PRESS RELEASE
for immediate distribution

Melcor Developments announces first quarter results, declares quarterly dividend of $0.08 per share

Edmonton, Alberta | May 20, 2020

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the quarter ended March 31, 2020. Revenue was down 3% to $33.77 million compared to Q1-2019. In spite of an increase in sales of single-family lots, the lack of land sales in the Community Development division led to a 36% decrease in divisional revenue over the same period last year. Revenue in our Investment Properties and REIT division grew by 5% over Q1-2019 as a result of transfers from the Property Development division and third party acquisitions over the past 12 months. Investment properties owned gross leasable area grew by 4%, while gross leasable area in the REIT grew by 12%.

Q1-2020 net income was $66.64 million or $2.00 per share (basic) compared with a net income of $1.59 million or $0.05 per share (basic) in the same period of 2019. Net income is significantly impacted by non-cash fair value gains on REIT units and adjustments on investment properties. In Q1-2020, net income was positively impacted by non-cash fair value gains of $68.63 million on REIT units as the unit price went from $8.12 at the beginning the quarter to $2.89 at March 31, 2020.

Funds from operations (FFO) was up 4% to $5.93 million or $0.18 per share over Q1-2019. The FFO increase over last year is primarily due to the 12% decrease in general and administrative spending. Management believes FFO better reflects Melcor's true operating performance by removing the non-cash items that may lead to significant swings in net income from period to period.

Darin Rayburn, Melcor's President and Chief Executive Officer, commented on the quarter: "I'm pleased to report on our first quarter 2020 results. Revenue was slightly down because no commercial or raw land sales closed in the quarter compared with 7.48 acres sold in Q1-2019. All other aspects of our business grew in the quarter, signaling a good start to 2020.

Then the COVID-19 global pandemic arrived in western Canada in March. We responded quickly, implementing a variety of measures to provide safe and clean work environments to keep our employees, tenants and visitors to our properties safe while doing our part to slow the spread. We also initiated a series of intentional measures to conserve cash in order to support our builders and tenants through these unprecedented times.

We anticipate that the emergency measures enacted to contain COVID-19 and the resulting economic impact will have negative repercussions on our future cash flow and funds from operations. The extent and duration of the impact on our results cannot be accurately predicted at this time. We anticipate that sales of single-family lots may slow down and that our tenants may not be able to pay full rent. In addition, our golf courses opened later than usual due to restrictions on recreational activities and our pro shops and restaurants remain closed.

We do not know if this disruption will be short term or if it will linger. Only time will tell. We continue to monitor the situation, make thoughtful decisions and take action to come through this together with our partners - our builder, tenants, suppliers and shareholders. While our business has survived economic ups and downs for nearly 100 years, the current situation is indeed unprecedented. Our greatest opportunity is to take a cautious approach to reopening and come through this challenge leaner and stronger than we entered it.

I would like to especially acknowledge the Melcor team for the sacrifices and accommodations they have made to make Melcor stronger while protecting our stakeholders."

The Board today declared a quarterly dividend of $0.08 per share, payable on June 30, 2020 to shareholders of record on June 15, 2020. The dividend is an eligible dividend for Canadian tax purposes.

First Quarter Results

Given the longer term nature of real estate development, comparison of any three-month period may not be meaningful. Land sales, which can have a significant impact on quarterly results, are uneven by nature and it is difficult to predict when they will close.

Revenues in Q1-2020 were down 3% over Q1-2019 as a result of stronger land sales in Canada in the prior period and the timing of sales in the US. Community Development revenue was down 36% over Q1-2019. Our income producing divisions (Investment Properties and REIT) continue to grow, with the 9% increase in GLA under management contributing to first quarter revenue growth of 5% over Q1-2019, which partially offset the decline in Community Development revenue. Third-party acquisitions and transfers from our Property Development division contributed to the growth in GLA over the last 12 months. US revenue will continue to be uneven as the development model differs from our Canadian markets. Builders bulk buy lots from Melcor to then finish and build homes and sell to homeowners. Sales to homeowners in our Harmony development in Denver remained strong through the first quarter, leading to demand for additional lots in our second phase of development; however, this phase is not expected to be completed for sale to builders until summer 2020.

Our strategy of geographic and product mix diversification over the past few years continues to positively impact our financial results and serve as an offset to the impact of softer residential markets in Alberta.

Our Community Development and Property Development divisions are actively engaged in a small number of projects as we enter the 2020 construction season. Some projects that were initially planned for this year have been paused until we return to a steadier market environment and projects that are going ahead have been reduced to smaller phases to ensure a balance of supply and demand for new residential lots. The phases we are progressing with are also comprised of predominantly smaller, more affordable product types such as laned homes, duplex, townhomes and multi-family sites.

FINANCIAL HIGHLIGHTS

- Revenue for the quarter was down 3% to $33.77 million as a result of the timing of raw, multi-family and commercial land sales, which tend to fluctuate quarter to quarter. Revenue from the sale of single-family lots was up 26% to $6.43 million.
- Funds from operations (FFO) increased 4% to $5.93 million compared to the prior year. This increase is a result of:
    - A 12% or $0.71 million reduction in general and administrative expenses.
    - A $0.41 million reduction in finance costs when non-cash items are excluded.
- Net income was significantly impacted by non-cash fair value gains on REIT units of $68.63 million due to the drastic swing in the REIT unit price is in the quarter, which decreased from $8.12 per unit at the start of the quarter to $2.89 per unit on March 31, 2020 as worldwide equity markets experienced significant volatility due to COVID-19. This non-cash increase was offset by the non-cash fair value losses on investment properties of $6.79 million. These gain and losses are driven by market forces outside of Melcor's control and are a key reason we focus on FFO as a better measure of our financial performance.

DIVISIONAL OPERATING HIGHLIGHTS

- All Community Development regions continue to focus on moving existing inventory and are deploying strategies and marketing programs to this effect. These efforts, combined with very cautious new development, have resulted in a 32% reduction to single-family lot inventory since March 31, 2019.
    - We began marketing the initial phase of North Clifton Estates in Kelowna, BC. This development is a high-end lake view community just 20 minutes from downtown Kelowna. Interest in the project has been exceptional, with 9 of the 44 Phase 1 lots sold to date in 2020.
    - Showhomes in our new community of Lanark Landing, adjacent to King's Heights in Airdrie, AB, began opening subsequent to the quarter with laned single family, duplex and townhome products available in the first phase. Interest in the project has been strong.
    - Our new community of Rosewood, adjacent to Rosenthal in Edmonton, AB will see showhomes open later this spring.
    - Interest in Harmony in Aurora, CO remains strong and the development had a great start to the year. The STEM-focused neighbourhood school, Harmony Ridge, is set to open for the 2020-21 school year and the community centre with pool is expected to be complete and open in June 2020.
- Our Property Development team has a total of 110,277 sf currently under construction in five projects. A further 47,688 sf is complete and awaiting lease-up and/or transfer in two projects. Our Property Development division currently only operates in Alberta.
- Total GLA under management has increased 9% via acquisitions and transfer from Property Development since March 31, 2019. Revenue in our income-producing divisions (Investment Properties and REIT) was up 5% over Q1-2019. These divisions continue to yield stable results and have achieved consistent occupancy and base rents despite challenging market conditions. See the COVID-19 section for April and May collection information.
- Our golf courses (Recreational Properties) opened May 1 in BC and May 7 in Alberta. These openings are later than the weather would have otherwise allowed as a result of COVID-19. In response to regulations put in place by health officials,

we are limiting services provided at the golf courses. Our clubhouses, pro shops and practice facilities will remained closed for the time being.

RETURNING VALUE

- We continue to return value to our shareholders and unit holders:
    - We paid a quarterly dividend of $0.10 per share on March 31, 2020.
    - On May 20, 2020 we declared a quarterly dividend of $0.08 per share, payable on June 30, 2020 to shareholders of record on June 15, 2020. The dividend is an eligible dividend for Canadian tax purposes.
    - The REIT paid distributions of $0.05625 per unit in January, February and March for a quarterly payout ratio of 102%. April and May distributions were reduced to $0.03 per unit to conserve cash in response to COVID-19 and the forced closure of a number of our non-essential service tenants in our neighbourhood retail shopping centres.

