PRESS RELEASE
for immediate distribution

Melcor Developments announces results for 2019 and declares quarterly dividend of $0.10 per share

Edmonton, Alberta | March 11, 2020

Melcor Developments Ltd. (TSX: MRD), a real estate development and asset management company with operations across western Canada and in the United States, today reported results for the fourth quarter and year ended December 31, 2019. Softness in the residential markets where Melcor operates in Canada and timing of development in the US resulted in a revenue decrease of 22% to $207.97 million in 2019 compared to $267.43 million in 2018. Funds from operations (FFO) per share was down 32% to $1.15 per share in 2019 compared to $1.68 per share in 2018. FFO adjusts for all non-cash earnings items and management believes it better reflects true operating performance.

Net income was down 41% to $37.74 million or $1.13 per share (basic) in 2019, compared to $64.27 million or $1.92 per share (basic) in 2018.

Darin Rayburn, Melcor's President and Chief Executive Officer, commented on the year: "On behalf of the Melcor team and our Board of Directors, it is my privilege to report on our 2019 results. The economic environment in Alberta remained challenging throughout the year. With continued uncertainty surrounding employment coupled with ongoing debate over pipelines and unstable oil prices, the residential housing market remained soft and contributed to the decline in revenue compared to 2018. We continued to focus on the right product type in the right areas in our community development division. We developed 57% fewer lots than in 2018, our second year of decline as we seek to maintain appropriate inventory levels. We continue to work through strategic marketing programs to reduce both our inventory and our builders' spec inventory. We sold 72 lots in our new community outside of Denver, CO. Sales velocity has been very positive in this new community and we have begun development of the second phase to meet builder demand for lots.

Our property development division remained active in 2019, with 99,794 square feet in new development transferred to investment properties. An additional 47,688 square feet is completed and awaiting lease up, while a further 96,797 square feet is under active development. All of this will eventually be added to our income producing asset portfolio, which in turn becomes potential acquisition targets for the REIT under its right of first offer. These new developments will contribute to further revenue diversification in the future. In 2019 the REIT completed third party acquisitions of over 339,000 square feet of gross leasable area in 2 retail properties and for the first time, retail comprises more than 40% of the portfolio. Melcor divested an office property in the US as part of our capital recycling strategy. At year end, we owned and managed 4.59 million square feet, a growth of 11% over 2018.

Our diversification strategies continue to offset the soft residential market in Alberta & BC. The growth in income-producing properties contributed 8% growth in consolidated revenue and also serves to stabilize gross margins. Our geographic diversification strategy, which includes both investment properties and residential development in the US, made up 14% of total revenue in 2019.

While we expect the economic environment to remain challenging in 2020 with new uncertainty caused by a global pandemic and its impact on the global economy, we continue to be proactive in all areas of our business to ensure that the right people are working on the right things in a way that is most effective for Melcor and our shareholders. We are focused on controlling costs and moving existing inventory. We are continuing to take advantage of opportunities to build future land position and to grow our income-generating properties. Melcor's high quality portfolio of assets - raw land, developed land inventory (residential lots and acres for multi-family and commercial development), income-producing properties and championship golf courses - place the company in a solid position to continue to weather this economic storm."

Today the Board declared a dividend of $0.10 per share, payable on March 31, 2020 to shareholders of record on March 20, 2020. The dividend is an eligible dividend for Canadian tax purposes.

Rayburn continued: "This reduction from the prior quarter's dividend of $0.12 per share is consistent with the company's desire to preserve cash in these uncertain economic times."

Selected Highlights

($000s except as noted)	2019	2018	Change
Revenue	**207,971**	267,434	(22.2)%
Gross margin (%) *	**46.5%**	46.8%	(0.6)%
Fair value adjustment on investment properties	**12,234**	863	1,317.6 %
Net income	**37,741**	64,273	(41.3)%
Net margin (%) *	**18.1%**	24.0%	(24.6)%
Funds from operations *	**38,265**	56,127	(31.8)%
Shareholders' equity	**1,080,257**	1,067,565	1.2 %
Total assets	**2,096,047**	2,023,076	3.6 %
Per Share Data			
Basic earnings	**1.13**	1.92	(41.1)%
Diluted earnings	**1.13**	1.92	(41.1)%
Funds from operations *	**1.15**	1.68	(31.5)%
Book value *	**32.51**	32.01	1.6 %

Our diversification strategy continues to have a positive impact on results to offset the softness in the Alberta residential market that has existed over the past five years. Our portfolio of income properties has grown 11% to 4.59 million sf via third-party acquisitions and properties constructed and transferred internally. The Property Development team transferred 8 buildings (99,794 sf) to Investment Properties in 2019. Investment Properties and the REIT had a combined revenue growth of 8% and represent 39% of revenue. The majority of GLA growth took place in the latter half of the year and will contribute to revenue growth in 2020. Recent GLA growth will be partially offset by the sale of a US office property with a total of 63,112 sf late in the year.

2019 results were also positively impacted by our geographic diversification strategy as we continued to sell lots in our new community of Harmony outside of Denver, CO. US revenue, which includes both investment properties and residential development, made up 14% of total revenue.

Softness continued in the Alberta & BC residential market in 2019, with single-family lot sales down 38% compared to 2018 leading to a 27% decline in Community Development revenue. With a strategic focus on managing inventory, we developed 57% fewer lots than 2018. Promotions were in place throughout 2019 in various communities to move inventory. We began development on two new communities adjacent to popular communities that had run out of inventory, one in Airdrie, AB and one in west Edmonton, AB. We expect showhomes to open in these new communities this spring. Diversity in the Community Development division's product types and geographic focus contributed to steady activity in spite of market challenges. Community Development contributed $32.51 million to earnings. However, FFO decreased by 32% due to the decline in Community Development revenue. Our income-producing properties remain a steady source of FFO and help to stabilize overall income.

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

Investing for growth

We continued to invest in land inventory and increased our land holdings by 470.60 acres in strategic growth corridors. The acquired land is primarily allocated to residential development and includes 72.57 acres acquired in the US. While active development has slowed, we continue to move land use approvals through the municipal approval process to increase our supply of shovel ready assets.

Our Property Development division completed and transferred 8 buildings (99,794 sf) in 2019 with a further 96,797 sf under development and 47,688 sf completed and awaiting lease up at year end. Revenue was up 38% over 2018 as 51% more GLA was completed and transferred compared to last year. Revenue from the Property Development division is eliminated on consolidation. Transfers to Investment Properties will positively impact results in future years as we continue to grow our income-producing assets for long-term holding or for sale to the REIT. We continued to progress commercial land through the development, approvals and lease-up process and have an additional 15 buildings in 6 projects expected to be completed and transferred to Investment Properties in 2020.

The REIT completed the following third-party acquisitions during the year:

- a 56,084 sf single tenant retail building with warehouse space in Calgary, AB for $12.45 million on April 24, 2019
- a 283,235 sf power shopping centre in Grande Prairie, AB for $54.8 million on November 12, 2019.

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

- a residential unit in Phoenix, AZ was sold for $0.31 million (US$0.24 million) net of transaction costs on March 12, 2019.
- an office property in Denver, CO was sold for $8.76 million (US$6.32 million) net of transaction costs on December 31, 2019.

Return to Shareholders

We continue to distribute profits to our shareholders. In 2019, we paid dividends of $0.50 per share.

We declared a dividend of $0.10 per share on March 11, 2020 payable on March 31, 2020 to shareholders of record on March 20, 2020. The dividend is an eligible dividend for Canadian tax purposes.

We have been paying dividends since 1969.

Outlook

Melcor owns a high quality portfolio of assets, including raw land, developed land inventory (residential lots and acres for multi-family and commercial development), income-producing properties and championship golf courses. Alberta, our largest market, has undergone dramatic changes throughout the past few years, primarily related to lower oil prices and policy changes related to the governing political bodies both provincially and federally. We continue to intentionally diversify our business across asset class and geography, including investment in the US with raw land and commercial property acquisitions and the continued development of our 1,100-acre community in Aurora. We anticipate that these diversification strategies will continue to ease our reliance on the Alberta economy going forward.

We expect continued softness in the residential market in Alberta in 2020 and are focused on reducing existing lot inventory held by both Melcor and our builders. On the commercial side, retail activity remains steady and we expect that to continue in 2020. Our US assets delivered positive results in economies that are growing and that are counter cyclical to our resource dependence in Alberta.

Our business model has adapted to changing times and economic cycles for over 95 years. We will continue to take advantage of opportunities to diversify our asset base both geographically and by product type. We will maintain our disciplined, conservative approach to operations to ensure that we remain profitable while achieving our fundamental goals of protecting shareholder investment and sharing corporate profit with our shareholders.

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

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 2019 consolidated financial statements and management's discussion and analysis for the year ended December 31, 2019, which can be found on the Company's website at www.Melcor.ca or on SEDAR (www.sedar.com).

Annual General Meeting
Melcor's annual general meeting will be held May 20, 2020 at 11:00 AM MDT. Further details will be provided.

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 across western Canada and today manages 4.6 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 British Columbia and 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 2020 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.

Contact Information:

Nicole Forsythe
Director, Corporate Communications
Tel: 1.855.673.6931
ir@Melcor.ca

Management's Discussion & Analysis

March 11, 2020

The following discussion of Melcor's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2019.

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.

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

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on March 11, 2020.

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".

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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.

Since 1923, our focus has been the business of real estate. We've built over 140 communities across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage 4.59 million square feet (sf) in commercial real estate assets and 608 residential rental units. We have been a public company since 1968 (TSX:MRD).

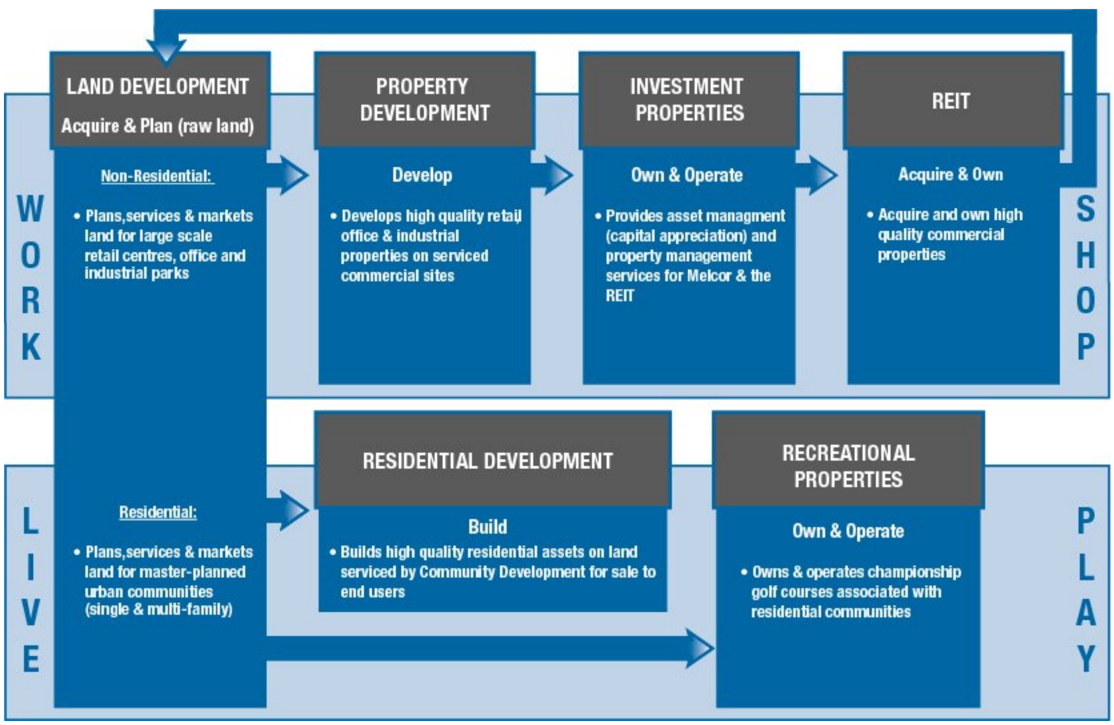
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

- acquiring raw land and planning residential communities and commercial developments (Community Development)
- project managing development, leasing and construction of commercial properties (Property Development)
- operating a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property management of REIT owned properties (Investment Properties)
- acquiring and owning high quality office, retail, industrial and residential assets (Melcor Real Estate Investment Trust or the REIT, formed May 1, 2013 through an IPO. We retain a controlling 55.1% effective interest in the REIT and continue to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement.)

In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreation Properties. Melcor has $2.10 billion in assets.

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



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

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

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

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

Strategy

Our fundamental goals are to:

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

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

We balance our capacity to take advantage of strategic growth opportunities with sustaining and improving our existing businesses.

In 2019, we continued our disciplined approach to new community development in Canada and focused on reducing overall lot inventory in existing communities. We launched two new communities adjacent to popular current communities that are running out of inventory - Lanark Landing adjacent King's Heights in Airdrie, AB and Rosewood at Secord adjacent Rosenthal in west Edmonton, AB. Throughout the past few years, we have shifted the product type in our residential developments to meet trending changes in market demand. More stringent mortgage qualifications came into effect in early 2019, which, combined with the continued soft economy, made cost effective homes — townhomes, duplex, zero lot line or traditional single family with secondary suites to assist with mortgage qualifications — the preferred products.

Our major US community of Harmony, outside of Denver, CO, operates on a different scale than our Canadian developments with volume builders taking on a significantly higher number of lots than typical in our Canadian markets. Sales velocity has been ramping up and we are planning to bring on a new phase of 181 lots in 2020.

Commercial property development, particularly neighbourhood shopping centres, continues at a solid pace as pre-lease thresholds are met. With a focus on local services — grocer, gas, coffee, pharmacy, dental, restaurant, daycare — these retail hubs are largely Amazon-proof.

Our geographic and revenue source diversification strategies have served to offset the softness in Canadian residential development. Our commercial property divisions now manage 4.59 million sf of income-generating assets, providing stable results throughout the year to smooth out the seasonal nature of construction related divisions.

We have over 95 years of experience in Alberta’s cyclical economy. Throughout this time, we have managed through many downturns and have learned to not only weather the cycle, but to make our business stronger by recognizing and taking advantage of opportunities while balancing our risk and exposure.

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

Assets

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

Division	Assets	Strategy
Community Development	10,632 acres of raw land inventory in strategic growth corridors	Reduce older inventory. Maintain right mix of inventory, available at the right time to meet market needs Increase market share by maintaining best in class design and community amenities
Property Development	Prospects for over 5.5 million sf of new development based on existing plans Completed and transferred 99,794 sf (8 buildings) in 2019 96,797 sf is currently under construction, while a further 47,688 sf is completed and awaiting lease-up and/or transfer.	Plan, build and lease retail, office, industrial and multi-family residential real estate projects Maintain 3-5 year inventory of developable assets Maximize value of existing assets through vertical development or re-development
Investment Properties & REIT	4.59 million sf of commercial property and 608 residential units under management, diversified across 4 asset classes in 3 provinces and 2 states As Property Development projects are completed, our GLA continues to grow.	Improve existing assets with value-added investments to achieve higher occupancy rates and increase rent per square foot Be the landlord of choice by providing consistent, high-quality service
Recreational Properties	4 championship golf courses	Maintain strong reputation through consistent course quality and player experience Grow revenue from food and beverage operations

Diversification

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

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

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

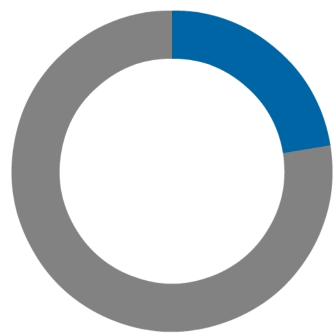
Melcor has been planning and developing innovative communities since the 1950s. We have developed over 40,000 lots in over 140 communities across Alberta, BC and the United States.

LAND INVENTORY

Inventory by Region

Northern AB - 28% | Southern AB - 28% | Central AB - 17% | BC & SK - 11% | USA - 16%

Inventory by Land Use



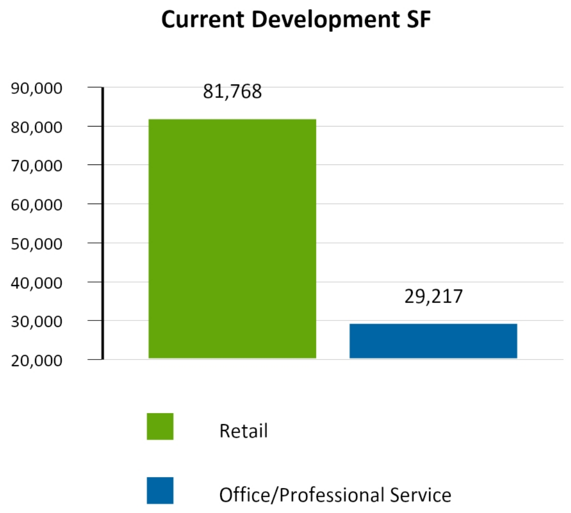
Commercial - 23% | Residential - 77%

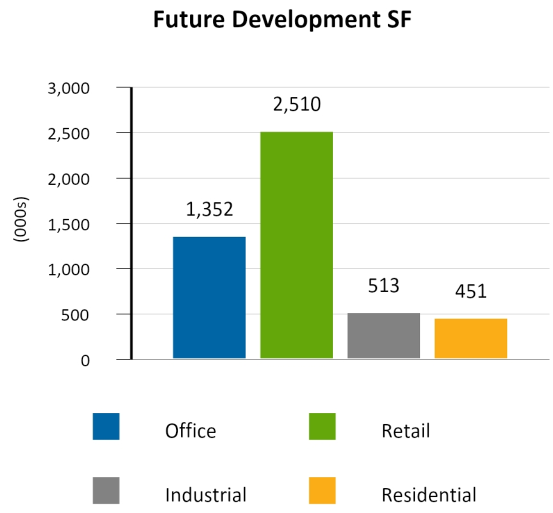
Property Development adds value to raw land by developing retail, office, industrial and multi-family residential properties in Alberta.

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

Melcor has been developing commercial properties since the 1970s and has built over 2.5 million sf. Our future development pipeline is 5.5 million sf based on current development plans.

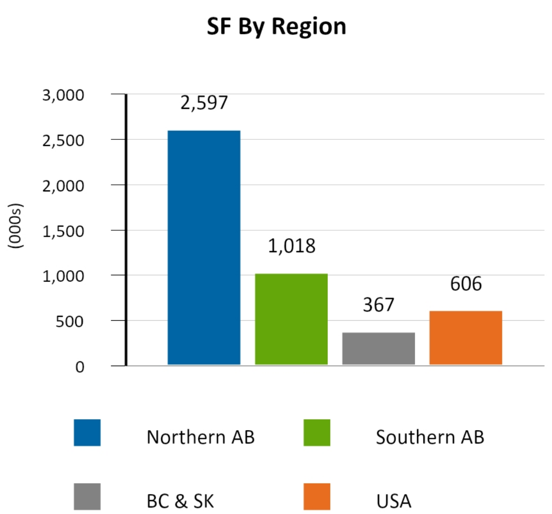
PROPERTY DEVELOPMENT

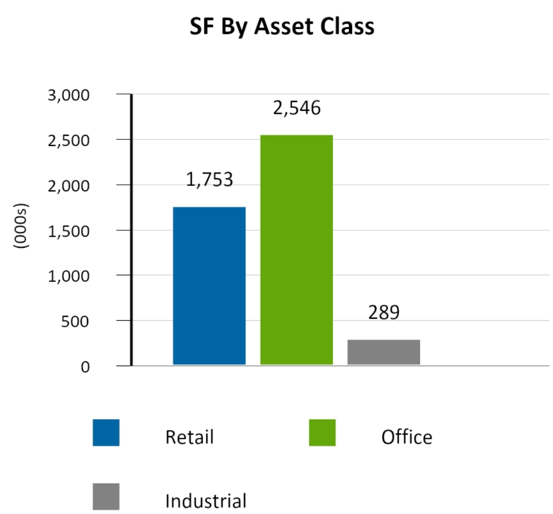




Investment Properties manages 4.59 million sf of geographically diverse income-producing assets (including those owned by the REIT) to provide consistent annuity income and cash flow. Our total portfolio under management is diversified across asset class, property mix and region. The regional asset mix is primarily commercial in western Canada, with the majority of these assets owned by the REIT. Our US portfolio is a blend of residential and commercial properties. The goal of the Investment Properties division is to be the landlord of choice by providing exceptional customer care. We continually enhance and improve existing properties through capital investment to maximize occupancy, rental rates and tenant retention and prepare properties for vend-in to the REIT.

