**(43,519)**
Gross profit	15,633	193	9,401	21,292	1,345	—	**47,864**	(4,176)	**43,688**
General and administrative expense	(4,793)	(1,206)	(1,180)	(1,455)	(1,203)	(3,551)	**(13,388)**	1,550	**(11,838)**
Fair value adjustment on investment properties	—	4,803	(3,731)	(3,415)	—	—	**(2,343)**	2,626	**283**
Gain on sale of assets	—	—	—	—	12	(7)	**5**	—	**5**
Interest income	516	11	4	64	—	106	**701**	—	**701**
Segment Earnings (Loss)	11,356	3,801	4,494	16,486	154	(3,452)	**32,839**	—	**32,839**
Finance costs									**(11,637)**
Adjustments related to REIT units									**(2,135)**
Income before tax									**19,067**
Income tax expense									**(2,789)**
Net loss for the period									**16,278**

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

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 June 30, 2019 the REIT units had a fair value of $100,733 . We recorded adjustments related to REIT units for the three and six months ended June 30, 2019 of $3,146 and $6,953 (Q2-2018 - $3,809 and $2,135).

On April 1, 2019 the REIT commenced a normal course issuer bid ("REIT NCIB") which allows the REIT to purchase up to 659,339 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 2,908. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The REIT NCIB ends one year from commencement on March 31, 2020.

During the six month period, there were 19,140 share purchased for cancellation by the REIT pursuant to the REIT NCIB at a cost of $145, which is recorded as reduction in the balance of REIT units on the consolidated statement of financial position.

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

	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	**June 30, 2019**	June 30, 2018
Fair value adjustment on REIT units (note 11)	**(923)**	(1,583)	**(2,505)**	3,804
Capitalized against REIT trust units	**—**	—	**—**	(1,190)
Capitalized to investment properties	**—**	—	**—**	(298)
Distributions to REIT unitholders	**(2,223)**	(2,226)	**(4,448)**	(4,451)
Adjustments related to REIT units	**(3,146)**	(3,809)	**(6,953)**	(2,135)

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	**June 30, 2019**	December 31, 2018
Assets	**725,526**	709,603
Liabilities	**415,357**	400,094
Net assets	**310,169**	309,509
Cost of NCI	**103,959**	103,959
Fair value of NCI	**100,733**	98,374

	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	**June 30, 2019**	June 30, 2018
Rental Revenue	**17,474**	17,537	**35,418**	35,554
Net income (loss) and comprehensive income (loss)	**(56)**	(1,768)	**2,422**	7,776
Cash flows from operating activities	**1,112**	1,679	**3,863**	5,376
Cash flows from (used in) investing activities	**(13,326)**	12,252	**(14,208)**	(19,036)
Cash flows from (used in) financing activities, before distributions to REIT unitholders	**14,650**	(9,822)	**14,972**	8,951
Cash flows used in financing activities - cash distributions to REIT unitholders	**(2,223)**	(2,130)	**(4,448)**	(4,243)
Net increase (decrease) in cash and cash equivalents	**213**	1,979	**179**	(8,952)

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

11. FAIR VALUE MEASUREMENT

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

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

- the carrying amounts of cash and cash equivalents, 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.

					June 30, 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**	**1,060,738**	**—**	**1,060,738**	**1,060,738**	1,032,687	1,032,687
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	**Level 3**	**—**	**645,066**	**645,066**	**662,823**	604,352	589,890
Convertible debentures	**Level 2**	**—**	**55,527**	**55,527**	**57,963**	55,017	56,738
Derivative financial liability							
Interest rate swaps	**Level 3**	**109**	**—**	**109**	**109**	(803)	(803)
Conversion feature on convertible debentures	**Level 3**	**187**	**—**	**187**	**187**	187	187
REIT units	**Level 1**	**100,733**	**—**	**100,733**	**100,733**	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 results in these measurements being classified as level 3 in the fair value hierarchy.

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

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

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

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

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

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

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

Investment properties were valued by Melcor's internal valuation team as at June 30, 2019 of which 14 investment properties (of 87 legal phases) with a fair value of $137,889 were valued by qualified independent external valuation professionals during the period. Valuations performed during the period resulted in fair value losses of $1,941. 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.

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

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 June 30, 2019 is $1,497 (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**		
June 30, 2019	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**10.50%**	**6.65%**	**5.75%**	**6.50%**	**6.19%**
Terminal capitalization rate	**5.75%**	**9.00%**	**6.75%**	**6.00%**	**6.25%**	**6.21%**
Discount rate	**6.50%**	**9.50%**	**7.66%**	**6.75%**	**7.00%**	**6.96%**

	Investment Properties			Properties under Development		
December 31, 2018	Min	Max	Weighted Average	Min	Max	Weighted Average
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 $57,285 (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 $66,594 (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).

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

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 June 30, 2019, the fair value of interest rate swap contracts was $109 (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 June 30, 2019 are as follows:

- Volatility - expected volatility as at June 30, 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 June 30, 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 June 30, 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 June 30, 2019 the fair value of the REIT units was $100,733, resulting in a fair value loss during the three and six months ended of $923 and $2,505 (2018 - gain of $1,583 and $3,804) in the statement of income and comprehensive income for the period ended ended June 30, 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

Distributions on REIT trust units

On July 15, 2019 the REIT declared a distribution of $0.05625 per unit for the months of July, August and September 2019. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
July 2019	July 31, 2019	August 15, 2019	$0.05625 per unit
August 2019	August 30, 2019	September 16, 2019	$0.05625 per unit
September 2019	September 30, 2019	October 15, 2019	$0.05625 per unit

Dividends declared

On August 1, 2019 our board of directors declared a dividend of $0.12 per share payable on September 30, 2019 to shareholders of record on September 16, 2019.