SUBSEQUENT EVENTS - NCIB

- On April 1, 2020 Melcor commenced a normal course issuer bid ("NCIB") which allows us to purchase up to 1,661,033 shares for cancellation, representing approximately 5% of Melcor's issued and outstanding trust units. The shares may be repurchased up to a maximum daily limit of 1,000. The price which Melcor will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2021.
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Selected Highlights

($000s except as noted)	Three-months		
	31-Mar-20	31-Mar-19	Change
Revenue	**33,767**	34,884	(3.2)%
Gross margin (%) *	**51.0%**	53.9%	(5.4)%
Net income	**66,640**	1,590	4,091.2 %
Net margin (%) *	**197.4%**	4.6%	4,191.3 %
Funds from operations *	**5,925**	5,677	4.4 %
Per Share Data ($)			
Basic earnings	**2.00**	0.05	3,900.0 %
Diluted earnings	**2.00**	0.05	3,900.0 %
Funds from operations *	**0.18**	0.17	5.9 %

As at ($000s except as noted)	**31-Mar-20**	31-Dec-19	Change
Shareholders' equity	**1,158,129**	1,080,257	7.2 %
Total assets	**2,107,783**	2,096,047	0.6 %
Per Share Data ($)			
Book value *	**34.88**	32.51	7.3 %

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three months ended March 31, 2020, which can be found on the company's website at www.Melcor.ca or on SEDAR (www.sedar.com).

About Melcor Developments Ltd.

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

Melcor has been focused on real estate since 1923. The company has built over 140 communities and commercial projects across Western Canada and today manages 4.52 million sf in commercial real estate assets and 607 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

Forward Looking Statements

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

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

This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 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 and the additional disclosure under Business Environment and Risk in this MD&A.

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

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Management's Discussion & Analysis

May 20, 2020

The following discussion of Melcor Developments Ltd.'s (Melcor's) financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the quarter ended March 31, 2020 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2019.

The financial statements underlying this MD&A, including 2019 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Melcor's Board of Directors approved the content of this MD&A on May 20, 2020 on the recommendation of the Audit Committee.

Other Information

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

Non-standard Measures

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

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

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

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Our Business

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

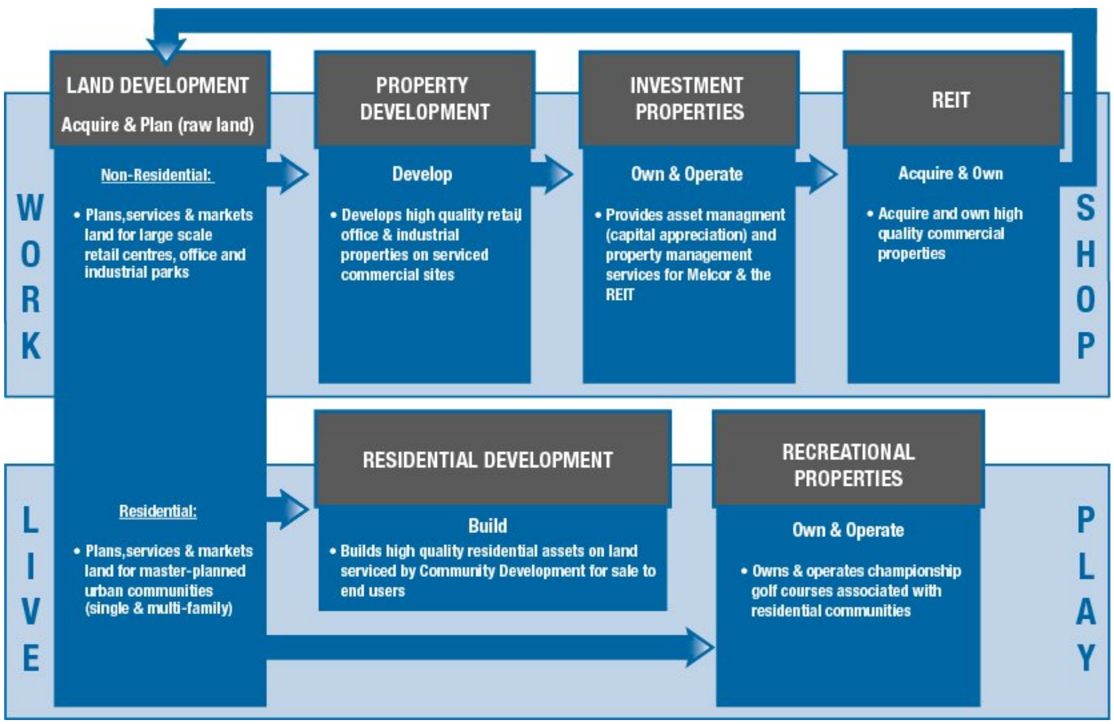
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

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

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

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



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

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

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

SIGNIFICANT EVENT - COVID-19

In March 2020, the COVID-19 global pandemic arrived in western Canada. Since its arrival, federal and provincial governments responded rapidly to enact emergency measures to slow the spread of the virus and ensure that our medical system did not become overwhelmed. New measures were introduced on a weekly and often daily basis. Measures include travel bans, self-imposed quarantine periods, physical distancing, mandatory isolation for those exhibiting symptoms, restrictions on gatherings of larger than 15 people, mandatory closure of all non-essential businesses including personal services, schools and daycares, and restaurants and food services reduced to pick-up/take-out only. These measures led to an economic slowdown and material disruption for many businesses. The Canadian government reacted with interventions intended to stabilize the economy and support both businesses and employees who are affected by temporary furlough or lay-offs. While some jurisdictions have now announced relaunch strategies, the long-term impact of COVID-19 related economic stressors remains to be seen. We are unable to estimate the future impact to Melcor's financial performance and cash position.

Melcor responded quickly to the situation and implemented a variety of measures to provide safe and clean work environments and keep our employees, contractors, clients, tenants and visitors to our properties safe while doing our part to slow the spread. These measures include:

- Adhering to Alberta Health Services guidelines as a baseline for all business units. In many cases, our precautions exceed recommended actions.
- Increasing the cleaning of high-touch surfaces and providing health and safety best practice education and additional hand sanitation stations in our properties.
- Canceling all business travel and requiring a 2-week self-isolation policy for employees returning from travel.
- Closing our offices to guests. All staff who are able to work from home are doing so.
- Canceling or delaying all community, showhome and tenant events.
- Promoting virtual tours of new showhomes.
- Moving to an online only format for our Annual General Meeting.
- Delaying the opening of our golf courses to establish new protocols. Pro shops and restaurants remain closed.

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

Operations Update

Both Melcor and the REIT have implemented measures over the past two months to conserve cash and place our business in a position where we are able to support our builders, suppliers and tenants through these unprecedented times. These measures include:

- Reducing Melcor's March dividends to $0.10 per share and June dividends to $0.08 per share.
- Reducing the REIT's April and May 2020 distribution to $0.03 per trust unit.
- Deferring discretionary capital spending planned for 2020 to improve near term liquidity and reduce non-essential activities at our properties. We remain committed to strategic value-adding asset enhancement and preservation projects as a integral component of our strategy to improve our assets and retain and attract tenants.
- Deferring sales tax, property tax and utility payments where available.
- Working with lenders to defer mortgage payments where available.
- We also reduced board remuneration, implemented wage roll-backs for executive officers, furloughed approximately 25% of full-time staff and reduced remuneration for all remaining staff.

These cash conservation measures were enacted to enable Melcor to work with our builders to extend payment terms and allow Melcor and the REIT to work with our tenants to defer rent where appropriate, depending on the financial need and potential for access to government relief programs.

We are all in this together. We see ourselves as partners with our builders and tenants and our main objective is to help each other survive and thrive when the COVID-19 impact on the economy levels out.

We anticipate that the emergency measures enacted to contain the COVID-19 pandemic and the resulting economic impact will have a negative impact on our future cash flow and net operating income. The extent and duration of the impact of COVID-19 on our results cannot be accurately predicted at this time.

We continue to monitor relief programs that may apply to Melcor and/or the REIT and to monitor our cash position to ensure we are able to support our builders and tenants while also taking care of our ongoing financial obligations.

Collections Update

Due to non-essential business closure orders issued by local governments, some of our retail tenants were closed for the past two months. Most will be allowed to re-open mid May; however, many retailers are taking a very cautious approach to reopening, including delaying their opening to ensure they can comply with new recommendations and procedures to ensure public health and safety. The following table outlines the our rent collections in April and May by asset class.

Collections by Asset Class (% of Total Rent)	April 2020	May 2020
Retail	68%	59%
Office	89%	83%
Industrial	94%	89%
Residential	99%	96%
Total	81%	74%

Over 97% of Canadian retail tenant respondents to a survey conducted by Melcor and the REIT in late April and early May indicated their intention to apply for the federal government Canada Emergency Commercial Rent Assistance (CECRA) program, provided they qualify. As full CECRA program details were not available at the time of writing, we are uncertain of the impact this will have on Melcor going forward.