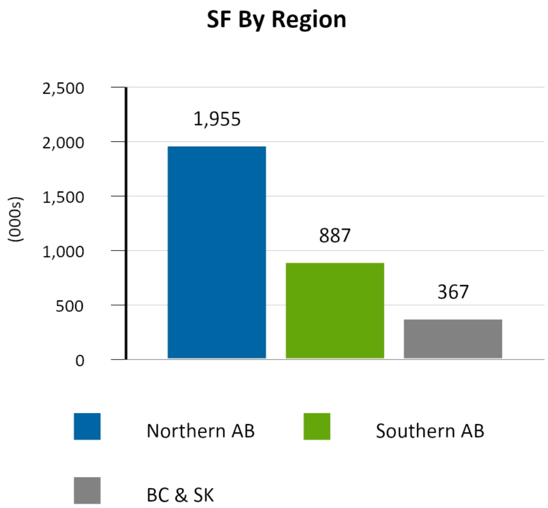
TOTAL GLA MANAGED

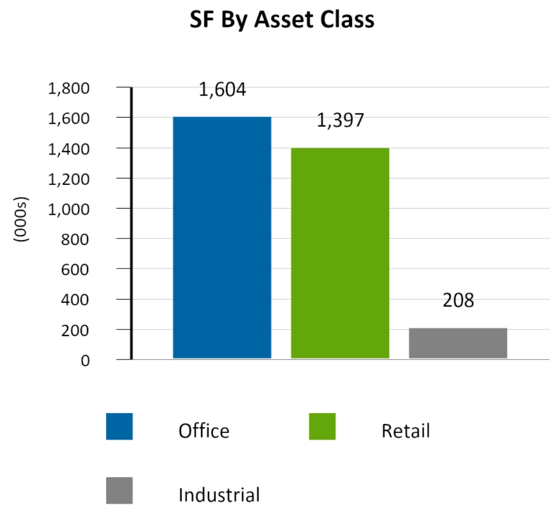




The REIT owns 3.21 million sf of income-producing assets that are managed by the Investment Properties division. The REIT is a vehicle for realizing the value created throughout the Melcor value chain as raw land is developed for commercial use (Community Development) and commercial properties are built (Property Development) or redeveloped (Investment Properties) and sold to the REIT. The REIT will continue to seek and execute acquisitions to grow its portfolio, both through the Property Development pipeline and third party acquisitions. To date, the REIT has acquired over 1.0 million sf from Melcor and 745,000 sf from third parties.

TOTAL GLA OWNED BY THE REIT



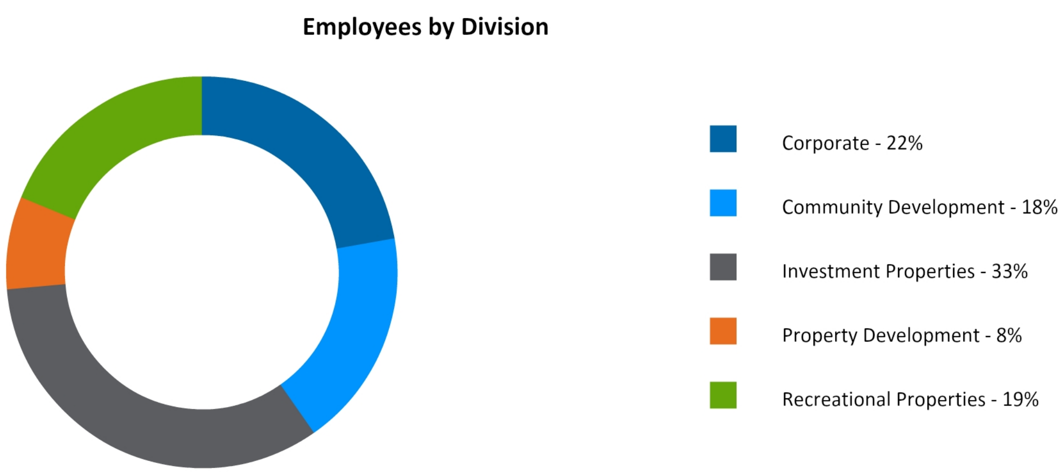


Key Performance Drivers

A High Performance Team

A strong and engaged workforce is a key component of achieving our growth objectives. Our team fuels our success by profitably managing residential and commercial development, continually moving future projects through the municipal approval process, managing our assets and ensuring tenant satisfaction, and developing strong relationships with our suppliers, contractors, builders, tenants and other stakeholders. The average tenure of our team is 7.53 years and we have 22 team members (7 active) on Melcor's Quarter Century Club.

In 2019, two long-service employees retired. We also lost a current and core employee unexpectedly - which further solidified our team culture as we worked together to fill the void.



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

Real Estate Inventory

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

- 10,632 acres of developable land
- 4,588,003 sf of leasable commercial property and 608 residential units under management in 3 provinces and 2 states
- Potential to develop over 5.5 million sf of new commercial property (based on existing planned development)

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

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

Developed lot inventory

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

	December 31, 2019				December 31, 2018			
	CANADA			USA	CANADA			USA
(including joint arrangements at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)
Open	1,112	59.00	130.44	136	987	68.56	136.13	294
Transfers	—	—	—	—	—	—	2.50	—
New developments	515	17.22	36.39	—	1,198	13.99	9.17	309
Internal sales	—	—	(36.93)	—	—	—	(5.25)	—
Sales	(668)	(17.22)	(3.81)	(72)	(1,073)	(23.55)	(12.11)	(467)
Year end	959	59.00	126.09	64	1,112	59.00	130.44	136

Residential development in Canada remained moderated in 2019 to align with market demand. New lot development was down by 57% and single-family lot sales were down by 38% compared to 2018, with ending single-family lot inventory down 14%.

We sold 72 single-family lots in Harmony, our community outside of Denver, CO. We have planned for continued future development in Harmony to meet strong market demand.

Our markets have changed and we recognize this. We have been proactively managing our cash position and ensuring that our development coincides with demand for several years now. 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.

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

Following is a summary of land acquisitions during the year:

Land purchases (in acres, net of joint arrangement interests)	2019	2018	Total Land Holdings
Edmonton & Region	80.00	134.63	**3,024**
Red Deer & Region	158.03	0.45	**1,782**
Calgary & Region	—	2.50	**2,202**
Lethbridge	160.00	—	**737**
British Columbia	—	0.63	**554**
Saskatchewan	—	—	**616**
United States	72.57	62.00	**1,717**
	470.60	200.21	**10,632**

We acquired 470.60 acres of land in strategic growth corridors in 2019 and continue to seek investment opportunities. Land acquisitions in the US and in the Edmonton region are adjacent to land that is either currently in inventory or has already sold to builders, in order to build strategic positioning. Land acquisitions in Red Deer and Lethbridge were also highly strategic - adjacent to planned community facilities or new infill land that was previously unavailable. As a relationship focused company, Melcor invested the time and energy to develop relationships with these original land owners and ensure that they received fair value for their land.

Financial Resources

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

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

We primarily use fixed rate, long-term mortgage financing on our income-producing assets to raise capital for acquisitions, development activities, and other business expenditures. As such, most of our borrowings are in the form of long-term, property specific financings such as mortgages or project financings secured by specific assets. At the end of 2019, Melcor had project specific financings on three residential and four commercial projects totaling $68.44 million.

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

Our operations are supported by a syndicated operating line of credit with total availability of $196.13 million, which margins our land development assets (raw land inventory, land under development and agreements receivable). With a strong focus on collecting on receivables and reducing overall leverage throughout 2019, Melcor is well positioned to take advantage of acquisition and growth opportunities.

On October 29, 2019 the REIT announced the successful issue and sale of the 5.10% unsecured convertible debenture for gross proceeds of $46.00 million, including $6.00 milling for the exercise of the over-allotment option in full.

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

Corporate Sustainability

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

Environmental Commitment

Land Development

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

- low impact development techniques to reduce and absorb runoff (smaller driveways, more greenspace)
- unique naturalized storm water management ponds that mimic the natural environment - these first of a kind proved that we can re-create a very natural environment that attracts wildlife
- use natural land features as design features of the community
- partner of Edmonton Area Land Trust, committed to preserving natural treasures like the Larch Sanctuary
- use mature trees and native species in landscaping and require individual homeowners to do the same to not only beautify the community, but to increase natural absorption of rain water and snow melt
- our communities are filled with community gathering spaces - parks, playgrounds, community gardens and orchards

In 2010 we commenced development of the environmentally intelligent subdivision of Larch Park, which featured LED street-lighting before it was commonplace, narrower roads, bio-swales, soil preservation and a construction waste management program. Amenities include a community garden, an orchard, trails with plaques about local wildlife and plant species throughout and a truly natural storm pond. The homes meet BuiltGreen Gold, LEED for Homes Gold or R2000 with a minimum Energuide rating of 80. It borders the Larch Sanctuary, a protected natural area reserve.

Property Development

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

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

The Fountain Tire building, completed in 2014, recently received the ENERGY STAR designation, which is given to most energy efficient office buildings by Natural Resources Canada.

Property Management

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

Examples of our commitment to environmental best practices include:

- All properties have LED lights
- 80% of our buildings have motion-sensing lights that turn off when no one is present
- We have active recycling programs in all buildings
- We engage specialists to monitor and analyze our energy usage and identify potential improvements. Of 12 properties benchmarked from 2012 - 2019 we realized:
    - reduced electricity consumption of 15.5%
    - decrease in natural gas consumption of 0.3%
    - reduced equivalent greenhouse gases by 30%

- One building achieved ENERGY STAR certification in early 2020, recognizing the top 25% most efficient office buildings in Canada. We are tracking other office buildings in our portfolio for this certification.

Recreational Properties

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

Social Responsibility

Melcor has been built on relationships since 1923. The golden rule - treating others as you would like to be treated - has always been our core value. We cultivate and greatly value our relationships with tenants, clients, contractors, shareholders and the communities where we operate.

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

We demonstrate social responsibility through our relationships with all stakeholders and the communities where we operate. Our commitment to being the landlord of choice is much more than a slogan. It is lived by every team member, as demonstrated by the results of our recent tenant survey. We surveyed 16 office buildings in November 2019 and both our property managers and building operators achieved a 92% approval rate.

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

Our human capital strategy emphasizes health and wellness and recently doubled the benefit available for psychological services to support the mental well-being of staff. Food for Thought lunch and learn sessions are offered periodically to encourage learning on a variety of topics, including food waste, the benefits of proper sleep and meditation.

In addition, our social committee plans multiple events throughout the year to encourage staff interaction outside of the workday. The focus on a positive, empowering work environment creates an engaged and dedicated workforce with 22 employees having served the company for 25+ years. The average tenure of our employees is 7.53.

Our employees also make meaningful contributions to local charities through fundraising activities and by volunteering their time and talent. 2019 marked Melcor's 50th year of supporting the Capital Region United Way campaign.

Women make up 29% of Melcor's management committee, 38% of management and 43% of our overall team.

Being invested in the communities where we do business is an important part of who we are. As we pursue excellence in our business, we also want the communities where we do business to be the best they can be. We give where we live to build strong communities. Our giving and involvement focuses on key pillars of strong communities: education, health, youth, sports, public gathering places such as libraries, and social programs that lend a helping hand to those in need.

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

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

As the COVID-19 pandemic spreads, we have implemented programs and policies to educate and protect our staff. We have also implemented building practices to protect our tenants and minimize the spread of COVID-19, including hand sanitation stands at every entrance and on every floor in the elevator lobby. We continue to monitor the situation.

Effective Governance

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practice form the foundation of a sustainable company and long-term value creation for share- and unit-holders. The board reviews our corporate governance practices annually to better align with industry best practices.

Melcor's Management Committee, which reviews and approves the projects we undertake, is 29% female.

Examples of our commitment to effective corporate governance practices include:

- a board of directors comprised of a majority of independent directors
- as the chair is related to the company, we have appointed a lead director
- 22% of directors are female; 40% of independent directors
- 33% of our executive team is female

2019 Highlights

($000s except as noted)	2019	2018	Change
Revenue	**207,971**	267,434	(22.2)%
Gross margin (%) *	**46.5%**	46.8%	(0.6)%
Fair value adjustment on investment properties	**12,234**	863	1,317.6 %
Net income	**37,741**	64,273	(41.3)%
Net margin (%) *	**18.1%**	24.0%	(24.6)%
Funds from operations *	**38,265**	56,127	(31.8)%
Shareholders' equity	**1,080,257**	1,067,565	1.2 %
Total assets	**2,096,047**	2,023,076	3.6 %
Per Share Data			
Basic earnings	**1.13**	1.92	(41.1)%
Diluted earnings	**1.13**	1.92	(41.1)%
Funds from operations *	**1.15**	1.68	(31.5)%
Book value *	**32.51**	32.01	1.6 %

* See non-standard measures for definitions and calculations.

Our diversification strategy continues to have a positive impact on results to offset the softness in the Alberta and BC residential markets that has existed over the past five years. Our portfolio of income properties has grown 11% to 4.59 million sf via third-party acquisitions and properties constructed and transferred internally. The Property Development team transferred 8 buildings (99,794 sf) to Investment Properties in 2019. Investment Properties and the REIT had a combined revenue growth of 8% and represent 39% of revenue. The majority of GLA growth took place in the latter half of the year and will contribute to revenue growth in 2020. Recent GLA growth will be partially offset by the sale of a US office property with a total of 63,112 sf late in the year.

2019 results were also positively impacted by our geographic diversification strategy as we continued to sell lots in our new community of Harmony outside of Denver, CO. US revenue, which includes both investment properties and residential development, made up 14% of total revenue.

Softness continued in the our Canadian residential markets in 2019, with single-family lot sales down 38% compared to 2018 leading to a 27% decline in Community Development revenue. With a strategic focus on managing inventory, we developed 57% fewer lots than 2018. Promotions were in place throughout 2019 in various communities to move inventory. We began development on two new communities adjacent to popular communities that had run out of inventory, one in Airdrie, AB and one in west Edmonton, AB. We expect showhomes to open in these new communities this spring. Diversity in the Community Development division's product types and geographic focus contributed to steady activity in spite of market challenges. Community Development contributed $32.51 million to earnings. However, FFO decreased by 32% due to the decline in Community Development revenue. Our income-producing properties remain a steady source of FFO and help to stabilize overall income.

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

Investing for growth

We continued to invest in land inventory and increased our land holdings by 470.60 acres in strategic growth corridors. The acquired land is primarily allocated to residential development and includes 72.57 acres acquired in the US. While active development has slowed, we continue to move land use approvals through the municipal approval process to increase our supply of shovel ready assets.

Our Property Development division completed and transferred 8 buildings (99,794 sf) in 2019 with a further 96,797 sf under development and 47,688 sf completed and awaiting lease up at year end. Revenue was up 38% over 2018 as 51% more GLA was completed and transferred compared to last year. Revenue from the Property Development division is eliminated on consolidation. Transfers to Investment Properties will positively impact results in future years as we continue to grow our income-producing assets for long-term holding or for sale to the REIT. We continued to progress commercial land through the development, approvals and lease-up process and have an additional 15 buildings in 6 projects expected to be completed and transferred to Investment Properties in 2020.

The REIT completed the following third-party acquisitions during the year:

- a 56,084 sf single tenant retail building with warehouse space in Calgary, AB for $12.45 million on April 24, 2019
- a 283,235 sf power shopping centre in Grande Prairie, AB for $54.8 million on November 12, 2019.

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

- a residential unit in Pheonix, AZ was sold for $0.31 million (US$0.24 million) net of transaction costs on March 12, 2019.
- an office property in Denver, CO was sold for $8.76 million (US$6.32 million) net of transaction costs on December 31, 2019.

Return to Shareholders

We continue to distribute profits to our shareholders. In 2019, we paid dividends of $0.50 per share.

We declared a dividend of $0.10 per share on March 11, 2020 payable on March 31, 2020 to shareholders of record on March 20, 2020. The dividend is an eligible dividend for Canadian tax purposes.

We have been paying dividends since 1969.

Revenue & Margins

Revenue was down 22% to $207.97 million in 2019. The primary contributor to this decrease in revenue was continuing softness in the western Canadian residential market, leading to a 27% decrease in Community Development division revenue. We sold 38% fewer single-family lots in Canada and 85% fewer in the US compared to 2018. Lots sales in the US will remain irregular due to the nature of development activity.

Overall revenue generated from single-family lot sales was down 47% to $67.70 million while the average price per lot was down 2%. Average price per lot has been negatively impacted by two factors over the past several year: the trend to smaller lots (more affordable product type) and the predominance of joint ventures in our active communities. The number of lots sold is at 100%, whereas the average price is at our JV%.

The decline in revenue from single-family lots was partially offset by growth in commercial and multi-family land sales in Community Developments, which generated $34.65 million in revenue compared to $24.13 million in 2018.

Revenue from our income-producing portfolio (including REIT properties) was up 8% over 2018. Property Development transfer revenue (up 38%) is eliminated on consolidation; however, these properties will contribute to future revenue for our income-producing portfolio.

Gross margin remained stable at 47% in 2019. This stability was led by our higher margin income-producing portfolio (including REIT properties), which contributed 39% of total revenues in 2019 at a gross margin of 59%. Margins earned in our Community Development division were down 9%. Margins in this division are affected by a number of factors, including types of lots, development costs, the timing of the original land purchase and the relative real-estate market strength at the time of sale. Land that has been in inventory for many years typically generates higher margin on sale. Gross margin on income properties is more stable in nature and serves to neutralize volatility in Community Development margin.

Net margin declined to 18% from 24% in 2018. Net margin is impacted by swings in fair value adjustments recorded on our investment properties and REIT units. Net income was $37.74 million, down from $64.27 million in 2018, largely as a result of adjustments related to the REIT which had a negative impact of $17.56 million in 2019. These adjustments are a result of market forces that are out of management's control.

Fair value gains of $12.23 million were recorded in 2019 compared to fair value gains of $0.86 million in 2018. The following contributed to this swing:

- the transfer of land inventory (measured at cost) to Property Development where it is classified as investment properties on the balance sheet (measured at fair value), resulting in fair value gains of $4.02 million (2018: $1.02 million), and
- leasing activity and completion of construction on Property Development projects resulting in fair value gains of $6.89 million (2018: $7.36 million).

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 per share adjusts for certain non-cash items included in income such as fair value adjustments on investment properties and REIT units.

Melcor views FFO as an internal metric used to assess our business and does not follow the REALpac guidance on FFO.

Below is a reconciliation of net income to FFO:

($000s)	Year Ended	
	2019	2018
Net income for the year	**37,741**	64,273
Amortization of operating lease incentives	**7,867**	6,710
Fair value adjustment on investment properties	**(12,234)**	(863)
Depreciation on property and equipment	**1,381**	1,417
Stock based compensation expense	**717**	450
Non-cash financing costs	**3,442**	1,466
Gain on sale of asset	**(83)**	(6)
Deferred income taxes	**(9,241)**	(3,493)
Fair value adjustment on REIT units	**8,675**	(13,827)
FFO *	**38,265**	56,127
Per Share Data		
FFO per share *	**1.15**	1.68

** See non-standard measures for definitions and calculations.*

FFO decreased 32% to $38.27 million from $56.13 million in 2018 as a result of the overall decline in revenue and net income. Softer residential real estate markets led to the 27% decline in Community Development revenue and the overall 22% decline in revenue and 41% reduction in net income compared to 2018. 2019 FFO was also negatively impacted by $9.24 million in deferred tax adjustments related to the reduced Alberta corporate tax rate. Our income properties (Investment Properties and REIT divisions, excluding fair value adjustments) remain a steady source of FFO and help to stabilize overall income.

Divisional Results

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

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office, industrial and multi-family residential revenue-producing properties on serviced commercial sites developed by Community Development or purchased from third parties;
- Investment Properties, which manages and leases the commercial properties developed by the Property Development division and an externally purchased portfolio of assets, as well as assets held in the REIT;
- The REIT, which owns and holds 39 income-producing properties; and
- Recreational Properties, which owns and operates championship golf courses associated with Melcor residential communities.

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

The following table summarizes operating division results:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31	
($000s except as noted)	**2019**	**2018**	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Revenue	**123,207**	168,336	**42,507**	30,751	**39,494**	32,545	**71,159**	70,173	**8,466**	8,391
Portion of total revenue	**43%**	54%	**15%**	10%	**14%**	10%	**25%**	23%	**3%**	3%
Cost of sales	**(83,747)**	(99,765)	**(42,300)**	(30,350)	**(16,276)**	(13,236)	**(28,772)**	(28,097)	**(6,189)**	(6,013)
Gross profit	**39,460**	68,571	**207**	401	**23,218**	19,309	**42,387**	42,076	**2,277**	2,378
Gross margin (%)	**32%**	41%	**—%**	1%	**59%**	59%	**60%**	60%	**27%**	28%
Portion of total gross profit	**37.0%**	52%	**—%**	—%	**22%**	15%	**39%**	32%	**2%**	2%
General and administrative expense	**(7,914)**	(9,501)	**(2,307)**	(2,406)	**(2,381)**	(2,439)	**(2,868)**	(2,884)	**(2,298)**	(2,298)
Fair value adjustment on investment properties	**—**	—	**6,888**	7,356	**(809)**	447	**(1,622)**	(11,385)	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**83**	14
Interest income	**960**	905	**28**	27	**42**	8	**117**	137	**—**	—
Segment Earnings	**32,506**	59,975	**4,816**	5,378	**20,070**	17,325	**38,014**	27,944	**62**	94

Divisional results are shown before intersegment eliminations and exclude the 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 parcels are sold to homebuilders who share our passion for quality and with whom we have long-standing relationships.