Q1-2020 Disclosures

Management points out that Q1-2020 was largely concluded when COVID-19 measures restricting certain businesses were enacted and thus the impact on Q1 results is minimal. Throughout our MD&A, we speak to Q1-2020 results, mentioning COVID impacts where they had a direct impact on Q1 results only.

First Quarter Highlights

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- On April 1, 2020 the REIT commenced a normal course issuer bid ("REIT NCIB") which allows the REIT to purchase up to 655,792 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,207. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The REIT NCIB ends one year from commencement on March 31, 2021. Following the expiration of the blackout on May 15, 2020 the REIT suspended its purchases under the NCIB program in light of the continued market volatility and in an effort to conserve cash.

REVENUE & MARGINS

Revenue was down 3% to $33.77 million compared to Q1-2019. Community Development revenue was down by 36% to $6.77 million in the quarter due to the timing of land sales. Revenue from the sale of single-family lots was up 26% to $6.43 million from $5.16 million in Q1-2019. We did not close any land sales in Q1-2020 compared to sales of 7.84 acres of raw and commercial land in Q1-2019, which generated revenue of $5.36 million. Community Development division revenue is highly dependent on the demand for new homes in the regions where we hold land, and by the timing of raw, commercial and multi-family land sales, and the registration process on single-family lots.

Gross margin decreased 5% overall as a result of margin compression in our Community Development division. Gross margins in Community Development can fluctuate based on the mix of product type sold in any period. Our income-generating divisions continue to yield strong margins. Through third party acquisitions and transfers from Property Development, these divisions continue to grow which helps stabilize company wide gross margins. In Q1-2020, Investment Properties and the REIT accounted for 80% of total revenues compared with 72% in Q1-2019. Q1-2020 revenue from our income-generating divisions was $28.94 million at 58% gross margin compared to $27.63 million at 59% gross margin in Q1-2019.

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

Revenue and income can fluctuate significantly from quarter to quarter due to the timing of plan registrations, the cyclical nature of real estate and construction markets, the mix of lot sales and product types, and the mix of joint operation sales activity. The growth of our income-generating divisions offsets this cyclicality and has been a key diversification strategy for the past decade.

Funds From Operations (FFO)

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

Below is a reconciliation of net income to FFO:

($000s)	Three months ended	
	31-Mar-20	31-Mar-19
Net income for the period	**66,640**	1,590
Amortization of operating lease incentives	**2,094**	1,720
Fair value adjustment on investment properties	**6,794**	23
Depreciation on property and equipment	**201**	187
Stock based compensation expense	**254**	177
Non-cash finance costs	**(771)**	683
Deferred income taxes	**(660)**	(285)
Fair value adjustment on REIT units	**(68,627)**	1,582
FFO	**5,925**	5,677
FFO per share	**0.18**	0.17

FFO increased by $0.25 million or 4% compared with Q1-2019. Gross profits declined in the quarter; however, we reduced G&A expenses by $0.71 million or 12%, resulting in a net increase to FFO. A non-cash fair value gain of $3.07 million (Q1-2019 - $nil) was included in finance costs, primarily as a result of the revaluation of the 2019 REIT convertible debenture. This amount is included in net income however it is adjusted out in the non-cash finance costs line above. Excluding non-cash items, finance costs were also down $0.41 million, contributing to an improved FFO in the quarter.

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

Divisional Results

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

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

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

The following tables summarize the results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three-months March 31		Three-months March 31		Three-months March 31		Three-months March 31		Three-months March 31	
($000s except as noted)	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Revenue	**6,768**	10,547	**93**	24	**9,643**	9,687	**19,292**	17,944	**156**	142
Portion of total revenue	**19%**	30%	**—%**	—%	**27%**	28%	**54%**	51%	**— %**	— %
Cost of sales	**(4,702)**	(5,995)	**—**	—	**(3,882)**	(3,962)	**(8,144)**	(7,400)	**(512)**	(502)
Gross profit	**2,066**	4,552	**93**	24	**5,761**	5,725	**11,148**	10,544	**(356)**	(360)
Gross margin %	**31%**	43%	**100%**	100%	**60%**	59%	**58%**	59%	**(228)%**	(254)%
Portion of total profit	**11%**	24%	**—%**	—%	**31%**	30%	**60%**	56%	**(2)%**	(2)%
General and administrative expense	**(1,705)**	(2,154)	**(528)**	(633)	**(582)**	(615)	**(804)**	(721)	**(341)**	(387)
Fair value adjustment on investment properties	**—**	—	**582**	358	**(1,965)**	(2,611)	**(6,187)**	1,159	**—**	—
Interest income	**117**	171	**12**	7	**15**	5	**27**	28	**—**	—
Segment Earnings (Loss)	**478**	2,569	**159**	(244)	**3,229**	2,504	**4,184**	11,010	**(697)**	(747)

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

Community Development

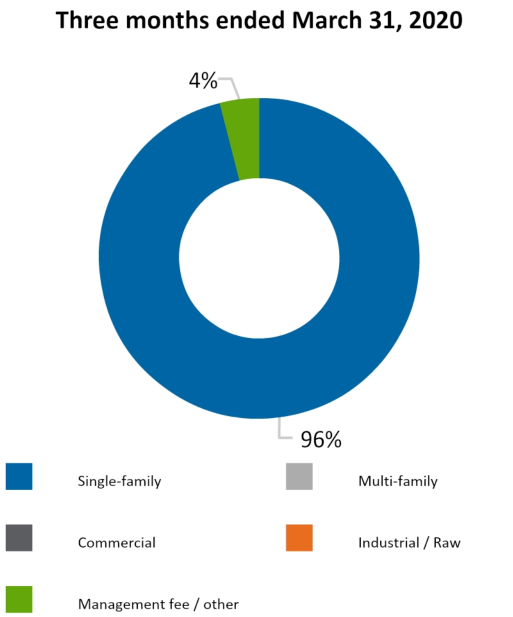
Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning,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

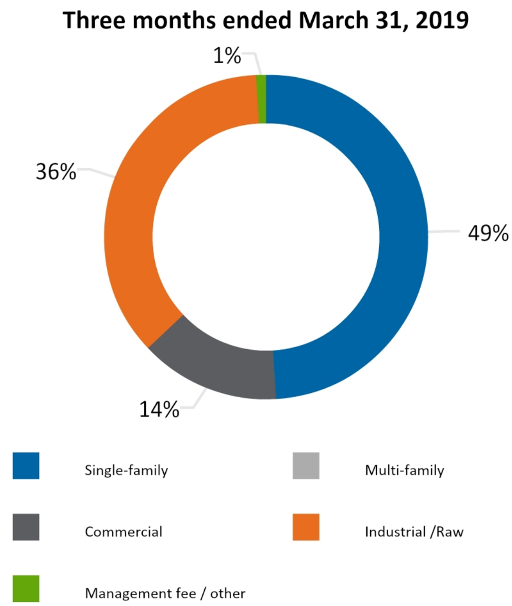
Master-planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and multi-family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

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

Sales Activity

REVENUE BY TYPE





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

Consolidated	Three months ended	
	31-Mar-20	31-Mar-19
Canada Sales data: (including joint ventures at 100%)		
Single family sales (number of lots)	**56**	29
Gross average revenue per single-family lot ($)	**183,300**	188,800
Commercial sales (acres)	—	1.45
Gross average revenue per commercial land acre ($)	—	1,000,000
Other land sales - raw, other (acres)	—	4.05
Gross average revenue per other land acre ($)	—	91,100
US Sales data: (including joint ventures at 100%)		
Other land sales - raw, other (acres)	—	1.98
Gross average revenue per other land acre ($)	—	1,029,000
Divisional results: (including joint ventures at Melcor's interest)		
Revenue ($000s)	**6,768**	10,547
Earnings ($000s)	**478**	2,569

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

The market for residential homes picked up in Q1-2020 but was offset by the lack of land sales in the quarter contributing to a lower gross margin of 31%. We continue to focus on reducing inventory levels, with 50 of the 56 lots sold coming from existing inventory.

Average selling prices decreased 3% over Q1-2020. Average selling price may fluctuate period to period depending on both the product type and region sold. Q1-2020 single-family lot sales covered a broad spectrum of price points from lower-priced townhome lots to higher-priced lake-view estate lots. The vast majority of these sales occurred in joint arrangement projects where Melcor does not retain 100% of the revenue.

Revenue in Q1-2019 included 7.48 acres of raw land and commercial land sales, which generated revenue of $5.36 million. No comparable sales were made in Q1-2020.