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

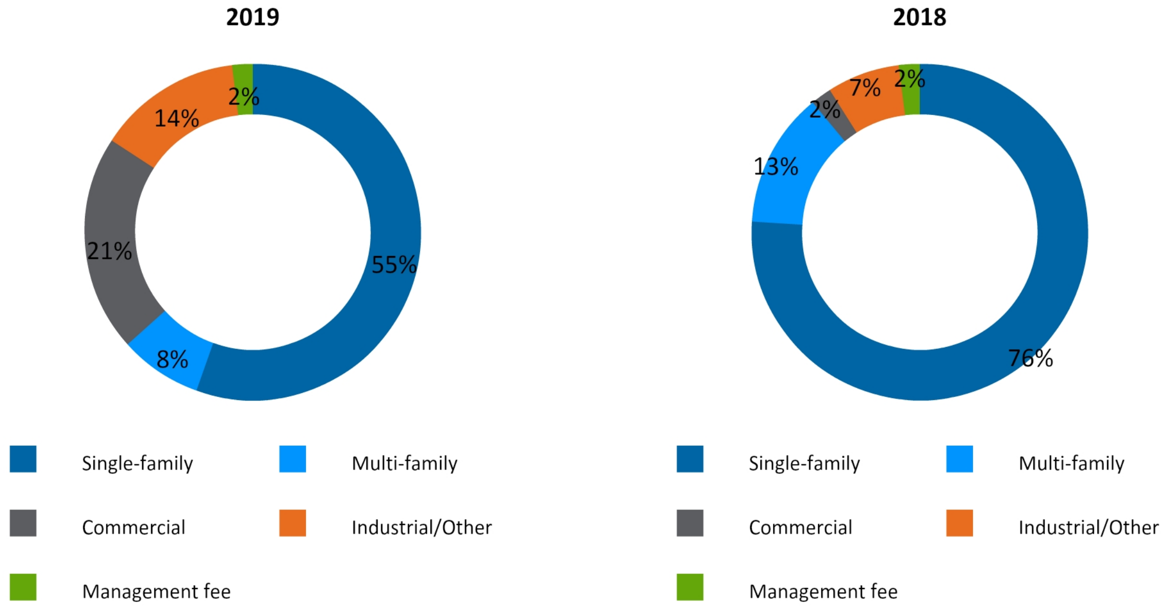
As at December 31, 2019 we held 10,632 acres of raw land for future development, which positions the division well for future growth. Our developed land inventory at December 31, 2019 included 959 single-family lots in Canada and 64 single-family lots in the US, 59 acres for multi-family development, and 126 commercial and industrial acres.

Sales Activity

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

We expect to continue our focus on clearing out existing inventory held by Melcor (lots) and by our builders (spec homes) in 2020 and have active marketing programs in place to support this objective.

REVENUE BY TYPE



The following table summarizes our activity:

Consolidated	2019	2018
Canada Sales data: (including joint ventures at 100%)		
Single-family sales (number of lots)	668	1,073
Gross average revenue per single family lot ($)	128,993	131,700
Multi-family sales (acres)	17.22	23.55
Gross average revenue per multi-family acre ($)	1,080,180	922,700
Commercial sales (acres)	36.93	5.25
Gross average revenue per commercial land acre ($)	771,591	978,100
Other land sales - Industrial, Other (acres)	3.84	18.10
Gross average revenue per other land acre ($)	319,422	674,000
Raw land sales to municipalities (acres)	84.33	—
Gross average revenue per raw land acre ($)	214,144	—
US Sales data: (including joint ventures at 100%)		
Single-family sales (number of lots)	72	467
Gross average revenue per single family lot ($)	120,400	74,600
Other land sales - Industrial, Other (acres)	2.98	—
Gross average revenue per other land acre ($)	763,673	—
Financial results: (including joint ventures at Melcor's interest)		
Revenue ($000s)	123,207	168,336
Earnings ($000s)	32,506	59,975

Regional Highlights

Edmonton & Region	2019	2018
Sales data:		
Single-family sales (number of lots)	480	599
Multi-family sales (acres)	17.22	11.62
Commercial sales (acres)	14.55	4.10
Other land sales - Industrial & Other (acres)	3.84	7.47
Raw land sales to municipalities (acres)	15.88	—
Financial results:		
Revenue ($000s)	69,538	70,929
Earnings ($000s)	19,688	27,321

The market for residential homes in the Edmonton region remained soft in 2019 and the average selling price of single-family lots in the region decreased by 15%. This decrease is a reflection of the trend towards smaller lots and less expensive product type, particularly townhomes, further exacerbated by the predominance of joint ventures in our active projects. Joint ventures reduce our risk, but also have a significant impact on the average selling price as the number of lots sold is at 100% while revenue is at JV%. Only 4% of single-family lot sales revenue came from 100% Melcor-owned communities in 2019 compared to 26% in 2018.

We continued to offer lower priced options in all neighbourhoods, including duplexes, townhomes, detached garage homes, homes with secondary or garage suites and zero lot-line homes. Throughout 2019, we actively marketed and sold lots to the public, which helped to maintain momentum in an otherwise lagging market.

Revenue for the region was relatively flat, with the 20% decline in single-family lot sales offset by the sale of developed and raw acres. Multi-family sales were up at 17.22 acres, contributing revenue of $9.63 million at JV%. We also sold 14.55 acres of commercial land to Property Development for $10.50 million for the development of a gas station. The Edmonton region sold an additional 3.84 acres of raw and industrial land during the year to third parties, and 15.88 acres of raw land to municipalities, contributing an additional $3.74 million.

Red Deer & Region	2019	2018
Sales data:		
Single-family sales (number of lots)	34	164
Commercial sales (acres)	10.53	—
Financial results:		
Revenue ($000s)	4,040	11,485
Earnings ($000s)	1,078	3,751

The central Alberta residential market continued to be constrained by the economic conditions impacting the province, with a 79% decrease in the number of single-family lots sold. Sales are expected to partially recover in 2020 as we continue selling the first phase of Evergreen and begin selling phase two of the community.

We used a variety of incentives and rebate programs to support the sale of spec inventory for our builders and are comfortable that we have appropriate inventory levels heading into 2020. While the market, in terms of permits issued, contracted in Red Deer in 2019 - Melcor's market share increased to close to 70%.

Calgary & Region	2019	2018
Sales data:		
Single-family sales (number of lots)	127	274
Multi-family sales (acres)	—	3.59
Commercial sales (acres)	11.85	1.15
Other land sales - Industrial & Other (acres)	—	10.63
Raw land sales to municipalities (acres)	64.40	—
Financial results:		
Revenue($000s)	30,474	43,284
Earnings ($000s)	8,728	15,078

Home sales in the Calgary Metropolitan Area remained soft in 2019, reflected in the 54% decrease in single-family lot sales. The decline in single-family revenue was partially offset by 64.40 acres of raw land sold to municipalities, which generated $9.13 million in revenues. We also sold a total 11.85 acres of commercial land to our Property Development division through internal transfer, including 5.29 acres in Greenwich for the Calgary Farmers' Market West and other commercial retail units, 1.97 acres in Kingsview Market and 4.59 acres in The District.

The new community of Lanark Landing made up 69% of single-family lots sold in the Calgary region. The first phase of this community is comprised of duplex, townhome and laned homes, with the first showhomes anticipated to open this spring.

We anticipate slightly stronger sales activity in 2020 and have sufficient land with various levels of approval to meet market demand in the short and medium term.

Lethbridge	2019	2018
Sales data:		
Single-family sales (number of lots)	19	31
Multi-family sales (acres)	—	8.34
Financial results:		
Revenue ($000s)	2,619	8,847
Earnings ($000s)	611	3,635

Lethbridge saw a decline in single-family lot sales of 39% resulting in a decline in revenues of $6.23 million. Although the market continued to be softer in 2019 as a result of oversupply, we anticipate that the construction of a central park amenity in Garry Station to continue to drive momentum in that neighbourhood through lot sales.

Kelowna	2019	2018
Sales data:		
Single-family sales (number of lots)	8	5
Raw land sales to municipalities (acres)	4.05	—
Financial results:		
Revenue ($000s)	5,321	1,775
Earnings (loss) ($000s)	1,203	(268)

The Kelowna market remained soft in 2019 as a result of a combination of provincial and federal policy announcements made in the prior year. Single-family lot sales increased over 2018 with a total of 8 lots sold. Revenue was also positively impacted by 4.05 acres of raw land sold to municipalities, contributing $1.85 million in revenues in 2019. We continued to focus on inventory management and preparation for market improvements by advancing construction at both BlueSky and North Clifton Estates. Inventory will be ready to bring on quickly at BlueSky once market activity resumes.

North Clifton Estates is a new Okanagan lake-front neighbourhood that has received a significant amount on interest and we anticipate that it will be absorbed at a quicker pace. We have seen early evidence of this as lots became available for sale in early 2020. North Clifton is a joint venture project.

United States	2019	2018
Sales data:		
Single-family sales (number of lots)	72	467
Other land sales - Industrial & Other (acres)	2.98	—
Financial results:		
Revenue ($000s)	11,215	31,516
Earnings ($000s)	1,113	10,030

Melcor's development activity slowed in Harmony (Aurora, CO) in 2019, resulting in a 64% decrease in revenue. This is not so much an indication of the market as it points to the difference in the scale of development in the US, where larger blocks of lots are sold to a few volume builders. With the original sale of 173 lots to the builders completed in 2018 and the model home parade grand opening in September 2019, we were prudently awaiting signs of positive sales velocity before continuing to develop additional phases.

With recent approval to begin phase two, we are now working to deliver an additional 181 serviced lots to our builders, who are quickly selling out of their inventory. We also received final approvals on the third phase of Harmony which will contain 100 lots.

We also continue to progress development on our Arizona land holdings and received final plan approvals on Paseo Place, a 120 acre land holding in Goodyear, AZ. We also received pre-approval on La Privada, a 198 acre land holding in Goodyear, AZ (adjacent to Paseo Place) which resulted in a lot yield increase of 24 lots to the overall project (602 total lots).

We continue to seek land acquisition opportunities in AZ and CO and to advance planning and approvals on all land holdings.

Property Development

Our Property Development division develops, manages construction, markets and initially leases high-quality retail, office, industrial and multi-family residential revenue-producing properties on prime commercial sites purchased primarily from our Community Development division at fair market value. The division currently operates solely in Alberta.

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

The Property Development division increases the value of land assets and delivers long-term sustainable returns with high profile anchor tenants such as ATB, Bank of Montreal, Canadian Tire, Canadian Western Bank, Cara, 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 to Investment Properties at fair market value (based on third party appraisals) once construction and leasing activities near completion. The transfer revenue and related costs are eliminated on consolidation and do not impact overall earnings.

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

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

Division Highlights

($000s and at JV%, except as noted)	2019	2018
Total revenue	**42,507**	30,751
Revenue from property transfers	**42,300**	30,350
Management fees	**207**	401
Margin (%) on property transfers	**8%**	20%
Square footage transferred (sf, at 100%)	**99,794**	65,990
Number of buildings transferred	**8**	5
Fair value gains on investment properties	**6,888**	7,356

Property Development completed and transferred 8 buildings (99,794 sf) to Investment Properties in the last half of 2019 and has another 47,688 sf completed and awaiting lease up and/or transfer. A further 96,797 sf remains under development and we continue to move new projects through the planning and development approval process. We anticipate another active construction season in 2020 and anticipate commencing construction on an additional 169,900 sf.

Regional Highlights

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

($000s)	2019	2018
Northern Alberta	**3,357**	7,289
Southern Alberta	**3,531**	67
	6,888	7,356

Northern Alberta transferred 93,249 sf (7 buildings) to Investment Properties. Notable activity during 2019 includes:

- Jensen Lakes Crossing: we completed construction and transferred 4 buildings (26,000 sf), including a gas station. These buildings generated fair value gains of $2.34 million. We also completed construction on an additional CRU (10,200 sf) in 2019 which will transfer when it meets transfer criteria.
- Woodbend Market: we completed construction and transferred a gas station (3,130 sf) in Woodbend Market to our investment properties division. This CRU generated fair value gains of $1.91 million during 2019.
- Village at Blackmud Creek: we transferred a 56,524 sf office building that was completed in 2018 but did not meet transfer criteria. The building generated a fair value loss of $1.88 million due to occupancy of 63%.

Southern Alberta transferred 6,545 sf (1 building) to Investment Properties. Notable activity during 2019 includes:

- The District: we completed construction and transferred the Tim Hortons CRU for fair value gains of $0.71 million in 2019.
- Kingsview Market: two CRUs (18,471 sf) in Kingsview Market are near completion and awaiting lease up. These buildings are expected to transfer in 2020 and resulted in fair value gains of $2.07 million in 2019.

Transfers occur upon completion of the buildings, while the fair value gains are recorded over the course of construction.

Future development opportunities

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

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

Current Projects					
Project	Location	Type	Total SF *	Developed and transferred to IP or sold*	SF under development or developed and awaiting lease up
The Village at Blackmud Creek	South Edmonton	*Regional business park*	725,000	113,905	—
Telford Industrial	Leduc	*Industrial Park*	500,000	143,118	—
West Henday Promenade	West Edmonton	*Regional mixed use centre*	665,000	116,300	—
Kingsview Market	Airdrie	*Regional shopping centre*	331,000	181,900	18,471
Kingsview Commercial	Airdrie	*Regional shopping centre*	33,500	—	33,500
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	278,100	241,600	—
Clearview Market 2	Red Deer	*Neighbourhood shopping centre*	80,000	—	7,965
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	1,585,000	535,295	50,525
Campsite Industrial	Spruce Grove	*Industrial Park*	170,000	13,700	—
The Shoppes at Jagare Ridge	South Edmonton	*Neighbourhood shopping centre*	105,000	27,900	29,217
Jensen Lakes Crossing	St. Albert	*Neighbourhood shopping centre*	150,000	85,918	4,807
Woodbend Market	Leduc	*Neighbourhood shopping centre*	140,000	3,000	—

Expected Future Projects					
Project	Location	Type	Total SF *	Ownership Interest	Expected Start (year)
Greenwich	West Calgary	*Regional mixed use centre*	325,000	100%	2020
Vista Ridge	Sylvan Lake	*Neighbourhood shopping centre*	15,000	50%	2021
Laredo	Red Deer	*Neighbourhood shopping centre*	10,000	100%	2022
Secord	Edmonton	*Neighbourhood shopping centre*	75,000	60%	2022
Mattson	Edmonton	*Neighbourhood shopping centre*	75,000	50%	2022
Rollyview	Leduc	*Neighbourhood shopping centre*	75,000	100%	2022
Keystone Common	North Calgary	Regional power centre	700,000	100%	2023
The Shoppes at Canyons	Lethbridge	Neighbourhood shopping centre	105,000	100%	2022+
Rosenthal	Edmonton	*Neighbourhood mixed use*	30,000	50%	2023+
West Pointe Marketplace	Lethbridge	Regional power centre	750,000	100%	2023+
Westview Commercial	West Calgary	*Neighbourhood shopping centre*	150,000	100%	2023+
Sora	South Calgary	*Neighbourhood shopping centre*	60,000	50%	2023+

Investment Properties

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

Our Investment Properties division oversees 4.59 million 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 in Alberta and acquired from third parties elsewhere. Our goal is to improve the operating efficiency of each property for stable and growing cash flow, making them attractive assets for the REIT to purchase under its Right of First Offer (ROFO) option. In our management capacity, we are committed to efficient property management for optimized operating costs, occupancy and rental rates, providing the REIT and our joint venture partners with best in class management services. We focus on client retention through continuous customer contact and ongoing service evaluations. We also enhance our portfolio by upgrading the appearance, functionality and desirability of our properties, thereby increasing their rental potential.

Our US properties provide the division with a stable income stream that diversifies our exposure to the western Canadian resource economy. We also own 10 parking lots and other assets which are held for the long-term, providing current stable income and future re-development potential.

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

Operating Results

($000s except as noted)	2019	2018
Commercial properties GLA under management (sf, total)	**4,588,003**	4,128,914
Properties owned and managed (sf)	**994,176**	880,779
Properties managed (sf)	**3,593,827**	3,248,135
Revenue (total)	**39,494**	32,545
Canadian properties	**13,673**	11,327
US properties	**18,590**	14,807
Management fees	**5,940**	5,083
Parking lots and other assets	**1,291**	1,328
Net operating income (NOI) *	**23,432**	19,295
Funds from operations *	**22,699**	18,016
Funds from operations per share *	**0.68**	0.54

** See non-standard measures for 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

Our Canadian property portfolio grew in 2019 via our Property Development activities. Over the past twelve months, the Property Development division completed and transferred eight buildings, adding 99,794 sf to owned and managed GLA and generating an increase in commercial property revenue and NOI over 2018. In 2018, five buildings were transferred from Property Development, adding 65,990 sf of GLA. With 96,797 sf of GLA under active development in the Property Development division, and another 47,688 sf completed and awaiting lease up, we expect our Canadian property portfolio to continue to grow.

Revenue generated on assets acquired from Property Development and held through the period was $4.79 million in 2019 (2018 - $2.55 million).

Occupancy on properties owned by Investment Properties was 84% at December 31, 2019 (2018 - 96%). The decrease in occupancy was due to new properties transferred from the Property Development division with lower in-place occupancy. Committed occupancy is 87%. Weighted average base rent rate was $30.40 (2018 - $23.36), up $7.04 due to new properties transferred from the PD division which have higher in-place rents.

The following is a reconciliation of Canadian properties same asset net operating income (NOI) to gross profit:

($000s except as noted)	2019	2018
Same asset NOI *	**6,747**	6,221
Third party acquisition	**111**	12
Properties transferred from PD	**2,805**	1,274
Properties transferred to REIT	**—**	213
NOI	**9,663**	7,720
Amortization of operating lease incentives	**(662)**	(330)
Straight-line rent adjustment	**568**	1,056
Gross profit	**9,569**	8,446

** See non-standard measures for definition.*

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

Gross profit was $9.57 million up 13% from 2018 as a result of properties transferred from the Property Development Division over the past 12 months.

Same asset NOI was up 8% over 2018 at $6.75 million due to higher average occupancy in 2019, fewer tenants on rent-free periods and increasing rents on leases with multiple rent escalations.

US properties

In the fourth quarter, we sold a 63,112 sf office property (Centennial Airport Plaza) in Denver, CO for $8.76 million (US$6.32 million). This property was our first commercial investment in Colorado, acquired in April 2015 for $6.14 million (US$4.88 million). Our portfolio is concentrated in the Phoenix and Denver areas; regions we view as a hedge to our Canadian resource derived economic exposure. Revenues from this asset was $1.27 million (US$0.96 million) (2018 - $1.22 million (US$0.94 million).

Revenue increased 26% over 2018, primarily due to a third party acquisition made in Arizona during Q3-2018 as well as increased occupancy across the portfolio. Same asset NOI was up 5% over 2018 due to new leasing across our commercial portfolio and higher residential occupancy.

Occupancy on commercial US properties was 88% (2018 - 84%). The increase is primarily a result of new leasing in our Arizona portfolio. Rental rates on commercial US properties were $20.53 (2018 - $19.64) up 5%. The increase in rental rates is primarily due to the sale of Centennial Airport Plaza which had a lower average rental rate.

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

($000s except as noted)	2019	2018
Same asset NOI *	**4,774**	4,548
Third party acquisitions	**1,338**	364
Third party disposals	**376**	409
NOI	**6,488**	5,321
Foreign currency translation	**2,118**	1,575
Amortization of operating lease incentives	**(1,158)**	(808)
Straight-line rent adjustment	**1,038**	97
Gross profit	**8,486**	6,185

** See non-standard measures for definition.*

Management fees & other

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the asset manager. Management fees were up $0.86 million or 17% compared to 2018, due to acquisition fees earned on REIT purchases in 2019 as well as internalization of management on one of our joint venture assets.

During 2019 we recognized $1.29 million in revenues on our parking stalls and other assets, down 3% from 2018 revenue of $1.33 million. These revenues fluctuate from period to period.

Funds from Operations

Funds from operations (FFO) increased by $4.68 million or 26% over 2018 as a result of higher NOI from both our US and Canadian properties.

Fair Value of Investment Portfolio

The fair value of our portfolio increased by $25.81 million over 2018. The increase in fair value was the result of $39.46 million in transfers of completed properties from Property Development and $3.55 million in property improvements. Other changes included fair value gains of $0.81 million, disposals of $8.39 million, foreign currency translation loss of $6.57 million, and changes to tenant improvements and straight line rent.

For the year ended December 31, 2019, Melcor's internal valuation team performed the valuation assessment. Of 35 legal phases assessed, 12 investment properties with a fair value of $148.51 million were valued by qualified independent external valuation professionals. In 2018, 8 investment properties of 32 legal phases with a fair value of $52.59 million were valued by qualified independent external valuation professionals.

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

($000s)	2019	2018
Alberta - all assets	**1,132**	(554)
US - residential	**(555)**	225
US - commercial	**(1,386)**	776
	(809)	447

We recognized fair value losses on our US portfolio as a result of capital and tenant spending which did not result in a significant increase in fair value and a decrease in stabilized NOI in our US residential portfolio. Gains on our Alberta assets were primarily due to appreciation in land prices on a downtown Edmonton development site as well as gains on our Clearview Market Square property in Red Deer, AB and Stoneycreek Shopping Centre in Fort McMurray, AB due to an uptick in stabilized NOI. Refer to note 28 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

REIT

The REIT owned 39 income-producing office, retail and industrial properties, representing 3,208,950 sf in GLA and a land lease community at December 31, 2019. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants operating in a variety of industries.

We held a controlling 55.1% effective interest in the REIT through ownership of all Class B LP Units at December 31, 2019 (December 31, 2018 - 53.0%). As we have concluded that Melcor retains control of the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities.

Operating results

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

($000s except as noted)	2019	2018
Rental revenue	**71,159**	70,173
Net operating income (NOI) *	**45,300**	43,983
Same asset NOI *(see calculation following)*	**38,792**	38,962
Fair value adjustments	**(1,622)**	(11,385)
Occupancy	**88%**	90%
Funds from operations *	**43,177**	42,426
Funds from operations per share *	**1.30**	1.27

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

Rental revenue increased $0.99 million or 1% over 2018 as a result of acquisitions completed over the past two years: Melcor Crossing (Nov-2019), Staples Centre (Apr-2019), LFS Building (Dec-2018) and the Melcor Acquisition (Jan-2018), and partially offset by two retail property sales in 2018. Rental revenue from acquired properties was $9.43 million in 2019 (2018 -$6.99 million). During 2018 we also recognized $0.38 million of rental revenue from sold properties. Higher amortization of tenant incentives due to increasing tenant inducement costs, and lower straight-line rent adjustments resulted in a slight decrease in same-asset revenues over 2018.

We continue to be proactive and strategic in our leasing programs to meet the demands of an evolving market while retaining and attracting new tenants. In 2019 we completed 148,268 sf of lease renewals (including holdovers) and had 74,116 sf in new leases commence for occupancy of 88.0%. Our retention rate was significantly impacted by the departure of a major tenant, RBC, representing 47,088 sf or approximately 1.5% of our portfolio. RBC's lease expired September 30, 2019 . Excluding this tenant we retained 73.6% of expiring leases (representing 55 leases) in spite of challenging market conditions in many of our operating regions.

Weighted average base rent was $16.79, up $0.28 compared to December 31, 2018 due to the acquisition of Melcor Crossing which had a weighted average base rate of $17.81. The increase was partially offset by lower rates on new and renewed leasing completed during the year.

Direct operating expenses were up 2% over 2018. On a same-asset basis, property taxes and utilities increased by 1% due to higher utility riders and fees as well as increases in property taxes, primarily on our retail assets. Same-asset operating expenses were stable in 2019. As a cornerstone of our property management strategy, we are committed to efficient and cost effective maintenance of our buildings to ensure maximum value to our tenants and unitholders.

($000s except as noted)	2019	2018
Same asset NOI *	**38,792**	38,962
Acquisitions	**6,508**	4,740
Disposals	**—**	281
NOI before adjustments	**45,300**	43,983
Amortization of operating lease incentives	**(3,541)**	(3,097)
Straight-line rent adjustment	**628**	1,190
Net rental income	**42,387**	42,076

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

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

Portfolio growth over the past year contributed to a 3% increase in NOI (before adjustments). On a same-asset basis, NOI was stable.

Funds from Operations

FFO within this division increased by 2% over 2018 as a result of third party acquisition completed in 2019. Stability in FFO demonstrates the REIT's consistency in stabilizing Melcor's overall operating results.

Fair Value of REIT Portfolio

	2019	2018
Number of properties	**39**	37
Total GLA (sf)	**3,339,030**	2,998,938
GLA (REIT owned %) (sf)	**3,208,950**	2,868,901
Fair value of portfolio ($000s)	**776,212**	704,339
Weighted average capitalization rate	**6.82%**	6.69%
Weighted average terminal cap rate	**6.87%**	6.75%
Weighted average discount rate	**7.76%**	7.70%

For the year ended December 31, 2019, Melcor's internal valuation team performed the valuation assessment. In 2019, 32 phases of 53 legal phases with a fair value of $444.70 million were valued by qualified independent external valuation professionals. Valuations performed during the year resulted in fair value losses of $1.62 million. In 2018, 24 phases of 50 legal phases with a fair value of $367.55 million were valued by qualified independent external valuation professionals, resulting in a fair value loss of $11.39 million. Refer to note 28 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

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

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

($000s)	2019	2018
Northern Alberta	**2,431**	(12,816)
Southern Alberta	**(1,469)**	33
Saskatchewan & British Columbia	**(2,584)**	1,398
	(1,622)	(11,385)

Fair value gains in Northern Alberta were due to new leasing on certain Edmonton office properties as well as rent escalations on select Edmonton area properties. Fair value losses in Southern Alberta were due to increased vacancy at one of our Calgary, AB office properties. Fair value losses in Saskatchewan & British Columbia were due to tenant rollover at two of our Regina, SK retail properties and a decline in market rental rates. The remainder of fair value losses across the portfolio were due to capital and tenant incentive spending that did not result in a significant change in the fair value of the related property. Fair value adjustments represent a change of less than 1% in the fair value of our portfolio.

Recreational Properties

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

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

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

Operating Results

($000s except as noted)	2019	2018
Revenue	8,466	8,391
Gross profit	2,277	2,378
Gross margin (%)	26.9%	28.3%
Earnings	62	94

The financial performance of our golf courses is greatly influenced by the weather conditions during the golf season. Favourable weather conditions in Alberta early in the season allowed for courses to open earlier and contributed to a 1% increase in revenue in 2019. The number of rounds played at all four courses was up 5% to 101,357 rounds.

We continue to focus on food and beverage initiatives as part of our strategy for attracting tournaments and stabilizing revenue. In 2019, food and beverage contributed revenue of $2.64 million compared to $2.74 million in 2018.

		2019		
	Ownership interest	Season opened	Season closed	Rounds of golf *
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 12	October 28	24,670
The Links (Spruce Grove)	100%	April 13	October 28	22,129
Black Mountain (Kelowna)	100%	April 3	November 11	32,358
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	April 19	October 20	22,200
		2018		
	Ownership interest	Season opened	Season closed	Rounds of golf *
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 27	October 30	24,158
The Links (Spruce Grove)	100%	April 27	October 30	21,179
Black Mountain (Kelowna)	100%	April 6	November 8	29,663
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	May 1	October 21	21,930

** Rounds of golf indicated at 100%.*

General and Administrative Expense

General and administrative expenses decreased by 4% over 2018, primarily due to decreased activity in our Community Development division and careful monitoring of expenses. Management continues to prudently monitor our administrative expenses.

Income Tax Expense

The statutory tax rate for the year ended December 31, 2019 is 26.5% (2018 - 27%). Significant adjustments that impacted the 2019 effective tax rate include permanent differences related to revaluation adjustments on investment properties and REIT units. These adjustments are partially offset by the non-taxable portion of REIT income. In addition, a reduction in the statutory tax rate resulted in a deferred income tax recovery.

Financing

As at December 31, 2019, our total general debt outstanding was $751.35 million compared to $659.56 million in 2018. The financing function is managed by our corporate division and decisions on how to deploy operating and acquisition funds are a centrally managed corporate decision. We use various forms of financing to fund our development and acquisition activities. We are often able to leverage the assets in one division to fund development opportunities in others.

A summary of our debt is as follows:

As at ($000s)		2019	2018
Melcor - revolving credit facilities	a	70,451	46,529
REIT - revolving credit facility	b	22,864	—
Project specific financing	c	68,436	62,639
Secured vendor take back debt on land inventory	d	39,005	40,842
Debt on investment properties and golf course assets	e	484,413	454,342
REIT - convertible debentures	f	66,184	55,204
		751,353	659,556

a) Melcor - revolving credit facilities

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

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

Under the terms of the facilities, Melcor pledges specific agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral. The facilities that mature on July 31, 2021 are renewable one year in advance of expiry and may be modified.

A summary of the credit facilities is as follows:

As at ($000s)		2019	2018
Credit limit approved	i)	196,133	200,103
Supportable credit limit	ii)	148,992	164,980
Credit used		(70,451)	(46,529)
Credit available		78,541	118,451

i) The portion of these loan limits that relate solely to Melcor Developments Ltd. is $120.00 million (2018 - $120.00 million) with the remaining balance pertaining to specific joint arrangements.

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

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

As at ($000s)	2019	2018
Total letter of credit facility	72,660	72,170
Letters of credit issued	(26,886)	(31,784)
Available for issue	45,774	40,386

b) REIT - revolving credit facility

The REIT has an available credit limit based on the carrying values of specific investment properties up to a maximum of $35.00 million for general purposes, including a $5.00 million swingline sub-facility. An additional $10.00 million is available by way of an accordion feature, subject to lender approval. Depending on the form under which the facility is accessed, rates of interest will vary between prime plus 1.25% or bankers' acceptance plus 2.25% stamping fee. The agreement also provides the REIT with $5.00 million in available letters of credit which bear interest at 2.25%. The facility matures June 1, 2021.

As at December 31, 2019 we had $22.86 million (December 31, 2018 - $nil) drawn from the facility; and posted letters of credit of $0.15 million (December 31, 2018 - $0.15 million).

c) Project specific financing

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

The composition of our project specific financing is as follows:

As at ($000s)	**2019**	**2018**
Project specific debt on investment properties under development, with interest rates between 4.25% and 4.45% (2018 - 4.25% to 4.45%)	**38,329**	30,811
Project specific debt on land, with interest rates between 4.95% and 9.48% (2018 - 4.95% to 9.48%)	**30,107**	31,828
	68,436	62,639
Weighted average effective interest rate	**5.43%**	6.67%

As at December 31, 2019 $19.09 million (2018 - $19.79 million) of debt was payable in US dollars (2019 - US $14.70 million and 2018 - US $14.51 million).

d) Secured vendor take back debt on land inventory

This debt is primarily comprised of loans on the acquisition of land that are held by the land vendor (fixed and variable rate financing with repayments over 3 to 5 years) or from financial institutions (variable rate financing with repayments over 3 to 5 years). Current debts mature from 2020 to 2023.

As at ($000s)	**2019**	**2018**
Agreements payable with interest at the following contractual rates:		
Fixed rates of 4.00% - 5.00% (2018 - 3.00% to 5.95%)	**31,947**	36,460
Variable rate of 5.95% (2018 - 5.95%)	**7,058**	4,382
	39,005	40,842
Weighted average effective interest rate	**4.34%**	4.69%

As at December 31, 2019 no debt was payable in US dollars (2018 - $nil).

e) Debt on investment properties and golf course assets

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

Debt on investment properties and golf course assets in the amount of $484.41 million, excluding fair value adjustments and deferred finance fees, reflects financing placed on investment properties that have a carrying value of $869.79 million.

Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. New mortgage rates from Canadian lending institutions ranged from 3.24% to 3.83% in 2019.

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

As at ($000s)	2019	2018
Canadian mortgages at fixed rates	**374,106**	338,549
Canadian mortgages at variable rates	**45,414**	47,658
US mortgages at fixed rates	**54,310**	63,316
US mortgages at variable rates	**13,029**	7,931
	486,859	457,454
Interest rate ranges	**(2.54% - 5.55%)**	(2.54% - 5.57%)
Weighted average effective interest rate	**3.48%**	3.47%

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

Year	Loan renewal amount ($000s)	Weighted average interest rate	Number of loans
2020	53,956	3.34%	7
2021	61,982	3.00%	10
2022	26,096	3.43%	4
2023	66,749	4.10%	6
2024	55,553	4.04%	9
2025	35,886	4.02%	6
2026	33,670	3.60%	5
2027	—	—%	—
2028	17,102	4.07%	3
2029	49,491	3.36%	5

As at December 31, 2019, $67.34 million of debt was payable in US dollars (2018: $71.25 million).

f) REIT - convertible debentures

On December 3, 2014, the REIT issued a 5.50% extendible convertible unsecured subordinated debenture ("REIT debenture") to the public for gross proceeds of $34.50 million, including $4.50 million issued pursuant to the exercise of an over-allotment option. The REIT debenture bears interest at an annual rate of 5.50% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2015.

These debentures were redeemed on December 19, 2019.

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

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

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

Liquidity & Capital Resources

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

As at ($000s except as noted)	2019	2018
Cash & cash equivalents	**36,980**	26,727
Accounts receivable	**9,783**	10,849
Agreements receivable	**76,406**	126,490
Revolving credit facilities	**93,315**	46,529
Accounts payable and accrued liabilities	**43,582**	44,825
Total assets	**2,096,047**	2,023,076
Total liabilities	**1,015,790**	955,511
Debt to equity ratio *	**0.94**	0.90

**See non-standard measures for definition*

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

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

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

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

On November 12, 2019 the REIT purchased a 283,235 sf regional shopping centre in Grande Prairie, Alberta ("Grande Prairie Acquisition") for $55,570 (including transaction costs). The acquisition was satisfied with cash raised through the issuance of 1,225,822 Class B LP Units to Melcor Developments Ltd. for total consideration of $10,000 and through the issuance of the 2019 Debentures.

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

Cash requirements

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

Contractual obligations include:

		Payments due by period			
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt on investment properties and golf course assets	486,859	72,691	119,280	148,282	146,606
Revolving credit facilities	93,315	93,315	—	—	—
Secured vendor take back debt on land inventory	39,005	20,832	15,973	2,200	—
Project specific financing	68,436	68,436	—	—	—
REIT debenture	69,000	—	23,000	46,000	—
Interest expense	179,525	30,418	43,000	30,862	75,245
Operating leases	589	179	364	46	—
Total contractual obligations	936,729	285,871	201,617	227,390	221,851

We also have a contractual obligation of $106.64 million on the non-controlling interest portion of REIT units as they are redeemable at the option of the holder.

Sources and uses of cash

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

	2019	2018
Cash flows from operating activities	**31,226**	30,827
Cash flows used in investing activities	**(80,529)**	(38,826)
Cash flows from (used in) financing activities	**59,858**	(8,909)

Cash from operations was $0.40 million higher in 2019. Net income, adjusted for non-cash items, contributed $36.58 million to cash from operations compared to $54.07 million in 2018. In 2019 we purchased 471 acres of land inventory for $12.50 million compared with 200 acres for $7.82 million in 2018 (net of vendor financing). Development activities resulted in $14.30 million in cash outflows in 2019 compared to $22.64 million in 2018.

Collections on agreements receivables were $50.08 million compared $3.46 million in 2018. We also incurred $10.16 million in tenant incentives and direct leasing costs in 2019 to renew and secure new leases.

Cash used in investing activities was $80.53 million, an increase of $41.70 million over 2018. During 2019 the REIT purchased a retail investment property in Calgary, Alberta for a purchase price of $12.48 million and a 283,235 sf regional shopping centre in Grand Prairie, Alberta for $55.02 million, this contributed $67.50 million to the total cash outflows of $68.55 million for purchases of investment property in 2019 compared to $33.54 million in 2018.

Cash used in investing activities was partially offset by dispositions made during the year. On December 31, 2019 we disposed of a commercial building in Denver, CO as well as one residential unit in Arizona for total proceeds of $9.07 million.

We continue to invest in improving our asset base through value enhancing projects. Additions to investment properties include development activities in Property Development and enhancements to properties held in the Investment Properties and REIT operating divisions. In 2019 we invested $20.27 million in properties under development, property improvements and capitalized borrowing costs, compared with $21.42 million in 2018.

Cash from financing activities was up $68.77 million over 2018 largely a result of our use of revolving credit facilities and the issuance of the 2019 debentures in the REIT. In 2019, the revolving credit facilities made net draws of $46.79 million compared to net repayments of $30.00 million in 2018. In October of 2019, the REIT issued convertible debentures for proceeds of $44.28 million.

These activities were partially offset by the redemption of the 2014 debentures resulting in cash outflows of $34.5 million. General debt contributed to a net cash inflow of $21.86 million through financings received and repayments made, compared to $21.72 million in 2018.

During the year, we repurchased 121,252 shares which were canceled and returned to treasury for $1.53 million.

In 2019, we paid dividends of $0.50 per share (2018 - $0.52 per share), for a total cash outflow of $16.63 million, compared to $17.36 million paid in 2018.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at December 31, 2019 there were 33,225,265 common shares issued and outstanding, 997,400 stock options, and 145,422 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of shares issued. As at March 11, 2020 there were 33,220,677 common shares issued and outstanding, 980,600 stock options, and 144,793 restricted share units.

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

Normal Course Issuer Bid

On 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 March 11, 2020, 69,100 shares were purchased and cancelled.

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

Also on March 28, 2019 the REIT announced an NCIB commencing April 1, 2019 and ending March 31, 2020. Under the bid, we may acquire up to 659,339 trust units in total (approximately 5% of our issued and outstanding trust units) with a daily repurchase restriction of 2,908 trust units. As of March 11, 2020, 53,504 units have been purchased and cancelled.

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

Off Balance Sheet Arrangements

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

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

Quarterly Results

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

	2019				2018			
($000s)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	78,056	53,946	41,085	34,884	119,982	60,245	42,793	44,414
Net income	16,946	16,068	3,137	1,590	36,526	11,469	1,631	14,647
FFO	13,917	10,696	7,975	5,677	30,671	12,841	7,695	4,920
Per Share								
Basic earnings	0.51	0.48	0.09	0.05	1.09	0.34	0.05	0.44
Diluted earnings	0.51	0.48	0.09	0.05	1.09	0.34	0.05	0.44
FFO basic	0.42	0.32	0.24	0.17	0.92	0.38	0.23	0.15
FFO diluted	0.45	0.32	0.21	0.17	0.92	0.38	0.23	0.15
Book value *	32.51	32.20	31.76	31.88	32.01	29.39	29.30	29.41

**See non-standard measures for definition*

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.

Fourth Quarter

Three months ended December 31 ($000s)	2019	2018
Revenue	**78,056**	119,982
Cost of sales	**(45,565)**	(66,510)
Gross profit	**32,491**	53,472
General and administrative expense	**(5,947)**	(5,674)
Fair value adjustment on investment properties	**10,875**	605
Adjustments related to REIT units	**(7,206)**	6,216
Loss on sale of assets	**—**	—
Operating earnings	**30,213**	54,619
Interest income	**254**	241
Foreign exchange (loss) gain	**(38)**	166
Finance costs	**(6,391)**	(6,129)
Net finance costs	**(6,175)**	(5,722)
Income before income taxes	**24,038**	48,897
Income tax expense	**(7,092)**	(12,371)
Net income for the period	**16,946**	36,526
Earnings per share attributable to Melcor's shareholders:		
Basic earnings per share	**0.51**	1.09
Diluted earnings per share	**0.51**	1.09

Highlights of the fourth quarter include:

- Our Property Development division completed and transferred 5 buildings (78,962 sf) to Investment Properties.
- Our Community Development division registered 9 plans in 8 communities, which added 481 lots to inventory with 465 lots sold in Q4-2019. This compares to 16 plan registrations in 12 communities adding 637 lots to inventory with 710 lots sold in Q4-2018.
- On November 12, 2019 the REIT purchased a 283,235 sf regional shopping centre from a third party for $55.0 million in Grande Prairie, Alberta.
- Melcor purchased 1,225,822 Class B LP units at $8.16 or $10,000 from the REIT. The funds from this transaction were used as partial consideration towards the purchase of the regional shopping centre.
- On December 31, 2019 an office property in Denver, CO was sold for $8.76 million (US$6.32 million) net of transaction costs.
- During the fourth quarter, under our NCIB, we purchased 34,000 shares at a cost of $0.42 million. These shares have been canceled and returned to treasury.

Segmented information for the fourth quarter is as follows:

Three months ended December 31, 2019	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	62,966	28,912	10,509	18,273	610	—	121,270	(43,214)	**78,056**
Cost of sales	(42,186)	(28,800)	(4,179)	(7,544)	(979)	—	(83,688)	38,123	**(45,565)**
Gross profit	20,780	112	6,330	10,729	(369)	—	37,582	(5,091)	**32,491**
General and administrative expense	(1,826)	(542)	(654)	(707)	(385)	(2,576)	(6,690)	743	**(5,947)**
Fair value adjustment on investment properties	—	3,347	4,544	(1,364)	—	—	6,527	4,348	**10,875**
Interest income	178	7	14	28	—	27	254	—	**254**
Segment Earnings (loss)	19,132	2,924	10,234	8,686	(754)	(2,549)	37,673	—	**37,673**
Foreign exchange gain									**(38)**
Finance costs									**(6,391)**
Adjustments related to REIT units									**(7,206)**
Income before income taxes									**24,038**
Income tax expense									**(7,092)**
Net income for the period									**16,946**

Three months ended December 31, 2018	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	95,426	10,577	8,913	17,336	677	—	132,929	(12,947)	119,982
Cost of sales	(55,486)	(10,500)	(3,706)	(6,980)	(1,018)	—	(77,690)	11,180	(66,510)
Gross profit	39,940	77	5,207	10,356	(341)	—	55,239	(1,767)	53,472
General and administrative expense	(2,492)	(622)	(620)	(727)	(351)	(1,577)	(6,389)	715	(5,674)
Fair value adjustment on investment properties	—	986	4,791	(6,224)	—	—	(447)	1,052	605
Loss on sale of assets	—	—	—	—	—	—	—	—	—
Interest income	147	8	2	33	—	51	241	—	241
Segment Earnings (loss)	37,595	449	9,380	3,438	(692)	(1,526)	48,644	—	48,644
Foreign exchange loss									166
Finance costs									(6,129)
Adjustments related to REIT units									6,216
Income before income taxes									48,897
Income tax expense									(12,371)
Net income for the period									36,526

Outlook

Melcor owns a high quality portfolio of assets, including raw land, developed land inventory (residential lots and acres for multi-family and commercial development), income-producing properties and championship golf courses. Alberta, our largest market, has undergone dramatic changes throughout the past few years, primarily related to lower oil prices and policy changes related to the governing political bodies both provincially and federally. We continue to intentionally diversify our business across asset class and geography, including investment in the US with raw land and commercial property acquisitions and the continued development of our 1,100-acre community in Aurora. We anticipate that these diversification strategies will continue to ease our reliance on the Alberta economy going forward.

We expect continued softness in the residential market in Alberta in 2020 and are focused on reducing existing lot inventory held by both Melcor and our builders. On the commercial side, retail activity remains steady and we expect that to continue in 2020. Our US assets delivered positive results in economies that are growing and that are counter cyclical to our resource dependence in Alberta.