Due to the larger phase sizes (300+ lots/phase vs. less than 100 lots/phase in Canada) and bulk buying by production builders, US sales will remain uneven. All phase 1 lots in Harmony are currently under contract. Phase 2 is anticipated to be ready for sale in summer 2020.

We continue to develop new phases in communities where demand is evident. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development, and by ensuring that our product mix is aligned with current market preferences.

Regional Sales Analysis

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

Regional Sales Analysis	**Three months ended March 31, 2020**			Three months ended March 31, 2019		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	**36**	—	—	22	—	—
Red Deer	**8**	—	—	3	—	—
Calgary Region	**2**	—	—	3	—	1.45
Lethbridge	**2**	—	—	1	—	—
Kelowna	**8**	—	—	—	—	—
United States	—	—	—	—	—	—
	56	—	—	29	—	1.45

Single-family lot sales may vary significantly quarter over quarter as plan registrations typically occur in the third and fourth quarters. Lot sales were up in our Canadian regions as we continue to move through existing inventory. Edmonton continues to be one of our strongest markets for single-family lot sales and saw an increase over Q1-2019. Kelowna opened up a new community, North Clifton Estates, which accounts for 7 of the lot sales above.

Inventory

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

Developed Inventory	**Three months ended 31-Mar-20**			Three months ended 31-Mar-19		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	**1,023**	**59.00**	**126.09**	1,448	59.00	130.44
Purchases	—	—	—	—	—	—
New developments	—	—	—	—	—	—
Internal sales	—	—	—	—	—	—
Sales	**(56)**	—	—	(29)	—	(1.45)
	967	**59.00**	**126.09**	1,419	59.00	128.99

Our primary market is Alberta. Market conditions remain uncertain throughout the province in light of COVID-19 and the lowest oil prices in decades, so we remain cautious about developing new phases and continue to commit resources outside of Alberta to diversify our land holdings portfolio. As a result of this caution, and with active marketing programs aimed at reducing inventory, we decreased single-family lot inventory by 32% compared to March 31, 2019 and by 5% since year end.

Raw land inventory

To support future growth, we acquire land in strategic growth corridors and maintain an inventory of land for future development in our primary markets. During the quarter, no new land was purchased. In Q1-2019, we purchased 158.03 acres in Red Deer, AB for $12.80 million.

We continue to manage our cash position in order to capitalize on land acquisition opportunities as they arise. We are well placed to respond to stronger market conditions when they return and continue to focus on working through existing inventory held by Melcor and by our builders through active marketing programs.

Property Development

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

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

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

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

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

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

Division Highlights

($000s and at JV%, except as noted)	Three months ended	
	31-Mar-20	31-Mar-19
Management fees revenue	**93**	24
Fair value gains on investment properties	**582**	358

Development continued during Q1-2020, and the division recorded gains $0.58 million on our development at The District in Calgary. Management has examined each project on a case by case basis. Development is continuing where we remain confident in our lessees prospects. We have also paused development where the risk profile increased significantly due to COVID-19.

The Property Development division currently has an additional 157,965 sf under active development or completed and awaiting lease-up.

Regional Highlights

($000s and at JV%, except as noted)	Three months ended	
Fair value adjustments by region	**31-Mar-20**	31-Mar-19
Northern Alberta	**—**	76
Southern Alberta	**582**	282
	582	358

Northern Alberta: No Fair value gains were recorded in the quarter in our Northern Alberta region. We are continuing to actively develop in this region with efforts focused on leasing up vacant bays and preparing sites for transfer to Investment Properties. Lease-up of the Shoppes of Jagare Ridge, which has two buildings near completion, continues and the buildings are expected to transfer to Investment Properties later this year.

Southern Alberta: Year to date fair value gains of $0.58 million relate to our properties under development. A veterinary clinic in The District is near completion and we expect to transfer this property to Investment Properties this year.

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 tables illustrate our current and future project expectations:

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	113,900	—
Telford Industrial	Leduc	*Industrial Park*	500,000	143,100	—
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	—	10,665
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	1,585,000	535,290	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	85,920	4,807
Woodbend Market	Leduc	*Neighbourhood shopping centre*	140,000	3,000	10,780

There were no completed buildings transferred to our Investment Properties division during the quarter.

The Property Development team commenced construction on 2 CRUs during the quarter in Edmonton and Leduc. We have a total of 110,277 sf currently under construction and a further 47,688 sf complete and awaiting lease-up and/or transfer.

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*	70,000	100%	2022+
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	100%	2022+
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+

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

Investment Properties

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

Our Investment Properties division manages 4,524,422 sf of income-producing commercial GLA and 607 residential units.

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

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

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

Operating results

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

($000s and at JV%, except as noted)	Three months ended	
	31-Mar-20	31-Mar-19
Commercial properties GLA under management (sf, total)	**4,524,422**	4,146,767
Properties owned and managed (sf)	**931,064**	896,714
Properties managed (sf)	**3,593,358**	3,250,053
Revenue (total)	**9,643**	9,687
Canadian properties	**3,720**	3,379
US properties	**4,254**	4,761
Management fees	**1,399**	1,240
Parking lots and other assets	**270**	307
Net operating income (NOI) *	**6,146**	5,529
Funds from operations *	**5,631**	5,421
Funds from operations per share *	**0.17**	0.16

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

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

Canadian properties

Our Canadian property portfolio continues to grow as properties are developed and transferred from our Property Development division and third-party acquisitions are made. The Property Development division has 157,965 sf of GLA under active construction or completed and awaiting lease up. The majority of transfers to Investment Properties typically occur in the latter part of the year due to construction timing; no transfers were made in the first quarter. Over the past twelve months, Property Development has transferred eight buildings representing 99,794 sf (at 100%). Revenue generated on assets acquired from Property Development, as well as those currently under development and held through the quarter, was $1.05 million (Q1-2019 - $0.56 million).

Occupancy on Canadian properties was 88% at March 31, 2020, up 4% since year end. Commercial weighted average base rents (WABR) was $30.44, up $0.04 compared to year end and up $3.15 compared with Q1-2019.

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

($000s and at JV%, except as noted)	Three months ended	
	31-Mar-20	31-Mar-19
Same asset NOI*	**2,028**	2,011
Properties transferred from PD	**610**	195
NOI*	**2,638**	2,206
Amortization of operating lease incentives	**(149)**	(71)
Straight-line rent adjustment	**(28)**	188
Gross profit	**2,461**	2,323

** See non-standard measures for definition.*

Gross profit was up $0.14 million or 6% compared to Q1-2019, while NOI was up $0.43 million or 20% in the quarter. Properties transferred from the Property Development division over the past 12 months, as well as those currently under development, drove the increase in Canadian property NOI, adding $0.61 million in NOI in the first quarter of 2020 (Q1-2019 - $0.20 million). On a same asset basis, NOI was up 1% to $2.03 million in the quarter due to higher occupancy. The increase in gross profit was due to higher NOI and offset by lower straight-line rent adjustments and higher amortization of operating lease incentives, which can fluctuate based on the timing of lease rollovers and leasing incentives.

US properties

Revenue on US properties was $4.25 million compared with $4.76 million in Q1-2019. In Q4-2019 we disposed of a 63,112 sf office property (Centennial Airport Plaza) which contributed $0.29 million to Q1-2019 revenue (Q1-2020 - $nil). In Q1-2020, we also disposed of one residential unit in Arizona for a sales price of $0.26 million (US$0.19 million) (net of transaction costs). The sale price was settled through cash.

Improved leasing across the portfolio increasing occupancy from 85% in Q1-2019 to 87% at the end of Q1-2020 which partially offset the. Occupancy remained stable over year end.

Weighted average rental rates on our US commercial properties also increased in the quarter, contributing to the increase in revenue. WABR for Q1-2020 was $20.66 per sf compared to $19.82 in Q1-2019 and $20.53 at year end. Residential occupancy increased slightly to 99%, up from 98% at year end and Q1-2019.

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

($000s and at JV%, except as noted)	Three months ended	
	31-Mar-20	31-Mar-19
Same asset NOI *	**1,694**	1,540
Third party disposals	**(2)**	114
NOI	**1,692**	1,654
Foreign currency translation	**583**	557
Amortization of operating lease incentives	**(289)**	(237)
Straight-line rent adjustment	**24**	317
Gross profit	**2,010**	2,291

** See non-standard measures for definition.*

Gross profit was down $0.28 million or 12% over Q1-2019, while NOI was up $0.04 million or 2%. Gross profit was down due to lower straight-line rent adjustments and higher amortization of operating lease incentives, which can fluctuate based on the timing of leases rollovers and leasing incentives. Same asset NOI was up $0.15 million or 10% over Q1-2019 due to new leasing and improved leasing rates.