Our business model has adapted to changing times and economic cycles for over 95 years. We will continue to take advantage of opportunities to diversify our asset base both geographically and by product type. We will maintain our disciplined, conservative approach to operations to ensure that we remain profitable while achieving our fundamental goals of protecting shareholder investment and sharing corporate profit with our shareholders.

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

Interest in the REIT

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

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

As of March 11, 2020, Melcor holds a 55.1% (December 31, 2018 - 53.0% and 2019 - 55.1%) effective interest in the REIT through ownership of all Class B LP units of the partnership through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

As we retain control over the REIT, we consolidate the REIT and record 100% of its revenues, expenses, assets and liabilities. We reflect the publics 44.9% interest (December 31, 2019 - 44.9%) in the REIT as a financial liability.

Arrangements between Melcor and the REIT

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

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

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

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

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

Capital project funding - as part of the transaction, we agreed to pay approximately $1.40 million in costs associated with certain maintenance and capital projects at nine of the Initial Properties.

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

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

Business Environment & Risks

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

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

General Risks

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

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

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

Industry Risk

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

Concentration of Assets Risk

The majority of our assets are located in Alberta. Adverse changes in economic conditions in Alberta may have a material adverse effect on our business, cash flows, financial condition and results of operations and ability to pay dividends. The Alberta economy is sensitive to the price of oil and gas. To mitigate against this risk, we endeavor to diversify our revenue mix by product and location.

Financing Risk

We use debt and other forms of leverage in the ordinary course of business to enhance returns to shareholders. Most leveraged debt within the business has recourse only to the assets being financed or margined and has no recourse to Melcor.

We are subject to general risks associated with debt financing. The following risks may adversely affect our financial condition and results of operations:

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

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

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

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

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

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

Environmental Risk

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

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

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

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

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

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

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

Pandemics, Natural Disasters or Other Unanticipated Events

The occurrence of pandemics, natural disasters, or other unanticipated events, in any of the areas where we or our partners and suppliers operate could disrupt operations. In addition, pandemics, natural disasters or other unanticipated events could have a material adverse effect on our business, financial condition, results of operations and cash flows. To mitigate these risks, we have developed a comprehensive health and safety program and are currently expanding it to include pandemics in response to Coronavirus (COVID-19). We have introduced new policies and practices both internally and at the properties that we manage to reduce the spread of COVID-19 through education and plentiful access to hand sanitizer, etc. We are currently reviewing additional measures and will continue to transparently comunicate with our staff, tenants and stakeholders.

Cyber Security Risk

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

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

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

Community Development

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

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

Property Development

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

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

Investment Properties and REIT

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

Recreational Properties

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

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

Other Financial Information

Critical Accounting Estimates

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

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

Changes in Accounting Policies and Adoption of IFRS

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

Subsequent Events

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

Joint Arrangement Activity

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

Joint arrangement activity at 100% ($000s)	2019	2018
Revenue	**180,039**	193,250
Earnings	**51,365**	57,627
Assets	**1,015,191**	1,033,828
Liabilities	**364,569**	402,526

*Joint arrangement activity at Melcor's ownership % ($000s) **	2019	2018
Revenue	**73,436**	82,811
Earnings	**22,847**	27,126
Assets	**456,373**	455,808
Liabilities	**160,567**	169,308

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

Internal Control over Financial Reporting and Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant and material information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely manner. Under the supervision of the CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Canada by National Instrument 52-109 as of December 31, 2019. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures related to Melcor and its subsidiaries and joint arrangements were effective.

Internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management designed these controls based on the criteria set out in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). The CEO and CFO have certified that the internal controls over financial reporting were properly designed and effective for the year ended December 31, 2019.

There has been no change to Melcor's disclosure controls and procedures or internal control over financial reporting during the year ended December 31, 2019, that materially affected, or is reasonably likely to materially affect, Melcor's internal control over financial reporting.

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

Non-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 year, excluding management fees earned on inter-divisional services and the effects of foreign currency translation.

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) / (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) +/– (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, is as follows:

Investment Properties

($000s)	Year Ended	
	2019	2018
Segment earnings *	**20,070**	17,325
Fair value adjustment on investment properties	**809**	(447)
General and administrative expenses	**2,381**	2,439
Interest income	**(42)**	(8)
Amortization of operating lease incentives	**1,820**	1,138
Straight-line rent adjustments	**(1,606)**	(1,152)
Divisional NOI	**23,432**	19,295

**Refer to note 24 to the consolidated financial statements*

REIT

($000s)	Year Ended	
	2019	2018
Segment earnings *	**38,014**	27,944
Fair value adjustment on investment properties	**1,622**	11,385
General and administrative expenses	**2,868**	2,884
Interest income	**(117)**	(137)
Amortization of operating lease incentives	**3,541**	3,097
Straight-line rent adjustments	**(628)**	(1,190)
Divisional NOI	**45,300**	43,983

**Refer to note 24 to the consolidated financial statements*

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

Consolidated

($000s)	Year Ended	
	2019	2018
Net income for the year	**37,741**	64,273
Amortization of operating lease incentives	**7,867**	6,710
Fair value adjustment on investment properties	**(12,234)**	(863)
Depreciation on property and equipment	**1,381**	1,417
Stock based compensation expense	**717**	450
Non-cash financing costs	**3,442**	1,466
Gain on sale of asset	**(83)**	(6)
Deferred income taxes	**(9,241)**	(3,493)
Fair value adjustment on REIT units	**8,675**	(13,827)
FFO	**38,265**	56,127

Investment Properties

($000s)	Year Ended	
	2019	2018
Divisional income for the year *	**20,070**	17,325
Fair value adjustment on investment properties	**809**	(447)
Amortization of operating lease incentives	**1,820**	1,138
Divisional FFO	**22,699**	18,016

**Refer to note 24 to the consolidated financial statements*

REIT

($000s)	Year Ended	
	2019	2018
Divisional income for the year *	**38,014**	27,944
Fair value adjustment on investment properties	**1,622**	11,385
Amortization of operating lease incentives	**3,541**	3,097
Divisional FFO	**43,177**	42,426

**Refer to note 24 to the consolidated financial statements*

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

Management's Responsibility for Financial Reporting

The consolidated financial statements, management's discussion and analysis (MD&A) and all financial information contained in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, have incorporated estimates based on the best judgment of management.

To discharge its responsibility for financial reporting, management is responsible for implementing and maintaining adequate internal controls to provide reasonable assurance that the Company's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis.

The consolidated financial statements have been examined by PricewaterhouseCoopers LLP, the Company's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditor's report outlines the scope of their audit examination and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee is comprised of three financially literate and independent directors. This committee meets regularly with management and the external auditors to review significant accounting, financial reporting and internal control matters. PricewaterhouseCoopers LLP have unrestricted access to the Audit Committee with and without the presence of management. The Audit Committee reviews the financial statements, the auditor's report, and MD&A and submits its report to the Board of Directors for formal approval. The Audit Committee is also responsible for reviewing and recommending the annual appointment of external auditors and approving the external audit plan. These consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors for inclusion in the Annual Report based on the review and recommendation of the Audit Committee.

Darin Rayburn
Chief Executive Officer

Naomi Stefura, CA
Chief Financial Officer

Edmonton, Alberta
March 11, 2020

Independent auditor's report

To the Shareholders of Melcor Developments Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Melcor Developments Ltd. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of income for the years ended December 31, 2019 and 2018;
- the consolidated statements of comprehensive income for the years ended December 31, 2019 and 2018;
- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of changes in equity for the years ended December 31, 2019 and 2018;
- the consolidated statements of cash flows for the years ended December 31, 2019 and 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
Stantec Tower, 10220 103 Avenue NW, Suite 2200, Edmonton, Alberta, Canada T5J 0K4
T: +1 780 441 6700, F: +1 780 441 6776

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Gordon R. Keiller.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
March 11, 2020

MELCOR DEVELOPMENTS LTD.

Consolidated Financial Statements

December 31, 2019

Consolidated Statement of Income

For the years ended December 31 ($000s)	2019	2018
Revenue (note 21)	**207,971**	267,434
Cost of sales (note 21)	**(111,185)**	(142,223)
Gross profit	**96,786**	125,211
General and administrative expense (note 21)	**(22,563)**	(23,429)
Fair value adjustment on investment properties (note 10, 21 and 28)	**12,234**	863
Adjustments related to REIT units (note 25)	**(17,557)**	3,438
Gain on sale of assets	**83**	6
Operating earnings	**68,983**	106,089
Interest income	**1,335**	1,291
Foreign exchange (loss) gain	**(38)**	429
Finance costs (note 20)	**(27,790)**	(24,568)
Net finance costs	**(26,493)**	(22,848)
Income before income taxes	**42,490**	83,241
Income tax expense (note 22)	**(4,749)**	(18,968)
Net income for the year	**37,741**	64,273
Earnings per share attributable to Melcor's shareholders (note 17):		
Basic earnings per share	**1.13**	1.92
Diluted earnings per share	**1.13**	1.92

See accompanying notes to the consolidated financial statements.

On behalf of Melcor's Board of Directors

Gordon J. Clanachan, FCA
Audit Committee Chair

Timothy C. Melton
Chairman

Consolidated Statement of Comprehensive Income

For the years ended December 31 ($000s)	2019	2018
Net income for the year	**37,741**	64,273
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences (note 18)	**(7,607)**	12,181
Comprehensive income	**30,134**	76,454

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Financial Position

($000s)	2019	2018
ASSETS		
Cash and cash equivalents	**36,980**	26,727
Accounts receivable	**9,783**	10,849
Income taxes recoverable	**7,058**	—
Agreements receivable (note 8)	**76,406**	126,490
Land inventory (note 9)	**754,331**	758,940
Investment properties (note 10 and 28)	**1,141,591**	1,032,687
Property and equipment (note 11)	**13,498**	14,020
Other assets (note 12)	**56,400**	53,363
	2,096,047	2,023,076
LIABILITIES		
Accounts payable and accrued liabilities (note 13)	**43,582**	44,825
Income taxes payable	**855**	8,605
Provision for land development costs (note 14)	**56,183**	77,658
General debt (note 15)	**751,353**	659,556
Deferred income tax liabilities (note 22)	**57,174**	66,493
REIT units (note 25 and 28)	**106,643**	98,374
	1,015,790	955,511
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 16a)	**72,556**	72,821
Contributed surplus	**4,083**	3,366
Accumulated other comprehensive income (AOCI) (note 18)	**21,522**	29,129
Retained earnings	**982,096**	962,249
	1,080,257	1,067,565
	2,096,047	2,023,076

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Equity

	Equity attributable to Melcor's shareholders				
($000s)	**Share capital**	**Contributed surplus**	**AOCI**	**Retained earnings**	**Total equity**
Balance at January 1, 2019	**72,821**	**3,366**	**29,129**	**962,249**	**1,067,565**
Net income for the year	**—**	**—**	**—**	**37,741**	**37,741**
Cumulative translation adjustment (note 18)	**—**	**—**	**(7,607)**	**—**	**(7,607)**
Transactions with equity holders					
Dividends	**—**	**—**	**—**	**(16,633)**	**(16,633)**
Share repurchase (note 16a)	**(265)**	**—**	**—**	**(1,261)**	**(1,526)**
Employee share based compensation					
Value of services recognized	**—**	**717**	**—**	**—**	**717**
Balance at December 31, 2019	**72,556**	**4,083**	**21,522**	**982,096**	**1,080,257**

	Equity attributable to Melcor's shareholders				
($000s)	**Share capital**	**Contributed surplus**	**AOCI**	**Retained earnings**	**Total equity**
Balance at January 1, 2018	72,729	2,939	16,948	915,974	1,008,590
Net income for the year	—	—	—	64,273	64,273
Cumulative translation adjustment (note 18)	—	—	12,181	—	12,181
Transactions with equity holders					
Dividends	—	—	—	(17,362)	(17,362)
Share repurchase (note 16a)	(125)	—	—	(636)	(761)
Employee share based compensation					
Value of services recognized	—	450	—	—	450
Share issuance	217	(23)	—	—	194
Balance at December 31, 2018	72,821	3,366	29,129	962,249	1,067,565

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended December 31 ($000s)	2019	2018
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	**37,741**	64,273
Non cash items:		
Amortization of tenant incentives (note 12)	**7,867**	6,710
Depreciation of property and equipment (note 11 and 21)	**1,381**	1,417
Stock based compensation expense (note 16g and 21)	**717**	450
Non cash financing costs (note 20)	**3,442**	1,466
Straight-line rent adjustment	**(1,685)**	(2,054)
Fair value adjustment on investment properties (note 10, 21 and 28)	**(12,234)**	(863)
Fair value adjustment on REIT units (note 25 and 28)	**8,675**	(13,827)
Gain on sale of assets	**(83)**	(6)
Deferred income taxes (note 22)	**(9,241)**	(3,493)
Cash provided by operating activities before changes in non-cash working capital	**36,580**	54,073
Agreements receivable	**50,084**	3,459
Development activities (note 3t)	**(14,303)**	(22,636)
Payment of tenant incentives and direct leasing costs	**(10,161)**	(8,279)
Purchase of land inventory (note 9)	**(12,496)**	(7,821)
Operating assets and liabilities (note 3t)	**(18,478)**	12,031
	31,226	30,827
INVESTING ACTIVITIES		
Purchase of investment properties (note 10)	**(68,552)**	(33,541)
Additions to investment properties (note 10)	**(20,271)**	(21,417)
Net proceeds from disposal of investment properties (note 10)	**9,070**	516
Net proceeds from disposal of asset held for sale (note 10)	**—**	16,389
Purchase of property and equipment (note 11)	**(939)**	(798)
Proceeds from disposal of assets	**163**	25
	(80,529)	(38,826)
FINANCING ACTIVITIES		
Proceeds from issuance of trust units (note 25)	**—**	17,302
Net proceeds from issuing convertible debenture (note 15f)	**44,275**	—
Redemption of Debenture (note 15f)	**(34,500)**	—
Revolving credit facilities	**46,786**	(30,000)
Proceeds from general debt	**114,554**	128,236
Repayment of general debt	**(92,692)**	(106,518)
Repurchase of REIT units	**(406)**	—
Dividends paid	**(16,633)**	(17,362)
Common shares repurchased (note 16a)	**(1,526)**	(761)
Share capital issued	**—**	194
	59,858	(8,909)
FOREIGN EXCHANGE (LOSS) GAIN ON CASH HELD IN A FOREIGN CURRENCY	**(302)**	1,130
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**10,253**	(15,778)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**26,727**	42,505
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**36,980**	26,727

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

We are a real estate development company with community development, property development, investment property, 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 December 31, 2019 Melton Holdings Ltd. holds approximately 47.2% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at March 11, 2020, Melcor, through an affiliate, holds an approximate 55.1% 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".

2. BASIS OF PRESENTATION

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") as set out in Part I of the Chartered Professional Accountants ("CPA") Handbook.

Our consolidated financial statements have been prepared in accordance with IFRS. These consolidated financial statements were authorized for issue by the Board of Directors on March 11, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

a. Basis of measurement

Our consolidated financial statements have been prepared under the historical cost convention, except for investment properties, derivatives and REIT units which are measured at fair value.

We prepare our financial statements in conformity with IFRS which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions change. We believe that the underlying assumptions are appropriate. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in notes 6 and 5, respectively.

b. Basis of consolidation

These consolidated financial statements include:

I. The accounts of Melcor Developments Ltd. and its wholly-owned subsidiaries:

- Melcor Developments Arizona Inc.
- Melcor Lakeside Inc.
- Stanley Investments Inc.
- Melcor REIT Holdings GP Inc.
- Melcor REIT Holdings Limited Partnership
- Melcor Homes Ltd.

II. The accounts of Melcor REIT Limited Partnership (the "Partnership") (55.1% owned by Melcor Developments Ltd as at December 31, 2019). The remaining 44.9% publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to notes 7 and 25 for details related to our interest in the REIT.

III. Investments in 30 joint arrangements (2018 – 29) with interests ranging from 7% to 67%. These arrangements are undivided interests in the assets, liabilities, revenue and expenses and we record our proportionate share in accordance with the agreements. Refer to note 23 for details on joint arrangements.

All intercompany transactions and balances are eliminated on consolidation.

c. Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term deposits with maturity dates of less than three months from the date they were acquired.

d. Land inventory

Land inventory is recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less costs to complete the development and selling costs. Cost includes all costs incurred to purchase development land, capitalized carrying costs related to holding the land under development, and development costs to build infrastructure. The estimated unexpended portion of costs to complete building the infrastructure, which are classified as "provision for land development costs" (refer to note 3i), are recorded as a liability upon the approval of the development plan with the municipality.

The cost of land and carrying costs are allocated to each phase of development based on a prorated acreage of the total land parcel at the time a plan is registered with a municipality. The cost of sale of a lot is allocated on the basis of the estimated total cost of the project prorated by the anticipated selling price of the lot over the anticipated selling price of the entire project at the date of plan registration.

Where we acquire land subject to deferred payments greater than one year, it is initially recognized at the fair value of the future estimated contractual obligations.

e. Investment properties

Investment properties include commercial, industrial, and residential properties, and a manufactured home community held for the long term to earn rental income or for capital appreciation, or both. It also includes properties under development for future use as investment properties.

Acquired investment properties are measured initially at cost, including related transaction costs associated with the acquisition when the acquisition is accounted for as an asset purchase. Costs capitalized to properties under development include direct development and construction costs, borrowing costs, and property taxes.

After initial recognition, investment properties are recorded at fair value, determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows.

Melcor Developments Ltd. has an internal valuation team consisting of individuals who are knowledgeable and have experience in the fair value techniques applied in valuing investment property. 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. Changes in fair value are recognized in the consolidated statements of income and comprehensive income in the period in which they arise.

Fair value measurement of an investment property under development is only applied if the fair value is considered to be reliably measurable. In rare circumstances, investment property under development is carried at cost until its fair value becomes reliably measurable. It may sometimes be difficult to determine reliably the fair value of an investment property under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers the following factors, among others:

- the provisions of the construction contract;
- the stage of completion;
- whether the project or property is standard (typical for the market) or non-standard;
- the level of reliability of cash inflows after completion;
- the development risk specific to the property;
- past experience with similar construction; and
- status of construction permits.

Subsequent expenditures are capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to Melcor and the cost of the item can be measured reliably. All repairs and maintenance costs are expensed when incurred.

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties. All direct leasing costs are external expenditures and no amounts for internal allocations are capitalized with respect to the negotiation or arranging of tenant leases.

f. Property and equipment

Property and equipment is initially measured at cost, which includes expenditures that are directly attributable to the acquisition of the asset. Subsequent to its initial recognition, property and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses.

The major categories of property and equipment are depreciated using the declining balance method of depreciation as follows:

Buildings	4%
Golf course greens and tees	6%
Golf course equipment	20-30%
Corporate assets	20-50%

Property and equipment is tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of an asset's fair value less costs to sell and the discounted expected future cash flows of the relevant asset or group of assets calculated on a value-in-use basis. An impairment loss is recognized for the amount by which the asset or group of assets' carrying amount exceeds its recoverable amount.

We evaluate impairment losses for potential reversals when events or circumstances warrant such consideration.

g. Other assets

Other assets include prepaid expenses, inventory, deposits, straight-line rent adjustments and tenant incentives incurred in respect of new or renewed leases. Tenant incentives are amortized on a straight-line basis over the lease term and are recorded as a reduction of revenue.

h. Borrowing costs

General and specific borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets. Borrowing costs are capitalized while acquisition or construction is actively underway and ceases once the asset is substantially complete, or suspended if the development of the asset is suspended. The amount of borrowing cost capitalized is determined by applying a weighted average cost of borrowings to qualifying assets. Qualifying assets include our land under development and investment properties under development assets. All other borrowing costs are recognized as finance costs in the consolidated statement of income in the period in which they are incurred.

i. Provision for land development costs

We recognize a provision for land development related to the construction, installation and servicing of municipal improvements related to subdivisions under development once we have an approved development agreement with the municipality, as this is the point in time when an obligation arises. The provision is recognized as a liability with an equal amount capitalized to land inventory. Provisions for land development are measured at management's best estimate of the expenditure required to complete the approved development plan at the end of the reporting period. Adjustments are made to the liability with a corresponding adjustment to cost of sales as actual costs are incurred. Provisions are discounted, where material, by discounting the expected future cash flows at a rate that reflects risk specific to the provision and the time value of money.

j. Provision for decommissioning obligations

Decommissioning obligations are measured at the present value of the expected cost to settle the obligation. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows as well as any changes in the discount rate. Increases or decreases in the provision are recognized as an expense or income. Actual costs incurred upon settlement of the decommissioning obligation are recorded against the provision.

k. Recognition of revenue

Revenue is generated from contracts with customers and other revenues. Contracts with customers include the sale of developed land, golf course operations and service revenue from investment properties. Other revenues include rental revenue from investment property leases and management fees from joint venture operations.

Revenue from contracts related to the sale of developed land is recognized at a point in time, which is when a minimum of 15% of the sale price has been received, the sale is unconditional and possession has been granted. All contracts related to the sale of developed land have one performance obligation, the delivery of a fully developed lot to the customer. Common areas within a development community that are subsequently transferred to municipal or government organizations or home-owner associations are not considered an extension of a customer and therefore; this does not represent a separate performance obligation.