Management fees & other

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the manager. Management fees were up 13% over Q1-2019 due to the growth of the REIT portfolio and new leasing coming online in one of our joint venture assets.

Funds from Operations

Funds from operations (FFO) increased 4% or $0.21 million in the quarter as a result of improved occupancy and transfers from Property Developments over the past 12 months as well as higher straight-line rent adjustments on account of new leasing completed.

REIT

The REIT owned 39 income-producing office, retail and industrial properties, comprising 3,208,463 square feet of gross leasable area (GLA) at March 31, 2020. The REIT's portfolio has a diversified tenant profile - with a mix of national, regional and local tenants - operating in a variety of industries.

As at May 20, 2020 we have a controlling 55.3% interest in the REIT through ownership of all Class B LP Units (March 31, 2020 - 55.2%, December 31, 2019 - 55.1%). 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)	Three months ended	
	31-Mar-20	31-Mar-19
Gross leasable area (GLA) (sf)	**3,208,463**	2,869,743
Occupancy % (weighted by GLA)	**88.1%**	89.3%
Fair value of portfolio	**770,177**	706,775
Rental revenue	**19,292**	17,944
Net operating income (NOI) *	**11,964**	11,012
Same asset NOI * *(see calculation following)*	**10,671**	11,012
Fair value adjustment on investment properties	**(6,187)**	1,159
Funds from operations *	**11,438**	10,616
Funds from operations per share *	**0.34**	0.32

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

Rental revenue for the period ended March 31, 2020 increased $1.3 million or 8% over 2019 as a result of properties acquired within the past twelve months: Melcor Crossing (Nov-2019) and Staples Centre (Apr-2019) contributing rental revenue of $2.10 million in Q1-2020 (2019 - $nil). The increase in rental revenue was offset by a decrease in same-asset performance in our office portfolio.

Year to date, we signed 98,467 sf of new and renewed leasing (including holdovers) and maintained steady occupancy at 88.1%, compared with 88.0% at year end. In 2020, 104 leases representing 332,622 sf or 10.4% of our portfolio are up for renewal. We have retained 86.7% of expiring leases (representing 74,320 sf) as at March 31, 2020 in spite of challenging market conditions in many of our operating regions.

Weighted average base rent was $16.69, down $0.10 compared to December 31, 2019 and up $0.09 over Q1-2019. Occupancy has remained stable (up 0.1%) over year end.

Direct operating expenses, which includes operating expenses and utilities and property taxes, were up 10% compared with Q1-2019 largely due to acquisitions made in the past twelve months. On a same-asset basis, direct operating expenses were up 1% in 2020. Property taxes and utilities increased by 1% on a same-asset basis (10% overall). As a cornerstone of our property management strategy, we are committed to efficient and cost effective maintenance of our buildings to ensure maximum value to our tenants and unitholders.

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

($000s except as noted)	Three months ended	
	31-Mar-20	31-Mar-19
Same asset NOI *	**10,671**	11,012
Acquisitions	**1,293**	—
NOI before adjustments	**11,964**	11,012
Amortization of operating lease incentives	**(1,067)**	(765)
Straight-line rent adjustment	**251**	297
Net rental income	**11,148**	10,544

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

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

NOI was up 9% over Q1-2019 due to properties acquired in the last twelve months. Same-asset NOI was down 3% over Q1-2019 due to lower occupancy on certain properties and higher operating costs. Same-asset NOI was stable over Q4-2019.

Funds from operations

FFO was up 8% in the first quarter at $11.44 million. Growth in the REIT portfolio over the last twelve months led to higher NOI, net rental income, and FFO. This increase was was slightly offset by a decrease in straight-line rent adjustments and increase in amortization of operating lease incentives which fluctuate due to the timing of signed leases and timing tenant incentives.

Recreational Properties

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

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

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

The Recreational Properties division earned revenue of $0.16 million year to date, an increase of 10% over Q1-2019. This revenue is from food and beverage operations in Q1-2020.

In response to the COVID-19 pandemic, our golf courses were closed for the early part of the 2020 golf season.

Our Black Mountain course opened on May 1, 2020, in accordance with BC Health regulations, and the Edmonton / Spruce Grove courses opened on May 7, 2020. Health regulations limit contact allowed and thus our clubhouses, including food and beverage operations and the pro shops, remain closed in order to protect all patrons. We expect to see a decline in revenue in 2020 as a result of these restrictions; however, we are pleased to be able to service our communities and work within the regulations provided to maintain a safe environment.

	Ownership interest	Season opened 2020	Season opened 2019
Managed by Melcor:			
Lewis Estates (Edmonton)	60%	**May 7**	April 12
The Links (Spruce Grove)	100%	**May 7**	April 13
Black Mountain (Kelowna)	100%	**May 1**	April 3
Managed by a Third Party:			
Jagare Ridge (Edmonton)	50%	**May 5**	April 19

General and Administrative Expense

General and administrative expenses (G&A) were down 12% over Q1-2019 as a result of 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 is 25% for the three months ended March 31, 2020 (2019 - 27%). The most significant adjustment impacting the 2020 effective tax rate was the fair value adjustment on REIT units, which are not subject to tax. Other items that impacted the effective tax rate include permanent differences related to revaluation adjustments on investment properties, distributions to REIT unitholders and the non-taxable portion of REIT income.

Liquidity & Capital Resources

The following table represents selected information as at March 31, 2020, compared with December 31, 2019.

As at ($000s except as noted)	**31-Mar-20**	31-Dec-19
Cash & cash equivalents	**26,396**	36,980
Accounts receivable	**9,306**	9,783
Agreements receivable	**69,437**	76,406
Revolving credit facilities	**92,666**	93,315
Accounts payable and accrued liabilities	**48,363**	43,582
Total assets	**2,107,783**	2,096,047
Total liabilities	**949,654**	1,015,790
Debt to equity ratio*	**0.82**	0.94

**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.

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

Financing

As at March 31, 2020, our total general debt outstanding was $753.45 million compared to $751.35 million on December 31, 2019.

A summary of our debt is as follows:

As at ($000s)	**31-Mar-20**	31-Dec-19
Melcor - revolving credit facilities	**67,989**	70,451
REIT - revolving credit facility	**24,677**	22,864
Project specific financing	**73,308**	68,436
Secured vendor take back debt on land inventory	**36,355**	39,005
Debt on investment properties and golf course assets	**487,709**	484,413
REIT - convertible debentures	**63,415**	66,184
General debt	**753,453**	751,353

We are subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to total capital ratio of 125%, a minimum debt service coverage ratio of 3.00, and a minimum net book value of shareholder's equity of $300.00 million. As at March 31, 2020 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT's $35.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of $140.00 million. As at March 31, 2020 and throughout the period, we were in compliance with our financial covenants.

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

Sources & Uses of Cash

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

($000s)	**Three months ended**	
	31-Mar-20	**31-Mar-19**
Cash flows from operating activities	**5,750**	3,210
Cash flows used in investing activities	**(8,643)**	(5,296)
Cash flows from (used in) financing activities	**(8,322)**	6,995

During Q1-2020, cash flows from operating activities were $5.75 million, an increase of $2.54 million over Q1-2019. Collections on agreements receivables were $6.97 million compared to $23.95 million in Q1-2019. In Q1-2019 we had large payouts on multi-family and residential sites. Collections in the current quarter are more in line with our regular first quarter collections. In Q1-2019, we purchased 313 acres of land for $8.50 million; no land was purchased in the current quarter. Operating assets and liabilities tend to fluctuate quarter over quarter depending on the timing of payments due and receivables.

Cash flows used in investing activities were $8.64 million in Q1-2020 compared with $5.30 million during Q1-2019. We continue to develop commercial properties and invest in our portfolio. Cash flows used in the development of investment properties was $8.18 million compared to $5.53 million in Q1-2019. Included in the $8.18 million was $7.61 million (Q1-2019 - $4.39 million) on development costs on our properties under development within Property Development division.

Cash flows used in financing activities were $8.32 million during the quarter compared to cash flows from financing activities of $7.00 million in Q1-2019, a change of $15.32 million. Draws on the credit facility were $20.82 million in Q1-2019 compared with repayments of $0.65 million in Q1-2020. Net repayments on our general debt in the first quarter of 2020 were $3.97 million compared with $8.67 million in Q1-2019. Proceeds from general debt in the current quarter, $4.10 million, were all on current project financing agreements in place at the start of the quarter.