Revenue from golf course operations (green fees, food and beverage) is recognized at a point in time and the performance obligation is satisfied in the accounting period in which the services are provided. Membership revenue from golf courses is recognized over time on a monthly basis in the period in which the performance obligations are completed.

Service revenues are amounts outlined separately in the lease agreement for distinct services provided including utilities, maintenance and security recoveries from tenants which are recognized on a monthly basis in the period in which the corresponding costs are incurred and performance obligations are completed.

Rental revenues include both lease and service revenue components. Lease revenues from investment properties include base rents, recoveries of operating expenses including property taxes, parking revenue, incidental income and sign and storage lease revenue. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from the operating leases is recognized on a straight line basis over the term of the lease; a straight line rent receivable which is included in other assets, is recorded for the difference between the rental revenue recognized and the contractual amount received. When incentives are provided to our tenants, the cost of these incentives is recognized over the lease term, on a straight line basis as a reduction to rental revenue.

Investment property leases are accounted for as operating leases given that we have retained substantially all of the risks and benefits of the ownership of our investment properties.

Management fee revenue is comprised of fees paid by our joint arrangement partners based on development and/or sales activities, which fluctuates period to period depending on the stage of various projects.

l. Income taxes

Current income tax is the expected amount of tax payable to the taxation authorities, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the liability method based on the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are the result of recognizing the benefit associated with deductible temporary differences, unused tax credits, and tax loss carryforwards. The carrying amount of the deferred tax liabilities and assets is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the reporting period date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

We presume that investment property measured at fair value will be recovered entirely through sale. Measurement of the related deferred taxes reflects the tax consequences of recovering the carrying amount through sale.

The REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) (“Tax Act”) and as a real estate investment trust eligible for the ‘REIT Exception’, as defined in the rules applicable to Specified Investment Flow-Through (“SIFT”) trusts and partnerships in the Tax Act. We expect to allocate all of the REIT’s taxable income and to continue to qualify for the REIT Exception. As the REIT is a flow-through entity, we record current and deferred taxes on our 55.1% interest in the REIT.

m. Stock based compensation

We use the Black-Scholes option pricing model to fair value options granted to our employees, and the intrinsic method to fair value restricted share units ("RSUs"). The estimated fair value of awards on the date of grant is recognized as compensation expense on a graded vesting basis over the period in which the employee services are rendered. We estimate the number of expected forfeitures at the grant date and make adjustments for actual forfeitures as they occur. Stock based awards that give the holder the right to purchase shares are accounted for as equity-settled plans.

n. Earnings per share

Basic earnings per share (“EPS”) is calculated by dividing our net income for the period by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants, and similar instruments is computed using the treasury stock method. Our potentially dilutive common shares comprise stock options and RSU's granted to employees.

o. Foreign currency

The consolidated financial statements are presented in Canadian dollars, which is the functional currency for our Canadian operations and our presentation currency.

Assets and liabilities of our US operations, for which the functional currency is the US dollar, are translated into our presentation currency at the exchange rates in effect at the reporting period end date and revenues and expenses are translated at average exchange rates for the period. Gains or losses on translation of foreign operations are recognized as other comprehensive income or loss.

Gains or losses on the settlement of debt or on foreign exchange cash balances are recognized in income in the period realized.

p. Financial instruments

At initial recognition, we classify our financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Financial assets

Finance assets that are held for collection of contractual cash flows represent solely payments of principle and interest are measured at amortized cost. This includes cash and cash equivalents, accounts receivable and agreements receivable. Financial assets are initially recognized at fair value plus transaction costs, adjusted for an expected credit loss. Subsequently, receivables are measured at amortized cost using the effective interest rate method adjusted for expected credit losses.

For financial assets, Melcor applies the simplified expected credit loss approach, which requires expected lifetime losses to be recognized from initial recognition of the accounts receivables and agreements receivables.

Financial liabilities

Other liabilities are initially recognized at fair value, net of any transaction costs incurred. Other liabilities include accounts payable and accrued liabilities, and general debt. REIT Units are classified as fair value through profit or loss (“FVTPL”) and are designated as FVTPL to offset the accounting mismatch of REIT investment properties carried at fair value.

We record our financial liabilities at fair value on initial recognition. Subsequently, financial liabilities are measured at amortized cost using the effective interest rate method and financial liabilities designated as FVTPL are remeasured at fair value with changes in their fair value recorded through income.

Modifications of financial liabilities carried at amortized cost that do not result in derecognition give rise to a modification gain or loss equal to the change in discounted contractual cash flows using the original effective interest rate. This modification gain or loss is recognized in the consolidated statements of net income and comprehensive income.

Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

i. the amount determined in accordance with the expected credit loss model under IFRS 9, Financial Instruments, and

ii. the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15, Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, of the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted as contributions and recognized as part of the cost of the investment.

q. Non-controlling interest in Melcor REIT

We hold an effective 55.1% interest in the REIT through ownership of all Class B LP Units. A non-controlling interest, REIT units, has been recognized on the statement of financial position to reflect the 44.9% interest held by the public through ownership of all trust units. The trust units are redeemable at the option of the holder and, therefore, are considered a puttable instrument in accordance with International Accounting Standard ("IAS") 32, Financial Instruments – Presentation ("IAS 32"). Certain conditions under IAS 32 allow the REIT to present the trust units as equity; however, on consolidation we do not meet these conditions and therefore must present the non-controlling interest as a financial liability.

As a financial liability designated as fair value through profit or loss ("FVTPL") we recorded the REIT units at fair value on initial recognition. Subsequent to initial recognition we remeasure the liability each period at fair value based upon the trust unit's closing trading price. Fair value gains and losses are recorded through income in the period they are incurred.

Distributions on trust units are recognized in the period in which they are approved and are recorded as an expense in income. For presentation purposes we aggregate the distribution expense with the fair value adjustment on the trust units under the caption 'adjustments related to REIT units'.

r. Financial Derivatives

Our financial derivatives include interest rate swaps and the conversion feature on the REIT convertible debenture. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair value. The host instrument financial liability is recognized initially at the fair value of a similar liability that does not have conversion feature. The conversion feature is separated from the host instrument and recognized at fair value. The fair value of the host instrument is recorded net of any related transaction costs. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Derivative instruments are recorded in the consolidated statement of financial position at their fair value. Changes in fair value of derivative instruments that are not designated as hedges for accounting purposes are recognized in the income statement.

Melcor has not designated any derivatives as hedges for accounting purposes.

s. Operating segments

Our operating segments are strategic business units that offer different products and services, and are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

t. Statement of cash flows

Development activities is defined as the net change of land inventory and the provision for land development costs and excludes the purchase of raw land. Purchase of raw land is the cost of land net of vendor financing received (see note 9 – land inventory).

Operating assets and liabilities is defined as the net change of accounts receivable, deposits, prepaids and inventory, income taxes payable, accounts payable and accrued liabilities and deferred finance costs capitalized during the year. Excluded from operating assets and liabilities are investment property additions that are unpaid and included in accounts payable and accrued liabilities at year end.

4. ACCOUNTING STANDARD CHANGES

a. New and amended standards adopted

We have adopted the following new standard interpretation effective January 1, 2019.

i. ***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 lessees, except those that meet the limited exception criteria;

(ii) Rent expense for 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 detail included within our disclosures to the year end financial statements to show variable lease revenue earned (note 21) and minimum lease payments under non-cancellable operating leases of investment properties for each year for up to 5 years (note 10). This standard was adopted through the modified retrospective approach.

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

(i) an entity considers income tax treatments separately;

(ii) assumptions that an entity makes regarding the examination of tax treatments by taxation authorities;

(iii) how an entity determines taxable income or loss, tax basis, unused tax losses or credits, and tax rates;

(iiii) 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.

b. New standards not yet adopted

i. ***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 periods 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.

5. CRITICAL ACCOUNTING ESTIMATES

We make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. The estimates and assumptions that are critical to the determination of the amounts reported in the financial statements relate to the following:

a. Valuation of agreements receivable

We review our agreements receivable on a regular basis to estimate the risk of default on outstanding balances. Factors such as the related builder's reputation and financial status, the geographic location of the lot, and length of time the agreement receivable has been outstanding are all considered when estimating any impairment on agreements receivable. Refer to note 27a for further information related to credit risk associated with agreements receivable.

b. Valuation of investment properties

The fair value of investment property is dependent on stabilized net operating income or forecasted future cash flows and property specific capitalization or discount rates. The stabilized net operating income or forecasted future cash flows involve assumptions of future rental income, including estimated market rental rates and vacancy rates, estimated direct operating costs and estimated capital expenditures. Capitalization and discount rates take into account the location, size and quality of the property, as well as market data at the valuation date.

Refer to note 28 for further information about methods and assumptions used in determining fair value of investment properties.

c. Determination of the provision for land development costs

We estimate the future costs of completing the development of land by preparing internal budgets of costs and reviewing these estimates regularly to determine if adjustments to increase or decrease the provision for land development costs are required. This estimate impacts the measurement of cost of sales reported given that land inventory is sold prior to all costs being committed or known as the nature of land development considers a long-term time frame to complete all municipal requirements.

d. Income taxes

Significant estimates are required in determining our provision for income taxes. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provision.

6. SIGNIFICANT JUDGMENTS

In the process of applying our accounting policies, we make various judgments, apart from those involving estimations, that can significantly impact the amounts recognized in the financial statements. These include:

a. Capitalization of borrowing costs

IAS 23, Borrowing Costs, requires the capitalization of borrowing costs to qualifying assets. IAS 23 also requires the determination of whether the borrowings are specific to a project or general in calculating the capitalized borrowing costs. Judgment is involved in identifying directly attributable borrowing costs to be included in the carrying value of qualifying assets and in determining if funds borrowed are for general purposes or specifically for the construction of qualifying assets. We consider our centrally managed treasury function with assessment of the circumstances surrounding individual borrowings in making this judgment. Capitalization to land inventory occurs when the land is classified to land under development and ceases when the land is considered developed and ready for sale. Borrowing costs are capitalized to investment properties when under active development. We have determined that all of our borrowings are general, except project specific financing (note 15c), as the decision on how to deploy operating and acquisition funds is a centrally managed corporate decision.

b. Transfer of land to investment property

We typically acquire raw land with the intent of developing it in our Community Development division. When development plans are formulated, we may decide that specific land holdings will be developed into investment properties. Once appropriate evidence of a change in use is established, typically on inception of an operating lease for the investment property, the land is transferred to investment properties. At that time, the land is recognized at fair value in accordance with our accounting policy for investment properties, and any gain or loss is reflected in earnings in the period the transfer occurs.

c. Classification of tenant incentives

Payments are often made to tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with IFRS 16, Leases.

d. Investment properties

Our accounting policies related to investment properties are described in note 3e. In applying this policy, judgment is required in determining whether certain costs are additions to the carrying amount of an investment property and, for properties under development, identifying the point at which substantial completion of the property occurs.

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

e. Compliance with REIT exemption under ITA

Under current tax legislation, a real estate investment trust is not liable for Canadian income taxes provided that its taxable income is fully allocated to unitholders during the year. In order for the Trust to continue to be taxed as a mutual fund trust, we need to maintain its REIT status. At inception, the Trust qualifies as a REIT under the specified investment flow-through ("SIFT") rules in the Canadian Income Tax Act. The Trust's current and continuing qualification as a REIT depends on the Trust's ability to meet the various requirements imposed under the SIFT rules, which relate to matters such as its organizational structure and the nature of its assets and revenues. We apply judgment in determining whether it continues to qualify as a REIT under the SIFT rules. Should the Trust cease to qualify, it would be subject to income tax on its earnings.

7. INTEREST IN MELCOR REIT

As at December 31, 2019 we hold a 55.1% (2018 - 53.0%) ownership interest in the REIT through ownership of all 16,125,147 Class B LP Units of the Partnership.

The publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to note 25 for summary financial information of the REIT at December 31, 2019. As of March 11, 2020 we hold a 55.1% ownership interest in the REIT.

8. AGREEMENTS RECEIVABLE

Agreements receivable are due in 2020, except for $23,712 due in 2021, $747 due in 2022, $369 due in 2023 and $918 due in 2024 (2018 - balance due 2019, except $28,291 due in 2020). Subsequent to the interest adjustment date, which provides an interest relief period to qualifying registered builders, these receivables earn interest at prime plus two percent (5.95% at December 31, 2019) and are collateralized by the specific real estate sold.

Management monitors agreements receivables for indications of impairment on an ongoing basis. Balances are reduced to their estimated net realizable values when there is doubt regarding collection of the full amount of principal and interest in accordance with the expected credit loss model.

At December 31, 2019, promotional programs of $2,385 (2018 - $1,388) were offered to promote home sales activities in our communities and encourage agreements receivable collections. This amount was determined based on management's best estimate and is subject to measurement uncertainty introduced by the impact of the uncertain economic environment. As a result, revisions to this estimate may be required in future periods. Refer to note 27a for further discussion surrounding credit risk.

9. LAND INVENTORY

As at December 31	**2019**	**2018**
Raw land held	**399,456**	387,356
Land under development	**146,743**	136,534
Developed land	**208,132**	235,050
	754,331	758,940

A breakdown of our land purchases are as follows:

	2019	**2018**
Land purchases - acres	**471 acres**	200 acres
Land cost	**28,608**	10,446
Vendor financing	**16,112**	2,625
Net cash to close	**12,496**	7,821

16 Notes to the Consolidated Financial Statements $000s except per share and acre amounts

During the year, certain land inventories were reclassified to investment properties, and fair value gains of $4,022 (2018 - $1,015) were recognized in the consolidated financial statements. For the purposes of segment reporting, this is disclosed as revenue of $25,037 (2018 - $3,085) and cost of sales of $21,015 (2018 - $2,070) for the Community Development division.

The weighted average interest rate used for capitalization of borrowing costs to land under development is 4.04% for the year ended December 31, 2019 (2018 – 4.34%). Borrowing costs capitalized to land inventory during the year were $4,835 (2018 - $4,189).

Land inventory expensed to cost of sales during the year was $63,068 (2018 - $97,695).

The net realizable value exceeds the carrying cost of all land inventories at December 31, 2019 and 2018, such that no provision for impairment is required.

10. INVESTMENT PROPERTIES

Investment properties consists of the following:

As at December 31	2019	2018
Investment properties	1,063,026	965,339
Properties under development	78,565	67,348
Total	1,141,591	1,032,687

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

2019	Investment properties	Properties under development	Total
Balance - beginning of year	965,339	67,348	1,032,687
Additions			
Direct acquisition	67,502	1,050	68,552
Transfer from land inventory	—	21,015	21,015
Direct leasing costs	1,138	648	1,786
Property improvements	3,550	—	3,550
Property development	—	16,403	16,403
Capitalized borrowing costs	—	318	318
Disposals	(8,389)	—	(8,389)
Transfers	39,464	(39,464)	—
Fair value adjustment on investment properties	987	11,247	12,234
Foreign currency translation (included in OCI)	(6,565)	—	(6,565)
Balance - end of year	1,063,026	78,565	1,141,591

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			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
Property development	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

Acquisitions:

On April 24, 2019 the REIT purchased a retail investment property in Calgary, Alberta from a third party for a purchase price of $12,480 (including transaction costs).

On August 1, 2019 Melcor acquired land for property development in Calgary, Alberta at a purchase price of $1,050.

On November 12, 2019 the REIT purchased a 283,235 sf regional shopping centre in Grande Prairie, Alberta ("Grande Prairie Acquisition") for $55,022 (including transaction costs). These acquisitions were accounted for as asset purchases in accordance with our policy.

Disposals:

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

On December 31, 2019 we disposed of an office property in Denver, CO for a sales price of $8,756 (US$6,321) (net of transaction costs and including tenant incentives of $510 (US$393) and straight line rent of $171 (US$132). The sale price was settled through cash.

Acquisitions and disposals in the comparative year:

- On January 31, 2018, we disposed of an industrial property previously held for sale for proceeds of $6,732 (net of transaction costs and including tenant incentives of $66 and straight line rent of $24). The sale price was settled through mortgage assumption of $3,662 and cash of $3,070.
- On April 16, 2018 we sold an investment property for $13,319 (net of transaction costs and including tenant incentives of $434 and straight line rent of $80). Concurrent with the sale we paid off the associated mortgage liability which had a balance of $6,947.
- On September 26, 2018 we purchased an office property in Glendale, AZ consisting of two buildings for $24,532 (US $18,907) (including transaction costs). The acquisition was accounted for as an asset purchase in accordance with our policy.
- On December 3, 2018 we purchased two investment properties in Lethbridge, AB. An office building at a purchase price of $6,322 (including transaction costs) and a commercial building at a purchase price of $2,687 (including transaction costs). These acquisitions were accounted for as asset purchases in accordance with our policy
- Also during the prior year, we disposed of two residential units in Arizona for a sales price of $261 and $255 (US$212 and US $199) (net of transaction costs). The sale price was settled through cash.

In accordance with our policy, as detailed in note 3e, we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized NOI, while development activity on properties under development and leasing activity drive fair value adjustments on properties under development. Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 28.

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Properties transferred from property under development to commercial properties during the year totaled $39,464 (2018 - $29,959). Properties transferred is net of tenant incentives of $2,836 (2018 - $391).

Presented separately from investment properties is $35,788 (2018 - $34,243) in tenant incentives and $13,387 (2018 - $11,702) in straight-line rent adjustments (included in note 12). The fair value of investment properties has been reduced by these amounts.

The weighted average interest rate used for capitalization of borrowing costs to investment properties under development is 4.38% for the year ended December 31, 2019 (2018 – 4.37%).

Our investment properties are leased to tenants primarily under long term operating leases. Rentals are receivable from tenants monthly. Minimum lease payments under non-cancellable operating leases of investment properties are receivable as follows:

	2019	2018
Within one year	68,281	63,571
Later than one year but not later than 2 years	62,707	58,054
Later than 2 years but not later than 3 years	55,423	51,279
later than 3 years but not later than 4 years	47,225	45,014
Later than 4 years but not later than 5 years	37,870	37,500
Later than 5 years	133,351	129,321
Total	404,857	384,739

11. PROPERTY AND EQUIPMENT

	Golf course assets					
	Land	Buildings	Equipment	Greens and tees	Corporate	Total
January 1, 2019						
Cost	1,293	8,147	8,753	6,601	6,655	31,449
Accumulated depreciation	—	(3,058)	(6,536)	(3,373)	(4,462)	(17,429)
Opening net book value	1,293	5,089	2,217	3,228	2,193	14,020
Additions	—	28	795	58	58	939
Disposals	—	—	(80)	—	—	(80)
Depreciation	—	(201)	(574)	(198)	(408)	(1,381)
Net Book Value - December 31, 2019	1,293	4,916	2,358	3,088	1,843	13,498

	Golf course assets					
	Land	Buildings	Equipment	Greens and tees	Corporate	Total
January 1, 2018						
Cost	1,293	8,116	8,446	6,517	6,358	30,730
Accumulated depreciation	—	(2,850)	(6,171)	(3,167)	(3,884)	(16,072)
Opening net book value	1,293	5,266	2,275	3,350	2,474	14,658
Additions	—	31	497	84	186	798
Disposals	—	—	(5)	—	(14)	(19)
Depreciation	—	(208)	(550)	(206)	(453)	(1,417)
Net Book Value - December 31, 2018	1,293	5,089	2,217	3,228	2,193	14,020

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12. OTHER ASSETS

	2019	2018
Tenant incentives	35,788	34,243
Deposits and prepaids	6,750	6,930
Straight-line rent adjustments	13,387	11,702
Inventory	475	488
	56,400	53,363

During the year we provided tenant incentives of $9,922 (2018 - $6,671) and recorded $7,867 (2018 - $6,710) of amortization expense. In accordance with IFRS 16 - Leases, amortization of tenant incentives are recorded on a straight-line basis over the term of the lease against rental revenue. We also disposed of a property which included $510(US$393) in tenant incentives and $171($US $132) in straight-line rent adjustments (note 10).

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
Trade accounts payable	17,611	14,389
Distribution payable	739	743
Other payables	23,591	28,114
Provision for decommissioning obligation	1,641	1,579
	43,582	44,825

As described in note 3q distributions on trust units are recognized in the period in which they are approved and are recorded as an expense. As at December 31, 2019, distribution payable pertains to the December 2019 monthly distribution which was subsequently paid on January 15, 2020 (2018 - December 2018 monthly distribution paid on January 15, 2019).

Decommissioning obligation relates to one of our commercial properties held by the REIT. The total decommissioning obligation is estimated based on the future obligation and timing of these expenditures to be incurred. We estimate the net present value of the obligation based on an undiscounted total future provision of $2,014 (December 31, 2018 - $2,014). At December 31, 2019, a discount rate of 4.00% (December 31, 2018 - 4.00%) and an inflation rate of 2.00% (December 31, 2018 - 2.00%) were used to calculate the net present value of the obligation. Due to uncertainty surrounding the nature and timing of this obligation, amounts are subject to change.

14. PROVISION FOR LAND DEVELOPMENT

	2019	2018
Balance - beginning of year	77,658	87,139
New development projects	74,708	114,482
Changes to estimates	(3,709)	(5,371)
Costs incurred	(92,474)	(118,592)
Balance - end of year	56,183	77,658

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15. GENERAL DEBT

General debt consists of the following:

		2019	2018
Melcor - revolving credit facilities	a	70,451	46,529
REIT - revolving credit facility	b	22,864	—
Project specific financing	c	68,436	62,639
Secured vendor take back debt on land inventory	d	39,005	40,842
Debt on investment properties and golf course assets	e	484,413	454,342
REIT - convertible debentures	f	66,184	55,204
General debt		751,353	659,556

a. Melcor - revolving credit facilities

We have available credit facilities with approved loan limits of $196,133 (2018 - $200,103) with a syndicate of major chartered banks. The portion of these loan limits that pertain solely to Melcor is $120,000 (2018 - $120,000) with the remaining balance pertaining to specific joint arrangements.