In the quarter, we paid a $0.10 per share dividend for a total of $3.32 million paid year to date. This compares to Q1-2019 payments of $0.13 per share for a total of $4.33 million.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at March 31, 2020 there were 33,201,677 common shares issued and outstanding, 980,600 options, and 146,476 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

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

There are no material changes to the above titled sections at March 31, 2020 in comparison to the December 31, 2019 annual MD&A, except as noted below. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

Business Environment & Risks

Pandemics, Natural Disasters or Other Unanticipated Events

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

- negative impact to market demand and pricing for new homes
- negative impact to builder partners and their ability to make payment commitments
- negative impact on pricing and availability of Canadian debt and equity capital markets
- material reduction in rental revenue and related collections due to financial hardship and government ordered closures of certain business
- reduced demand for commercial real estate leading to a material increase in vacancy and decline in revenue along with a significant slow down in new commercial development
- trading price volatility for Melcor's securities
- negative impact to real estate valuations from declining revenue and lack of market activity

- uncertainty regarding delivering services due to illness, Melcor or government imposed isolation programs, restrictions on the movement of personnel, closures and supply chain disruptions
- impact of additional legislation, regulation, fiscal and monetary policies and other government interventions

This is not an exhaustive list of all risk factors.

To mitigate these risks, we have a comprehensive health and safety program and have expanded it to include pandemics. We have introduced new policies and practices, internally, in our communities, and at the properties that we build and manage to reduce the spread of COVID-19 through:

- education
- plentiful access to hand sanitizer
- more frequent cleaning schedules emphasizing disinfection of high-touch surfaces multiple times per day
- emphasis on virtual showhome tours and private appointments
- new protocols to limit physical contact in our golf course operations.

We are currently reviewing additional measures and will continue to transparently communicate with our staff, tenants and stakeholders.

Normal Course Issuer Bid

On March 28, 2019 we announced an NCIB commencing April 1, 2019 that ended on March 31, 2020. Under the bid, we could 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. We purchased 82,300 shares under this plan, which expired on March 31, 2020.

On March 31, 2020 we announced an NCIB commencing April 1, 2020 and ending March 31, 2021. Under the bid, we may acquire up to 1,661,033 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 1,000 common shares. As of May 20, 2020, 35,020 share were repurchased for cancellation under this NCIB.
In accordance with temporary relief announced by the TSX on March 23, 2020, the number of shares that can be purchased pursuant to the NCIB is subject to a current daily maximum of 1,616 shares (which is equal to 50% of 3,233, being the average daily trading volume from September 2019 through to February 29, 2020). Following the expiry of such temporary relief on June 30, 2020 (or such later date as may be announced by the TSX), the number of shares that can be purchased pursuant to the NCIB will be subject to a daily maximum of 1,000 shares (which is the greater of 25% of 3,233 or 1,000). As of May 20, 2020, 35,020 shares were repurchased for cancellation under this NCIB.

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 the REIT's issued and outstanding trust units) with a daily repurchase restriction of 2,908 trust units. We purchased 76,768 shares under this plan, which expired on March 31, 2020.

On March 31, 2020, the REIT also announced an NCIB commencing April 1, 2020 and ending March 31, 2021. Under the bid the REIT may purchase up to 655,792 trust units for cancellation (approximately 5% of the REIT's issued and outstanding trust units) with daily repurchase restriction of 3,207. As of May 20, 2020, 59,526 units were repurchased for cancellation under this NCIB. Following the expiration of the blackout on May 15, 2020 the REIT suspended its purchases under the NCIB program in light of the continued market volatility and in an effort to conserve cash.

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

Quarterly Results

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

	Three Months Ended							
($000s)	**31-Mar-20**	31-Dec-19	30-Sept-19	30-June-19	31-Mar-19	**31-Dec-18**	**30-Sept-18**	30-Jun-18
Revenue	**33,767**	78,056	53,946	41,085	34,884	119,982	60,245	42,793
Net income (loss)	**66,640**	16,946	16,068	3,137	1,590	36,526	11,469	1,631
FFO	**5,925**	13,917	10,696	7,975	5,677	30,671	12,841	7,695
Per Share								
Basic earnings	**2.00**	0.51	0.48	0.09	0.05	1.09	0.34	0.05
Diluted earnings	**2.00**	0.51	0.48	0.09	0.05	1.09	0.34	0.05
FFO	**0.18**	0.42	0.32	0.24	0.17	0.92	0.38	0.23
FFO Diluted	**1.99**	0.45	0.32	0.21	0.17	0.92	0.35	0.23
Book value *	**34.88**	32.51	32.20	31.76	31.88	30.21	30.78	30.64

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

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

Subsequent Events

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

Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Melcor initiated a crisis management plan in response to the COVID-19 pandemic in March. To support physical distancing, Melcor's employee base began to work from home wherever practical. The remote work arrangements did not have an impact on the design of our internal controls. We will continue to monitor and mitigate the risks associated with changes to our control environment in response to COVID 19.

Non-standard Measures

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

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

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

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

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

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

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

Investment Properties

($000s)	Three months ended	
	March 31, 2020	March 31, 2019
Segment Earnings	**3,229**	2,504
Fair value adjustment on investment properties	**1,965**	2,611
General and administrative expenses	**582**	615
Interest income	**(15)**	(5)
Amortization of operating lease incentives	**437**	306
Straight-line rent adjustment	**(52)**	(502)
Divisional NOI	**6,146**	5,529

REIT

($000s)	Three months ended	
	March 31, 2020	March 31, 2019
Segment Earnings	**4,184**	11,010
Fair value adjustment on investment properties	**6,187**	(1,159)
General and administrative expenses	**804**	721
Interest income	**(27)**	(28)
Amortization of operating lease incentives	**1,067**	765
Straight-line rent adjustment	**(251)**	(297)
Divisional NOI	**11,964**	11,012

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

Consolidated

($000s)	Three months ended	
	March 31, 2020	March 31, 2019
Net income for the period	**66,640**	1,590
Amortization of operating lease incentives	**2,094**	1,720
Fair value adjustment on investment properties	**6,794**	23
Depreciation on property and equipment	**201**	187
Stock based compensation expense	**254**	177
Non-cash finance costs	**(771)**	683
Deferred income taxes	**(660)**	(285)
Fair value adjustment on REIT units	**(68,627)**	1,582
FFO	**5,925**	5,677

Investment Properties

($000s)	Three months ended	
	March 31, 2020	March 31, 2019
Segment Earnings	**3,229**	2,504
Fair value adjustment on investment properties	**1,965**	2,611
Amortization of operating lease incentives	**437**	306
Divisional FFO	**5,631**	5,421

REIT

($000s)	Three months ended	
	March 31, 2020	March 31, 2019
Segment Earnings	**4,184**	11,010
Fair value adjustment on investment properties	**6,187**	(1,159)
Amortization of operating lease incentives	**1,067**	765
Divisional FFO	**11,438**	10,616

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

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

Unaudited ($000s)	For the three months ended March 31, 2020	March 31, 2019
Revenue (note 7)	**33,767**	34,884
Cost of sales	**(16,545)**	(16,075)
Gross profit	**17,222**	18,809
General and administrative expense	**(4,963)**	(5,671)
Fair value adjustment on investment properties (note 5 and 11)	**(6,794)**	(23)
Adjustments related to REIT units (note 10)	**66,411**	(3,807)
Operating earnings	**71,876**	9,308
Interest income	**178**	263
Finance costs	**(5,106)**	(6,971)
Net finance costs	**(4,928)**	(6,708)
Income before income taxes	**66,948**	2,600
Income tax expense	**(308)**	(1,010)
Net income for the period	**66,640**	1,590
Income per share:		
Basic earnings per share	**2.00**	0.05
Diluted earnings per share	**2.00**	0.05

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income (Loss)

Unaudited ($000s)	For the three months ended March 31, 2020	March 31, 2019
Net income for the period	**66,640**	1,590
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences	**14,550**	(3,009)
Comprehensive income (loss)	**81,190**	(1,419)

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	**March 31, 2020**	December 31, 2019
ASSETS		
Cash and cash equivalents	**26,396**	36,980
Accounts receivable	**9,306**	9,783
Income taxes recoverable	**9,500**	7,058
Agreements receivable	**69,437**	76,406
Land inventory (note 4)	**769,739**	754,331
Investment properties (note 5 and 11)	**1,154,616**	1,141,591
Property and equipment	**14,021**	13,498
Other assets	**54,768**	56,400
	2,107,783	2,096,047
LIABILITIES		
Accounts payable and accrued liabilities	**48,363**	43,582
Income taxes payable	**—**	855
Provision for land development costs	**53,319**	56,183
General debt (note 6)	**753,453**	751,353
Deferred income tax liabilities	**56,630**	57,174
REIT units (note 10 and 11)	**37,889**	106,643
	949,654	1,015,790
SHAREHOLDERS' EQUITY		
Share capital (note 8)	**72,511**	72,556
Contributed surplus	**4,329**	4,083
Accumulated other comprehensive income (AOCI)	**36,072**	21,522
Retained earnings	**1,045,217**	982,096
	1,158,129	1,080,257
	2,107,783	2,096,047

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited ($000's)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2020	**72,556**	**4,083**	**21,522**	**982,096**	**1,080,257**
Net income for the period	—	—	—	66,640	66,640
Cumulative translation adjustment	—	—	14,550	—	14,550
Transactions with equity holders					
Dividends	—	—	—	(3,321)	(3,321)
Share repurchase (note 8)	(53)	—	—	(198)	(251)
Employee share options					
Value of services recognized	—	254	—	—	254
Share issuance	8	(8)	—	—	—
Balance at March 31, 2020	**72,511**	**4,329**	**36,072**	**1,045,217**	**1,158,129**

Unaudited ($000's)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2019	72,821	3,366	29,129	962,249	1,067,565
Net income for the period	—	—	—	1,590	1,590
Cumulative translation adjustment	—	—	(3,009)	—	(3,009)
Transactions with equity holders					
Dividends	—	—	—	(4,327)	(4,327)
Share repurchase	(141)	—	—	(686)	(827)
Employee share options					
Value of services recognized	—	177	—	—	177
Balance at March 31, 2019	72,680	3,543	26,120	958,826	1,061,169

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

Unaudited ($000's)	For the three months ended March 31, 2020	March 31, 2019
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the period	**66,640**	1,590
Non cash items:		
Amortization of tenant incentives	**2,094**	1,720
Depreciation of property and equipment	**201**	187
Stock based compensation expense	**254**	177
Non-cash finance costs	**(771)**	683
Straight-line rent adjustment	**(354)**	(705)
Fair value adjustment on investment properties (note 5 and 11)	**6,794**	23
Fair value adjustment on REIT units (note 10 and 11)	**(68,627)**	1,582
Deferred income taxes	**(660)**	(285)
	5,571	4,972
Agreements receivable	**6,969**	23,950
Development activities	**(7,302)**	5,425
Purchase of land inventory (note 4)	**—**	(8,496)
Payment of tenant lease incentives and direct leasing costs	**(2,427)**	(1,844)
Operating assets and liabilities	**2,939**	(20,797)
	5,750	3,210
INVESTING ACTIVITIES		
Additions to investment properties (note 5)	**(8,176)**	(5,529)
Net proceeds from disposal of investment properties (note 5)	**257**	314
Purchase of property and equipment	**(724)**	(81)
	(8,643)	(5,296)
FINANCING ACTIVITIES		
Revolving credit facilities	**(649)**	20,821
Proceeds from general debt	**4,098**	16,043
Repayment of general debt	**(8,071)**	(24,715)
Repurchase of REIT units	**(128)**	—
Dividends paid	**(3,321)**	(4,327)
Common shares repurchased (note 8)	**(251)**	(827)
	(8,322)	6,995
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	**631**	(78)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**(10,584)**	4,831
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**36,980**	26,727
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**26,396**	31,558
Total income taxes paid	**3,553**	3,320
Total interest paid	**8,628**	7,433

See accompanying notes to these condensed interim consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

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

Melcor Developments Ltd. ("Melcor" or "we") is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD". As at March 31, 2020 Melton Holdings Ltd. holds approximately 47.3% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at May 20, 2020, Melcor through an affiliate, holds an approximate 55.2% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

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

2. BASIS OF PRESENTATION

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

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 20, 2020.

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

SIGNIFICANT ACCOUNTING POLICIES AND NEW STANDARDS ADOPTED

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

We have adopted the following new IFRS standards effective January 1, 2020

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

Impact of Adoption

The adoption of IFRS 3 did not result in any adjustments upon transition, change in recognition, additional disclosures or changes to our accounting policy.

CRITICAL ACCOUNTING ESTIMATES

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus. These emergency measures have resulted in negative impacts to our economy, and Melcor recognizes that areas of significant estimates may be impacted by the uncertainty surrounding future economic activity

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. The economic uncertainty resulting from COVID-19 has also been considered by management in assessing any impairments to agreements receivable, and will continue to be monitored. As a result of COVID-19 estimates could be subject to changes and such changes may be material. Please refer to note 12 for further information related to credit risk associated with agreements receivable.

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

b) Valuation of investment properties

The fair value of investment properties 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 cost and estimated capital expenditures. Capitalization and discount rates take into account the location, size and quality of the property, a well as market data at the valuation date. The significant economic uncertainty resulting from COVID-19 has impacted the availability of reliable market metrics. Accordingly, Melcor has made estimates of stabilized net operating income or forecasted future cash flows and capitalization and discount rates based on the best information available. The impact of COVID-19 will continue to be considered and monitored when determining the fair value of investment properties. Due to the uncertainty of the situation, estimates could be subject to changes and such changes may be material.

Please refer to note 11 for further information about methods and assumptions used in determining fair value of investment properties.

4. LAND INVENTORY

	March 31, 2020	December 31, 2019
Raw land held	**405,464**	399,456
Land under development	**161,725**	146,743
Developed land	**202,550**	208,132
	769,739	754,331

During the three month period ended March 31, 2020, there were no land purchases made.

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

Land is recorded at the lower of cost and net realizable value. Due to the uncertainty of the economic environment as a result of COVID-19, the net realizable value of land could be subject to significant changes and such changes could be material. As at March 31, 2020 management does not consider there to be a negative impact on the current valuation of land, but will continue monitoring the net realizable value of land during these uncertain times.

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	March 31, 2020	December 31, 2019
Investment properties	**1,067,583**	1,063,026
Properties under development	**87,033**	78,565
Total	**1,154,616**	1,141,591

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

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

			Three months ended March 31, 2020
	Investment Properties	**Properties under Development**	**Total**
Balance - beginning of period	1,063,026	78,565	**1,141,591**
Additions			
Direct leasing costs	202	161	**363**
Property improvements	451	—	**451**
Development costs	—	7,610	**7,610**
Capitalized borrowing costs	—	115	**115**
Disposals	(257)	—	**(257)**
Fair value adjustment on investment properties	(7,376)	582	**(6,794)**
Foreign currency translation (included in OCI)	11,537	—	**11,537**
Balance - end of period	**1,067,583**	**87,033**	**1,154,616**

			Year ended December 31, 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**
Development costs	—	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**

In accordance with our policy we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Due to the uncertainty of the economic environment as a result of COVID-19, fair value estimates could be subject to significant changes and such changes could be material. Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 11.

Acquisitions

During the three months ended March 31, 2020, there were no acquisitions made.

Disposals

On January 16, 2020, we disposed of one residential unit in Arizona for a sales price of $257 (US$191) (net of transaction costs). The sale price was settled through cash.

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

6. GENERAL DEBT

	March 31, 2020	December 31, 2019
Melcor - revolving credit facilities	**67,989**	70,451
REIT - revolving credit facility	**24,677**	22,864
Project specific financing	**73,308**	68,436
Secured vendor take back debt on land inventory	**36,355**	39,005
Debt on investment properties and golf course assets	**487,709**	484,413
REIT - convertible debentures	**63,415**	66,184
General debt	**753,453**	751,353

During the quarter, Melcor entered into mortgage amending agreements with various lenders in order to obtain temporary relief as a result of COVID-19. As of March 31, 2020, mortgage amending agreements entered into related to four mortgages with an outstanding principal balance of $47,553. The terms of the agreements vary by lender and mortgage, providing Melcor with relief of scheduled principal and interest payments and repayable over the remaining term of the mortgage. No changes were made as to the maturity date, interest rate, amortization period or security provided. Melcor has accounted for these agreements as a debt modification.