The amount of the total credit facilities currently used is $70,451 (2018 - $46,529). We have pledged agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral for our credit facilities. The carrying value of assets pledged as collateral is $257,885 (2018 - $288,745).

The facilities mature on July 31, 2021, renewable one year in advance of expiry.

Depending on the form under which the credit facilities are accessed, rates of interest will vary between prime plus 0.75% to prime plus 2.25% or banker's acceptance rate plus a 3.00% stamping fee resulting in interest rates ranging from 4.70% to 5.20% at December 31, 2019 (2018 - 4.70% to 6.20%). The agreements also bear a standby fee of 0.50% for the unused portions of the facilities. The weighted average effective interest rate on borrowings, based on year end balances, is 5.17% (December 31, 2018 - 5.16%).

b. REIT - revolving credit facility

On June 1, 2018 we entered into the first amendment on the REIT revolving credit facility agreement with our existing lenders. Under the terms of the amending agreement the REIT maintains an available credit limit based upon the carrying value of specific investment properties to a maximum of $35,000 for general corporate purposes and acquisitions, including a $5,000 swingline sub-facility. An additional $10,000 is available by way of an accordion feature, subject to lender approval. Depending on the form under which the new facility is accessed, rates of interest will vary between prime plus 1.25% or bankers' acceptance plus 2.25% stamping fee. The agreement also provides the REIT with $5,000 in available letters of credit which bear interest at 2.25%. Interest payments are due and payable based upon the form of the facility drawn upon, and principal is due and payable upon maturity. The agreement also bears a standby fee of 0.45% for the unused portion of the new facility. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the new facility. The facility matures June 1, 2021.

As at December 31, 2019, the carrying value of pledged properties was $67,502 (December 31, 2018 - $54,547).

As at December 31, 2019 we had $22,864 (December 31, 2018 - $nil) drawn from the facility; and posted letters of credit of $150 (December 31, 2018 - $150). The weighted average effective interest rate on borrowings as at December 31, 2019 was 4.28% (2018 - 3.95%).

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c. Project specific financing

	2019	2018
Project specific debt on land, with interest rates between 4.95% and 9.48% (2018 - 4.95% to 9.48%)	**30,107**	31,828
Project specific debt on investment properties under development, with interest rates between 4.25% and 4.45% (2018 - 4.25% to 4.45%)	**38,329**	30,811
	68,436	62,639

As at December 31, 2019 $19,087 (2018 - $19,791) of debt was payable in US dollars (2019 - US $14,696 and 2018 - US $14,507). The debts mature from 2020 to 2029.

Land inventory and agreements receivable with a December 31, 2019 carrying value of $86,323 (2018 - $80,241) have been pledged as collateral on project specific debt on land. The debts are due on demand by the lenders. The weighted average interest rate on the above debts, based on year end balances, is 5.43% (2018 - 6.67%). Specific investment properties under development with a December 31, 2019 carrying value of $105,462 (2018 - $54,375), have been pledged as collateral on project specific debt on investment properties under development.

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

	2019	2018
Balance - beginning of year	**62,639**	20,926
Cash movements		
Loan repayments	**(4,058)**	(11,629)
New project financing	**10,801**	52,319
Non-cash movements		
Foreign currency translation included in OCI	**(946)**	1,023
Balance - end of year	**68,436**	62,639

d. Secured vendor take back debt on land inventory

	2019	2018
Agreements payable with interest at the following contractual rates:		
Fixed rates of 4.00% - 5.00% (2018 - 3.00% to 5.95%)	**31,947**	36,460
Variable rate of 5.95% (2018 - 5.95%)	**7,058**	4,382
	39,005	40,842

As at December 31, 2019 there was no debt payable in US dollars (2018 - $nil).

Land inventory with a December 31, 2019 carrying value of $108,142 (2018 - $84,757), has been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 4.34% (2018 – 4.69%).

The minimum contractual principal payments due within each of the next five years are as follows:

2020	**20,832**
2021	**10,976**
2022	**4,997**
2023	**2,200**
	39,005

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

	2019	2018
Balance - beginning of year	**40,842**	64,891
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(17,660)**	(26,742)
Non-cash movements		
New secured vendor take back debt	**16,112**	2,625
Amortization of non-cash interest	**(289)**	(280)
Foreign currency translation included in OCI	**—**	348
Balance - end of year	**39,005**	40,842

e. Debt on investment properties and golf course assets

Debt on investment properties and golf course assets	2019	2018
Variable rate mortgages amortized over 10 to 30 years at variable interest rates of 2.85% - 5.55% (2018 - 2.85% to 5.57%)	**58,443**	55,589
Mortgages amortized over 15 to 25 years at fixed interest rates of 2.54% - 5.35% (2018 - 2.54% to 5.35%)	**428,416**	401,865
	486,859	457,454
Fair value adjustment for interest rate swaps	**62**	(803)
Unamortized deferred financing fees	**(2,508)**	(2,309)
	484,413	454,342
Interest rate ranges	**(2.54% -5.55%)**	(2.54% -5.57%)

As at December 31, 2019 $67,339 (2018 - $71,247) of debt was payable in US dollars (2019 - US $51,847 and 2018 - US $52,226). The debts mature from 2020 to 2029.

Specific investment properties and golf courses with a carrying value of $869,788 (2018 - $860,461) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 3.48% (2018 – 3.47%).

The minimum contractual principal payments due within each of the next five years and thereafter are as follows:

2020	**72,691**
2021	**78,226**
2022	**41,054**
2023	**80,421**
2024	**67,861**
Thereafter	**146,606**
	486,859

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

	2019	2018
Balance - beginning of year	454,342	444,807
Cash movements		
Principal repayments:		
Scheduled amortization on mortgages	(15,178)	(15,964)
Mortgage repayments	(55,803)	(51,909)
New mortgages	103,753	75,918
Non-cash movements		
Mortgage payable disposed through sale during the year	—	(3,662)
Deferred financing fees capitalized	(637)	(627)
Amortization of deferred financing fees	444	341
Change in derivative fair value swap	865	254
Foreign currency translation included in OCI	(3,373)	5,184
Balance - end of year	484,413	454,342

f. REIT - convertible debentures

On December 3, 2014, the REIT issued a 5.50% extendible convertible unsecured subordinated debenture ("REIT debenture") to the public for gross proceeds of $34,500, including $4,500 issued pursuant to the exercise of an over-allotment option. The REIT debenture bears interest at an annual rate of 5.50% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2015. The maturity date of the REIT debenture is December 31, 2019. The REIT debenture can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion price of $12.65 per unit (the "Conversion Price"). On and from December 31, 2017, and prior to December 31, 2018, the REIT debenture may be redeemed by the REIT, in whole at any time, or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted-average trading price of the trust units for a specified period (the "Current Market Price") preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from December 31, 2018, and prior to the maturity date, the REIT debenture may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest. Subject to regulatory approval and other conditions, the REIT may, at its option, elect to satisfy its obligation to pay the principal amount of the REIT debenture on redemption or at maturity, in whole or in part, by delivering that number of freely tradeable trust units obtained by dividing the principal amount of the REIT debenture being repaid by 95% of the Current Market Price on the date of redemption or maturity. The issuance was qualified under a short form prospectus dated November 25, 2014.

These debentures were redeemed on December 19, 2019.

On December 21, 2017, the REIT issued a 5.25% extendible convertible unsecured subordinated debentures (the "2017 Debentures") to the public for gross proceeds of $23,000, including $3,000 issued pursuant to the exercise of an over-allotment option. Transaction costs related to the issuance were $1,457 for net proceeds of $21,543. The 2017 Debentures bear interest at an annual rate of 5.25% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2018. The maturity date of the 2017 Debentures is December 31, 2022. The 2017 Debentures can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 86.9565 trust units per one thousand principal amount of convertible debentures (the "Conversion Price"). On and from December 31, 2020, and prior to December 31, 2021, the 2017 Debentures may be redeemed by the REIT, in whole at any time, or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted-average trading price of the trust units for a specified period (the "Current Market Price") preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from December 31, 2021, and prior to the maturity date, the 2017 Debentures may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest. Subject to regulatory approval and other conditions, the REIT may, at its option, elect to satisfy its obligation to pay the principal amount of the convertible debenture on redemption or at maturity, in whole or in part, by delivering that number of freely tradeable trust units obtained by dividing the principal amount of the 2017 Debentures being repaid by 95% of the Current Market Price on the date of redemption or maturity.

On October 29, 2019, the REIT issued a 5.10% extendible convertible unsecured subordinated debentures (the "2019 Debentures") to the public for gross proceeds of $46,000, including $6,000 issued pursuant to the exercise of an over-allotment option. Underwriter costs related to the issuance were $1,725 for net proceeds of $44,275. Additional transaction costs on the issuance were $548. The 2019 Debentures bear interest at an annual rate of 5.10% payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2019. The 2019 Debentures can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 112.3596 trust units per one thousand principal amount of convertible debentures (the "Conversion Price"). On and from December 31, 2022, and prior to December 31, 2023, the 2019 Debentures may be redeemed by the REIT, in whole at any time, or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted-average trading price of the trust units for a specified period (the "Current Market Price") preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from December 31, 2023, and prior to the maturity date, the 2019 Debentures may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest. Subject to regulatory approval and other conditions, the REIT may, at its option, elect to satisfy its obligation to pay the principal amount of the convertible debenture on redemption or at maturity, in whole or in part, by delivering that number of freely tradeable trust units obtained by dividing the principal amount of the 2019 Debentures being repaid by 95% of the Current Market Price on the date of redemption or maturity.

The fair value of the host instruments component was calculated using a market interest rate for an equivalent non-convertible, non-extendible bond. The conversion feature components are separated and recognized at fair value and presented as a liability.

A reconciliation of the convertible debentures is as follows:

($000s)	Host Instruments	Conversion Features	Total
Balance at December 31, 2017	**54,046**	**729**	**54,775**
Amortization of discount and transaction costs	791	—	**791**
Fair value adjustment on conversion features	—	(542)	**(542)**
Accretion on convertible debentures	180	—	**180**
Balance at December 31, 2018	**55,017**	**187**	**55,204**
Convertible debenture issued	43,686	2,314	**46,000**
Transaction costs	(2,273)	—	**(2,273)**
Fair value adjustment on conversion features	—	579	**579**
Amortization of discount and transaction costs	918	—	**918**
Accretion on convertible debenture	256	—	**256**
2014 Debenture redeemed	(34,500)	—	**(34,500)**
Balance at December 31, 2019	**63,104**	**3,080**	**66,184**

During the year ended December 31, 2019, we recognized $3,455 of interest expense related to the convertible debentures which is included in finance costs (note 20) (2018 - $3,100).

At December 31, 2019 we remeasured the conversion features to fair value resulting in fair value adjustments of $579 for the year (2018 - fair value adjustments of $542). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 28.

16. SHARE CAPITAL

a. Common Shares

2019	Number of Shares Issued (# of shares)	Amount ($000s)
Common shares, beginning of the year	33,346,495	72,821
Issued on exercise or exchange of options *	22	—
Shares purchased for cancellation	(121,252)	(265)
Common shares, end of the year	33,225,265	72,556

2018	Number of Shares Issued (# of shares)	Amount ($000s)
Common shares, beginning of the year	33,389,451	72,729
Issued on exercise or exchange of options *	14,200	217
Shares purchased for cancellation	(57,156)	(125)
Common shares, end of the year	33,346,495	72,821

*Represents shares issued and amounts transferred from the share-based payments reserve to share capital upon cashless exercise of options.

Authorized:

- Unlimited common shares
- Unlimited common shares, non-voting
- Unlimited first preferred shares
- Unlimited first preferred shares, non-voting

We announced a Normal Course Issuer Bid (NCIB) on March 29, 2018 which expired March 30, 2019. Under the bid, we were allowed to purchase 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.

On March 28, 2019 we announced a new 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.

During the year, there were 121,252 common shares purchased for cancellation by Melcor pursuant to the above NCIBs at a cost of $1,526 (2018 - $761). As at December 31, 2019, 1,543,828 additional common shares may be repurchased by Melcor under the current NCIB.

b. Stock-Based Compensation Plans

On September 28, 2000, Melcor's Board of Directors approved a stock-based compensation plan (the “2000 Plan”). This plan was canceled effective May 10, 2018.

On February 23, 2007 Melcor’s Board of Directors approved a stock-based compensation plan (the “2007 Plan”). Under the 2007 Plan, Melcor may grant options to full-time, salaried employees and designated contractors after one year of service. The 2007 Plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. At the discretion of the board, the options vest over a period of three years and expire no longer than seven (7) years from the date of issuance. The 2007 Plan was approved by Melcor’s shareholders at the Shareholders Annual Meeting in April 2007. Melcor has 1,789,000 shares reserved for issuance under the 2007 Plan (2018 – 1,792,000).

On May 10, 2018 Melcor's Board of Directors approved an amendment to the 2007 Plan that will allow participants to purchase common shares of Melcor and benefit from their appreciation through a cashless exercise option feature. The cashless exercise right allows for surrender of all or part of the option to Melcor in consideration of a payment of the in-the-money amount. Upon this exercise Melcor shall satisfy the payment of the in-the-money amount by delivering to the participant the net number of shares.

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On May 10, 2018 shareholders of Melcor approved the grant of Restricted Share Units (RSUs). Each RSU will give the participant the right to receive, upon the vesting date, the payout amount with respect to the RSUs which have vested. Payout shall be satisfied by issuing or transferring to the participant one common share for each RSU vested. Except as otherwise provided by the RSU plan, the number of RSUs subject to each grant, how the payout amount is satisfied and other terms and conditions relating to each such RSU shall be determined by Melcor's Board of Directors. When dividends are paid by Melcor, each holder of an RSU shall be entitled to additional RSUs (each a "Dividend Restricted Share Unit") equal to (a) the product of the aggregate number or RSUs held by the participant on record for such dividend multiplied by the per common share amount of such dividend divided by (b) the fair market value of a common share calculated as of the date on which the dividend is paid. Restricted share units granted shall vest and become available for redemption between 34 and 36 months from the grant date, the vesting date shall be set forth in the grant agreement. Melcor's Board of Directors may establish additional performance criteria which may be a condition precedent to the vesting of any RSU, performance criteria will be set forth in the grant agreement.

The introduction of the RSU plan and the amendment to the 2007 Plan increased the total number of common shares cumulatively reserved for issuance under either plan, when combined with common shares reserved for issuance to a maximum of 3,300,000.

c. Stock Options Outstanding and Available for Granting Under the 2007 Plan

2007 Plan	2019	2018
Stock options available, beginning of the year	751,353	637,566
Stock option plan amendment	—	190,187
Stock options granted	(173,500)	(220,500)
Stock options expired / canceled	213,747	144,100
Stock options available, end of the year	791,600	751,353

	2019	
	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of the year	1,040,647	14.08
Stock options granted to employees	173,500	12.42
Stock options exercised	(3,000)	13.01
Stock options expired / canceled	(213,747)	19.46
Stock options outstanding, end of the year	997,400	13.59

	2018	
	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of the year	978,447	16.00
Stock options granted to employees	220,500	9.96
Stock options exercised	(14,200)	13.62
Stock options expired / canceled	(144,100)	18.98
Stock options outstanding, end of the year	1,040,647	14.08

The weighted average share price at the date of exercise was $13.11 (2018 - $15.24).

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d. Units Outstanding and Available for Granting Under the RSU Plan

	2019	2018
RSUs available, beginning of the year	**1,431,922**	—
Implementation of the RSU plan	**—**	1,500,000
RSUs granted to employees	**(78,800)**	(67,400)
RSUs issued under dividend reinvestment plan	**(3,273)**	(678)
Units expired / canceled	**4,729**	—
RSUs available, end of the year	**1,354,578**	1,431,922

	2019	
	Number of Options	Weighted Average Exercise Price
Units outstanding, beginning of the year	**68,078**	**13.01**
Units granted to employees	**78,800**	**12.42**
Units issued under dividend reinvestment	**3,273**	**12.88**
Units expired / canceled	**(4,729)**	**13.01**
Units outstanding, end of the year	**145,422**	**12.69**

	2018	
	Number of Options	Weighted Average Exercise Price
Units outstanding, beginning of the year	—	—
Units granted to employees	67,400	13.01
Units issued under dividend reinvestment	678	13.01
Units outstanding, end of the year	68,078	13.01

e. Stock Options Outstanding and Exercisable Under the 2007 Plan

	2019		
Stock option expiry date	Outstanding Stock Options (#)	Exercise Price Per Share ($)	Stock Options Exercisable
December 21, 2020	149,400	14.05	149,400
December 13, 2021	214,900	13.21	214,900
December 12, 2022	251,100	14.94	168,800
December 12, 2023	208,500	13.01	67,500
December 11, 2024	173,500	12.42	—
	997,400		600,600

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f. Restricted Share Units Outstanding and Redeemable

			2019
Restricted share unit expiry date	**Outstanding Restricted Share Units (#)**	**Exercise Price Per Unit ($)**	**Restricted Share Units Vested**
December 31, 2021	65,904	13.01	—
December 31, 2022	79,518	12.42	—
	145,422		—

g. Stock Based Compensation Expense

The following assumptions were used in the Black-Scholes option pricing model for options granted. Expected volatility was based on historical volatility.

i) 2007 Option Plan

	2019	2018
Expected volatility	**19%**	23%
Risk-free interest rate	**1.61%**	2.05%
Annual dividend rate	**3.22%**	4.00%
Expected life of options in years	**3.94**	3.86

The weighted average fair value of stock options granted during the year was $1.34 (2018 - $1.62) per stock option. Current year vesting of options resulted in a $419 (2018 - $433) charge to stock based compensation expense and corresponding credit to contributed surplus.

ii) RSU Plan

The weighted average fair value of RSUs granted during the year was $12.42 (2018 - $13.01) per RSU. Current year compensation expense related to the RSU plan resulted in a $298 (2018- $17) charge to stock based compensation expense and corresponding credit to contributed surplus.

17. PER SHARE AMOUNTS

(# of shares)	2019	2018
Basic weighted average common shares outstanding during the year	**33,324,702**	33,393,743
Dilutive effect of options and restricted share units	**13,062**	—
Diluted weighted average common shares	**33,337,764**	33,393,743

For the year ended December 31, 2019, there were 823,900 stock options excluded from the calculation of diluted earnings per share (2018 - 1,040,647) as their impact would be anti-dilutive.

Diluted earnings per share was calculated based on the following:

	2019	2018
Profit attributable to shareholders	**37,741**	64,273
Profit for computation of diluted earnings per share	**37,741**	64,273

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18. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2019	2018
Balance, beginning of the year	**29,129**	16,948
Other comprehensive (loss) income net of tax	**(7,607)**	12,181
Balance, end of the year	**21,522**	29,129

The other comprehensive income represents the net unrealized foreign currency translation gain on our net investment in our foreign operations.

19. COMMITMENTS AND CONTINGENCIES

In the normal course of operations, we issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. As at December 31, 2019 we had $26,886 (December 31, 2018 - $31,784) in letters of credit outstanding and recorded a net liability of $56,183 (December 31, 2018 - $77,658) in provision for land development costs in respect of these development agreements.

Normally, obligations collateralized by the letters of credit diminish as the developments proceed, through a series of staged reductions over a period of years (average of three to four years) and are ultimately extinguished when the municipality has issued final completion certificates.

We enter into joint arrangements and, in doing so, may take on risk beyond our proportionate interest in the joint arrangement. These situations generally arise where preferred financing terms can be arranged on the condition that the strength of our company's covenant will backstop that of the other joint arrangement participant(s) who also provide similar guarantees. We will have to perform on our guarantee only if a joint arrangement participant was in default of their guarantee. At December 31, 2019 we had guaranteed $8,871 (December 31, 2018 - $9,171) in credit facilities in excess of the amount recognized as a liability. We also guaranteed $11,764 (December 31, 2018 - $12,512) in excess of our share of letters of credit posted with the municipalities.

The loan guarantees include those which are ongoing, as they relate to the relevant lines of credit, and those which have staged reductions as they relate to the financing of specific assets or projects such as infrastructure loans, short-term land loans or mortgages.

To mitigate the possibility of financial loss, we are diligent in our selection of joint arrangement participants. As well, we have remedies available within the joint arrangement agreement, to address the application of the guarantees. In certain instances there are reciprocal guarantees amongst joint arrangement participants.

We also enter into lease agreements with tenants which specify tenant incentive payments upon completion of the related tenant improvements. Incentive payments of approximately $1,400 (2018 - $1,599) may be required from lease agreements entered during the year.

20. FINANCE COSTS

	2019	2018
Interest on Melcor - revolving credit facilities	**3,448**	3,108
Interest on REIT - revolving credit facility	**833**	225
Interest on REIT convertible debenture	**3,455**	3,100
Interest on general debt	**20,411**	19,649
Financing costs and bank charges	**1,184**	1,225
Non cash financing costs	**3,442**	1,466
	32,773	28,773
Less: capitalized interest	**(4,983)**	(4,205)
	27,790	24,568

Cumulative interest capitalized on land inventory at the end of the year is $45,663 (2018 - $43,256). Finance costs paid during the year was $29,703 (2018 - $27,174).

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21. REVENUE AND EXPENSE BY NATURE

a. Revenue:

The components of revenue are as follows:

Revenue from contracts with customers

	2019	2018
Sale of land	95,896	162,257
Operating cost recoveries	19,160	17,847
Golf course revenue	7,601	7,543
Total	122,657	187,647

Other Revenue

	2019	2018
Lease revenue	64,216	59,308
Variable lease revenue	17,559	16,334
Management fees	3,539	4,145
Total	85,314	79,787

Total revenue	**207,971**	**267,434**

The timing of recognition for revenue from contracts with customers is as follows:

2019	Community Development	Investment Property	Recreational Properties	REIT	Total
Timing of Revenue Recognition					
At a point in time	95,896	—	6,799	—	102,695
Over time	—	6,270	802	12,890	19,962
Revenue from contracts with customers	95,896	6,270	7,601	12,890	122,657

2018	Community Development	Investment Property	Recreational Properties	REIT	Total
Timing of Revenue Recognition					
At a point in time	162,257	—	6,807	—	169,064
Over time	—	5,055	736	12,792	18,583
Revenue from contracts with customers	162,257	5,055	7,543	12,792	187,647

b. Cost of sales:

The components of cost of sales are as follows:

	2019	2018
Cost of land sold	63,068	97,695
Investment property direct operating expenses	42,350	38,933
Direct golf course expenses	4,794	4,631
Golf course asset depreciation	973	964
Total	111,185	142,223

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c. General and administrative expenses:

The components of general and administrative expenses are as follows:

	2019	2018
Employee salary and benefits		
Salaries, wages and retirement allowance	11,412	11,451
Employee benefits	973	923
Stock based compensation	717	450
Corporate asset depreciation	408	453
Marketing	1,356	1,484
Other	7,697	8,668
Total	22,563	23,429

Included in employee salary and benefits is the compensation of key management. Key management includes our directors and members of the executive management team. Compensation awarded to key management includes:

	2019	2018
Salaries, wages and retirement allowance	3,142	2,837
Employee benefits	46	45
Stock based compensation	265	247
Total	3,453	3,129

d. Fair value adjustment on investment properties

The components of the fair value adjustment are as follows:

	2019	2018
Land transferred to investment properties	4,022	1,015
Property under development	7,225	7,356
Commercial and residential properties	987	(7,508)
Total	12,234	863

22. INCOME TAX

Components of tax expense:

	2019	2018
Current tax expense		
Current year	14,566	22,245
Adjustment to prior years	(576)	216
	13,990	22,461
Deferred tax expense		
Origination and reversal of temporary differences	(1,252)	(3,482)
Change in tax rates	(7,989)	(11)
	(9,241)	(3,493)
Total tax expense	4,749	18,968

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Reconciliation of effective tax rate:

	2019	2018
Income before taxes	42,490	83,241
Statutory rate	26.5%	27%
	11,260	22,475
Taxable (non-taxable) portion of capital gains, fair value adjustments and recovery on REIT transfer	(1,051)	(664)
Non-taxable portion of REIT income	(2,422)	(1,524)
Impact of different tax rates in US subsidiary	39	(138)
Non-deductible expenses	2,614	2,563
Non-taxable fair value adjustments on REIT units	2,298	(3,733)
Change in tax rates	(7,989)	(11)
Total tax expense	4,749	18,968

Movement in deferred tax balances during the year:

				December 31, 2019
	Opening	Recognized in profit or loss	Recognized in OCI	**Closing**
Investment property and capital assets	59,934	(5,459)	(101)	54,374
Reserves for tax purposes	11,329	(5,015)	—	6,314
Capitalized interest	(4,757)	1,405	23	(3,329)
Provision for decommissioning obligation	(226)	14	—	(212)
Convertible debenture	213	(151)	—	62
Tax losses carried forward	—	(35)	—	(35)
Deferred tax liability	66,493	(9,241)	(78)	57,174

				December 31, 2018
	Opening	Recognized in profit or loss	Recognized in OCI	Closing
Investment property and capital assets	60,576	(846)	204	59,934
Reserves for tax purposes	12,671	(1,342)	—	11,329
Capitalized interest	(3,357)	(1,356)	(44)	(4,757)
Provision for decommissioning obligation	(233)	7	—	(226)
Convertible debenture	169	44	—	213
Deferred tax liability	69,826	(3,493)	160	66,493

No deferred tax liability has been recognized in respect of the net unrealized foreign currency exchange gain in accumulated other comprehensive income. Income tax paid during the year was $28,726 (2018 - $6,022).

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23. JOINT ARRANGEMENTS

The table below discloses our proportionate share of the assets, liabilities, revenue, and earnings of 30 arrangements (2018 – 29) that are recorded in these financial statements as follows:

Joint Venture	Interest	Principle activity	Country of incorporation
Anders East Developments	33%	Active land development with investment property	Canada
Anders East Two Communities	50%	Non-active land development	Canada
Blackmud Communities	39%	Active land development	Canada
Capilano Investments	50%	Investment property	Canada
Chestermere Communities	50%	Active land development with investment property	Canada
Country Hills Communities	50%	Active land development	Canada
Highview Communities	60%	Active land development	Canada
HV Nine Joint Venture	7%	Active land development	Canada
Jagare Ridge Communities	50%	Active land development and recreational property	Canada
Jesperdale Communities	50%	Active land development	Canada
Kimcor Communities	50%	Active land development	Canada
Kingsview Commercial	50%	Investment Property	Canada
Kinwood Communities	50%	Active land development	Canada
Lakeside Communities	50%	Non-active land development	Canada
Larix Communities	50%	Active land development	Canada
Lewis Estates Communities	60%	Active land development and recreational property	Canada
Mattson North Communities	50%	Active land development	Canada
MMY Properties	33%	Investment property	Canada
Rosenthal Communities	50%	Active land development	Canada
South Shepard Communities	50%	Non-active land development	Canada
Stonecreek Shopping Centre	30%	Investment property	Canada
Sunset Properties	60%	Active land development	Canada
Terwillegar Pointe Communities	50%	Non-active land development	Canada
Watergrove Developments	50%	Manufactured home community	Canada
Westmere Properties	50%	Investment property	Canada
Whitecap Communities	50%	Active land development	Canada
Windermere Communities	50%	Active land development	Canada
Windermere at Glenridding	35%	Active land development	Canada
Winterburn Developments	50%	Active land development	Canada
Villeneuve Communities	67%	Active land development	Canada

The following summarizes financial information about our share of assets, liabilities, revenue and earnings of our interest in joint arrangements that are recorded in our accounts for the year ended December 31, 2019.

	2019	2018
Assets	**456,373**	455,808
Liabilities	**160,567**	169,308
Revenue	**73,436**	82,811
Net Earnings	**22,847**	27,126

Contingent liabilities arising for liabilities of other joint arrangement participants are disclosed in note 19.

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24. SEGMENTED INFORMATION

In the following schedules, segment earnings has been calculated for each segment by deducting from revenues of the segment all direct costs and administrative expenses which can be specifically attributed to the segment, as this is the basis for measurement of segment performance. Common costs, which have not been allocated, include finance costs, foreign exchange gains, adjustments to REIT units and income tax expense.

The allocation of these costs on an arbitrary basis to the segments would not assist in the evaluation of the segments' contributions. Inter-segment transactions are entered into under terms and conditions similar to those with unrelated third parties.

Community Development

This division is responsible for purchasing and developing land to be sold as residential, industrial and commercial lots.

Property Development

This division develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed primarily from our community development division. Once substantial completion of construction and leasing are complete, these properties are transferred to our investment property division at fair value (refer to note 10).

Investment Property

This division owns 23 leasable commercial, retail and residential properties (2018 – 21 properties) and other rental income producing assets such as parking lots and land leases.

REIT

This division owns 39 leasable commercial and retail properties (2018 – 37 properties) and other rental income producing assets such as residential property, parking lots and land leases.

Recreation Property

This division owns and manages three 18-hole golf course operations (one of which is 60% owned), and has a 50% ownership interest in one 18-hole golf course.

US Operations

Melcor has a wholly owned subsidiary with operations in the US, which includes a Community Development division and an Investment Property division. The subsidiary's related balances are below.

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

External Revenue:

(in Canadian dollars)	2019	2018
United States	**29,804**	46,322
Canada	**178,167**	221,112
Total	**207,971**	267,434

Total Assets:

As at December 31 (in Canadian dollars)	2019	2018
United States	**256,144**	272,537
Canada	**1,839,903**	1,750,539
Total	**2,096,047**	2,023,076

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Our divisions reported the following results:

2019	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 21)	123,207	42,507	39,494	71,159	8,466	—	284,833	(76,862)	**207,971**
Cost of sales (note 21)	(83,747)	(42,300)	(16,276)	(28,772)	(6,189)	—	(177,284)	66,099	**(111,185)**
Gross profit	39,460	207	23,218	42,387	2,277	—	107,549	(10,763)	**96,786**
General and administrative expense (note 21)	(7,914)	(2,307)	(2,381)	(2,868)	(2,298)	(7,781)	(25,549)	2,986	**(22,563)**
Fair value adjustment on investment properties (note 10, 21 and 28)	—	6,888	(809)	(1,622)	—	—	4,457	7,777	**12,234**
Gain (loss) on sale of assets	—	—	—	—	83	—	83	—	**83**
Interest income	960	28	42	117	—	188	1,335	—	**1,335**
Segment Earnings (loss)	*32,506*	*4,816*	*20,070*	*38,014*	*62*	*(7,593)*	*87,875*	—	***87,875***
Foreign exchange gain									**(38)**
Finance costs (note 20)									**(27,790)**
Adjustments related to REIT units (note 25)									**(17,557)**
Income before income taxes									**42,490**
Income tax expense (note 22)									**(4,749)**
Net income for the year									**37,741**

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2018	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 21)	168,336	30,751	32,545	70,173	8,391	—	310,196	(42,762)	267,434
Cost of sales (note 21)	(99,765)	(30,350)	(13,236)	(28,097)	(6,013)	—	(177,461)	35,238	(142,223)
Gross profit	68,571	401	19,309	42,076	2,378	—	132,735	(7,524)	125,211
General and administrative expense (note 21)	(9,501)	(2,406)	(2,439)	(2,884)	(2,298)	(6,980)	(26,508)	3,079	(23,429)
Fair value adjustment on investment properties (note 10, 21 and 28)	—	7,356	447	(11,385)	—	—	(3,582)	4,445	863
Gain (loss) on sale of assets	—	—	—	—	14	(8)	6	—	6
Interest income	905	27	8	137	—	214	1,291	—	1,291
Segment Earnings (loss)	*59,975*	*5,378*	*17,325*	*27,944*	*94*	*(6,774)*	*103,942*	—	*103,942*
Foreign exchange loss									429
Finance costs (note 20)									(24,568)
Adjustments related to REIT units (note 25)									3,438
Income before income taxes									83,241
Income tax expense (note 22)									(18,968)
Net income for the year									64,273

25. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, as detailed in notes 3q and 28, we account for the 44.9% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss (“FVTPL”). As at December 31, 2019 the REIT units had a fair value of $106,643 (2018 - $98,374). We recorded adjustments related to REIT units for the year of $17,557 (2018 - $3,438).

On November 11, 2019 the REIT issued 1,225,822 Class B LP Units at $8.16 or $10,000 as partial consideration for the Grande Prairie Acquisition (note 11). As at December 31, 2019 Melcor owns 55.1% interest in the REIT through ownership of Class B LP Units. We have assessed and concluded that Melcor continues to retain control of the REIT in accordance with IFRS 10, Consolidated Financial Statements.

On January 12, 2018 the REIT completed the issuance of 2,035,500 trust units in exchange for subscription receipts previously issued and outstanding as of December 31, 2017. Subscription receipts had been issued at $8.50 for gross proceeds of $17,302, including $2,257 issued pursuant to the exercise of an over-allotment option. The funds were used to help the REIT finalize a purchase of five commercial properties from Melcor for a total sales price of $80,875 ("Melcor Acquisition"). The sales price was settled through the REIT's assumption of $31,038 in mortgages payable; issuance of 1,331,167 Class C LP units, representing $13,312 in Retained Debt by Melcor; issuance of 283,447 Class B LP Units at a price of $8.82, representing $2,500; and cash of $34,025. The transaction costs directly related to the unit issuance were $1,488 and are included in income as part of adjustments related to REIT units. As at December 31, 2018 Melcor owned 53.0% interest in the REIT through ownership of Class B LP Units.

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A reconciliation of the subscription receipts is as follows:

	Amount
Gross proceeds	17,302
Accrued interest payable for distribution	114
Transaction costs	(793)
	16,623

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

	2019	2018
Fair value adjustment on REIT units	(8,675)	13,827
Distributions to REIT unitholders	(8,882)	(8,901)
Transaction costs on REIT unit issuance		
Capitalized against REIT trust units	—	(1,190)
Capitalized to investment properties	—	(298)
Adjustments related to REIT units	(17,557)	3,438

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 (presented at 100%).

	2019	2018
Assets	783,534	709,603
Liabilities	463,879	400,094
Net assets	319,655	309,509
Cost of NCI	103,959	103,959
Fair value of NCI	106,643	98,374

	2019	2018
Revenue	71,159	70,173
Net (loss) income and comprehensive (loss) income	(488)	17,610
Cash flows from operating activities	9,309	11,870
Cash flows used in investing activities	(70,692)	(26,700)
Cash flows from financing activities, before distributions to REIT unitholders	70,964	13,011
Cash flows used in financing activities - cash distributions to REIT unitholders	(8,882)	(8,789)
Net increase (decrease) in cash and cash equivalents	699	(10,608)

26. MANAGEMENT OF CAPITAL RESOURCES

We define capital as share capital, contributed surplus, accumulated other comprehensive income, retained earnings and general debt. Our objective when managing capital is to utilize debt to improve our performance, support the growth of our assets, and finance capital requirements arising from the cyclical nature of our business. Specifically, we plan to utilize shorter term debt for financing infrastructure, land inventory, receivables and development activities and to utilize longer term debt and equity for the purchase of property and land assets.

We manage the capital structure through adjusting the amount of long-term debt, credit facilities, the amount of dividends paid, and through normal course issuer bids.

There were no changes to the way we define capital, our objectives, and our policies and processes for managing capital from the prior fiscal period.

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We are subject to financial covenants on our $120,000 (2018 - $120,000) Melcor revolving credit facility. The covenants include a maximum debt to total capital ratio of 1.25, a minimum interest coverage ratio of 3.00, and a minimum net book value of shareholders' equity of $300,000. As at December 31, 2019, and throughout the period, we were in compliance with our financial covenants.

In addition, we are subject to financial covenants on our $35,000 REIT revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debentures), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of $140,000. As at December 31, 2019, and throughout the period, the REIT was in compliance with its financial covenants.

We also have financial covenants on certain mortgages for investment properties. At December 31, 2019, and throughout the period, we were in compliance with our financial covenants on our mortgages. We prepare financial forecasts to monitor the changes in our debt and capital levels and our ability to meet our financial covenants.

27. RISK MANAGEMENT

We are exposed to the following risks as a result of holding financial instruments:

a. Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Our financial assets that are exposed to credit risk consist of cash and cash equivalents, accounts receivable, and agreements receivable. Our maximum exposure to credit risk is the carrying amount of these instruments.

We invest our cash in bank accounts and short-term deposits with a major Canadian chartered bank. Accounts receivable balances include amounts due from other joint arrangement participants for their portion of management fees due to us as well as other various smaller balances due from municipal governments, other developers and tenants.

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

Accounts receivables are significantly low risk due to their individual immaterial balances, the nature of the party they are due from (including joint venture participants under management by Melcor), and the overall lack of historical write offs. No lifetime expected losses are considered necessary.

Agreements receivable are collateralized by specific real estate sold. Agreements receivable relate primarily to land sales in Alberta and, accordingly, collection risk is related to the economic conditions of that region. We manage credit risk by selling to certain qualified registered builders. Concentration risk is low as we sell to a large builder base, and no receivables are concentrated to one specific builder and Melcor maintains an approved builder list containing those builders which have a long standing track record, good volumes, positive perception in the industry, and strong history of repayment. At December 31, 2019, 95% of agreements receivable are due from approved builders (2018 – 89%).

	Current	0-6 months past due	Greater than 6 months past due	Total
As at December 31, 2019				
Expected loss rate	0.06%	0.18%	0.18%	
Agreements receivable	73,145	3,253	58	76,456
Loss allowance	44	6	—	50

	Current	0-6 months past due	Greater than 6 months past due	Total
As at December 31, 2018				
Expected loss rate	0.06%	0.18%	0.18%	
Agreements receivable	125,274	948	346	126,568
Loss allowance	75	2	1	78

Total loans included in agreements receivable that would have otherwise been past due at December 31, 2019, but whose terms have been renegotiated is $11,899 (2018 - $9,019). In order to address current market conditions, we have provided extensions on our standard terms to relieve liquidity pressure on builders. At December 31, 2019, we have identified $3,311 (2018 - $1,216) in agreements receivable which are in arrears.

b. Liquidity Risk

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

Refer to note 15 for the maturity analysis of general debt and details on the bank indebtedness. Accounts payable and accrued liabilities are expected to be repaid in the next twelve months.

c. Market Risk

We are subject to interest rate cash flow risk as our operating credit facilities and certain of our general debt bear interest at rates that vary in accordance with prime borrowing rates in Canada. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately $2,273 (2018 - $1,691) based upon applicable year end debt balances. We are not subject to other significant market risks pertaining to our financial instruments.

28. FAIR VALUE MEASUREMENT

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

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

- the carrying amounts of cash and cash equivalents, accounts receivable, agreements receivable and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.
- fair values of general debt and derivative financial liabilities - interest rate swaps are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).
- fair value of derivative financial liabilities - conversion features on the REIT's convertible debentures 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 (Level 1).

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

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.

				December 31, 2019		December 31, 2018	
($000s)	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	1,141,591	—	1,141,591	1,141,591	1,032,687	1,032,687
Financial liabilities							
General debt, excluding derivative financial liability	Level 3	—	685,107	685,107	697,920	604,352	589,890
REIT - Convertible debenture	Level 2		63,104	63,104	67,990	55,017	56,738
Derivative financial liabilities							
Interest rate swaps	Level 3	62	—	62	62	(803)	(803)
Conversion features on convertible debentures	Level 3	3,080	—	3,080	3,080	187	187
REIT units	Level 1	106,643	—	106,643	106,643	98,374	98,374

The table above analyzes assets and liabilities carried at fair value in the consolidated statement of financial position, by the levels in the fair value hierarchy. The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to the 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 year.

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. For properties under development forecasted net operating income is based on location, type and quality of the property, supported by the terms of actual or anticipated future leasing
- 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’.

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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 December 31, 2019 of which 44 investment properties (of 90 legal phases valued) with a fair value of $593,212 were valued by qualified independent external valuation professionals during the year which resulted in fair value gains of $12,234 recorded as fair value adjustment on investment properties in the statements of income and comprehensive income (2018 - investment properties were valued by Melcor Development Ltd.'s internal valuation team 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 which resulted in fair value gains of $863).

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

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

Weighted average stabilized net operating income for investment properties is $1,647 (2018 - $1,506). 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**		
December 31, 2019	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**10.50%**	**6.74%**	**5.50%**	**6.00%**	**5.78%**
Terminal capitalization rate	**5.75%**	**9.00%**	**6.83%**	**5.75%**	**6.25%**	**6.03%**
Discount rate	**6.50%**	**9.50%**	**7.70%**	**6.50%**	**7.00%**	**6.84%**

	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 the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by $63,850 (2018 - $56,215). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by $74,077 (2018 - $65,343).

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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 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.

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 December 31, 2019 the fair value of the REIT units was $106,643 (2018 - $98,374). During the year a fair value loss of $8,675 (2018 - gain of $13,827) was recognized in the statement of income and comprehensive income, and was included in adjustments related to REIT units.

Derivative financial liabilities

Our derivative financial liabilities are comprised of floating for fixed interest rate swaps on mortgages (level 2) and the conversion features on our convertible debentures (level 3).

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at December 31, 2019 the fair value of interest rate swap contracts was $62 (2018 - $803).

The conversion features on the convertible debentures was valued by qualified independent external valuation professionals at December 31, 2019. This resulted in a fair value adjustment of $579 (2018 - fair value adjustment of $542) being recognized in income. The significant unobservable inputs used in the fair value measurement of the conversion features on the REIT convertible debentures as at December 31, 2019 are as follows:

- Volatility - expected volatility as at December 31, 2019 was derived from the historical prices of the REIT's trust units. Volatility was 19.68% (2018 - 17.80%).
- Credit spread - the credit spread of the convertible debentures was imputed from the traded price of the convertible debentures as at December 31, 2019. The credit spread used was 4.01% (2018 - 3.92%).

29. SUBSEQUENT EVENTS

Distributions on REIT trust units:

On January 15, 2020 we declared a distribution of $0.05625 per unit for the months of January, February and March 2019. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
January 2020	January 31, 2020	February 15, 2020	$0.05625 per unit
February 2020	February 28, 2020	March 15, 2020	$0.05625 per unit
March 2020	March 29, 2020	April 15, 2020	$0.05625 per unit

Dividend declared:

On March 11, 2020, our board of directors declared a quarterly dividend of $0.10 per share payable on March 31, 2020 to shareholders of record on March 20, 2020.