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

	March 31, 2020	December 31, 2019
Balance - beginning of period	**68,436**	62,639
Cash movements		
Loan repayments	**(1,156)**	(4,058)
New project financing	**4,098**	10,801
Non-cash movements		
Foreign currency translation included in OCI	**1,930**	(946)
Balance - end of period	**73,308**	68,436

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

	March 31, 2020	December 31, 2019
Balance - beginning of period	**39,005**	40,842
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(2,641)**	(17,660)
Non-cash movements		
New secured vendor take back debt	**—**	16,112
Amortization of non-cash interest	**(9)**	(289)
Balance - end of period	**36,355**	39,005

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

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

	March 31, 2020	December 31, 2019
Balance - beginning of period	**484,413**	454,342
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(4,274)**	(15,178)
Mortgage repayments	**—**	(55,803)
New mortgages	**—**	103,753
Non-cash movements		
Deferred financing fees capitalized	**—**	(637)
Amortization of deferred financing fees	**54**	444
Change in derivative fair value swap	**1,309**	865
Foreign currency translation included in OCI	**6,207**	(3,373)
Balance - end of period	**487,709**	484,413

7. REVENUE

Total Revenues

for the three months ended	**March 31, 2020**	March 31, 2019
Revenue from contracts	**11,556**	14,178
Revenue from other sources	**22,211**	20,706
	33,767	34,884

Timing of contract revenue recognition

for the three months ended	**March 31, 2020**	March 31, 2019
At a point in time	**6,645**	8,981
Over time	**4,911**	5,197
	11,556	14,178

8. SHARE CAPITAL

Issued and outstanding common shares at March 31, 2020 are 33,201,677 (December 31, 2019 – 33,225,265). During the three months ended March 31, 2020, there were no options exercised (Q1-2019 – nil).

During the three months ended March 31, 2020 there were 24,200 common shares purchased for cancellation by Melcor pursuant to the Normal Course Issuer Bid (NCIB) at a cost of $251 (December 31, 2019 - 121,252 common shares purchased at a cost of $1,526). Share capital was reduced by $53 and retained earnings reduced by $198. The NCIB commenced March 31, 2019 and ended March 30, 2020. Refer to note 13 for information pertaining to the NCIB which commenced after the quarter end.

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

9. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues

For the three months ended	**March 31, 2020**	March 31, 2019
United States	**4,308**	6,821
Canada	**29,459**	28,063
Total	**33,767**	34,884

Total Assets

As at	**March 31, 2020**	December 31, 2019
United States	**285,939**	256,144
Canada	**1,821,844**	1,839,903
Total	**2,107,783**	2,096,047

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

9. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

For the three months ended March 31, 2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	6,768	93	9,643	19,292	156	—	**35,952**	(2,185)	**33,767**
Cost of sales	(4,702)	—	(3,882)	(8,144)	(512)	—	**(17,240)**	695	**(16,545)**
Gross profit	2,066	93	5,761	11,148	(356)	—	**18,712**	(1,490)	**17,222**
General and administrative expense	(1,705)	(528)	(582)	(804)	(341)	(1,717)	**(5,677)**	714	**(4,963)**
Fair value adjustment on investment properties	—	582	(1,965)	(6,187)	—	—	**(7,570)**	776	**(6,794)**
Interest income	117	12	15	27	—	7	**178**	—	**178**
Segment Earnings (Loss)	478	159	3,229	4,184	(697)	(1,710)	**5,643**	—	**5,643**
Finance costs									**(5,106)**
Adjustments related to REIT units									**66,411**
Income before tax									**66,948**
Income tax expense									**(308)**
Net income for the period									**66,640**

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

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

10. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 44.8% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss (“FVTPL”). As at March 31, 2020 the REIT units had a fair value of $37,889 . We recorded adjustments related to REIT units for the three months ended March 31, 2020 of $66,411 (Q1-2019 - $3,807). Melcor notes that the economic uncertainty surrounding COVID-19 has created volatility in the equity markets which has significantly impacted the fair value of these units.

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

During the three-month period, there were 23,264 share purchased for cancellation by the REIT pursuant to the REIT NCIB at a cost of $128, which is recorded as reduction in the balance of REIT units on the consolidated statement of financial position.

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

For the three months ended	**March 31, 2020**	March 31, 2019
Fair value adjustment on REIT units (note 11)	**68,627**	(1,582)
Distributions to REIT unitholders	**(2,216)**	(2,225)
Adjustments related to REIT units	**66,411**	(3,807)

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

As at	**March 31, 2020**	December 31, 2019
Assets	**777,435**	783,534
Liabilities	**460,546**	463,879
Net assets	**316,889**	319,655
Cost of NCI	**103,959**	103,959
Fair value of NCI	**37,889**	106,643

For the three months ended	**March 31, 2020**	March 31, 2019
Rental Revenue	**19,292**	17,944
Net income and comprehensive income	**83,912**	2,478
Cash flows from operating activities	**3,453**	2,751
Cash flows used in investing activities	**(115)**	(882)
Cash flows from (used in) financing activities, before distributions to REIT unitholders	**(1,510)**	322
Cash flows used in financing activities - cash distributions to REIT unitholders	**(2,216)**	(2,225)
Net decrease in cash and cash equivalents	**(388)**	(34)

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

11. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

					March 31, 2020	December 31, 2019	
	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**	**1,154,616**	**—**	**1,154,616**	**1,154,616**	1,141,591	1,141,591
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	**Level 3**	**—**	**688,591**	**688,591**	**706,111**	685,107	697,920
Convertible debentures	**Level 2**	**—**	**63,406**	**63,406**	**35,675**	63,104	67,990
Derivative financial liability							
Interest rate swaps	**Level 3**	**1,447**	**—**	**1,447**	**1,447**	62	62
Conversion feature on convertible debentures	**Level 3**	**9**	**—**	**9**	**9**	3,080	3,080
REIT units	**Level 1**	**37,889**	**—**	**37,889**	**37,889**	106,643	106,643

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

Investment properties

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

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

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

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

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

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

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

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

Investment properties were valued by Melcor's internal valuation team as at March 31, 2020 of which 4 investment properties (of 90 legal phases) with a fair value of $55,050 were valued by qualified independent external valuation professionals during the period. Valuations performed during the period resulted in net fair value losses of $6,794. As at December 31, 2019 Melcor's internal valuation team valued investment properties 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. Valuations performed during 2019 resulted in net fair value gains of $12,234.

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.

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

Weighted average annual stabilized net operating income for investment properties as at March 31, 2020 is $1,629 (December 31, 2019 - $1,647) per property. Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties			**Properties under Development**		
March 31, 2020	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**10.50%**	**6.72%**	**5.50%**	**6.00%**	**5.78%**
Terminal capitalization rate	**5.75%**	**9.00%**	**6.82%**	**5.75%**	**6.25%**	**6.03%**
Discount rate	**6.25%**	**9.50%**	**7.67%**	**6.50%**	**7.00%**	**6.85%**

	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%

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by $64,151 (December 31, 2019 - $63,850). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by $74,460 (December 31, 2019 - $74,077). Due to the uncertainty of the economic environment as a result of COVID-19, these estimates could be subject to significant changes and such changes could be material.

General debt, excluding derivative financial liabilities

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

The fair value of project specific financing, secured vendor take back debt on land inventory and debt on investment properties and golf course assets and convertible debenture have been calculated by discounting the expected cash flows of each loan using a discount rate specific to each individual loan. The discount rate is determined using the bond yield for similar instruments of similar maturity adjusted for each individual project's specific credit risk. In determining the adjustment for credit risk, we consider current market conditions and other indicators of credit worthiness. Due to the volatility resulting from uncertainty surrounding COVID-19, interest rates have declined significantly, which has had a negative impact on the fair value of our general debt. Melcor is expecting to continue experiencing significant volatility as the situation evolves.

Derivative financial liabilities

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

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at March 31, 2020, the fair value of interest rate swap contracts was $1,447 (December 31, 2019 - $62).

The significant unobservable inputs used in the fair value measurement of the conversion features on the REIT convertible debentures are volatility and credit spread. As at March 31, 2020 the fair value of the conversion feature on our convertible debenture was $9 (December 31, 2019 - $3,080)

Due to the volatility in the equity and debt markets resulting from uncertainty surrounding COVID-19, the REIT trust units and convertible debentures have been negatively impacted which has has had a significant impact on the fair value of the conversion features on REIT convertible debentures. Melcor is expecting to continue to experience significant volatility as the situation evolves.

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At March 31, 2020 the fair value of the REIT units was $37,889, resulting in a fair value gain during the three months ended of $68,627 (Q1-2019 - loss of $1,582) in the statement of income and comprehensive income for the period ended ended March 31, 2020 (note 10). Melcor notes that the economic uncertainty surrounding COVID-19 has created volatility in the equity markets which has significantly impacted the fair value of these units.

12. RISK MANAGEMENT

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

a. *Credit Risk*

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

Accounts receivables 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.

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

b. *Liquidity Risk*

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

To mitigate the risk associated with the economic uncertainty caused by COVID-19, Melcor has entered into several amending agreements to obtain relief periods in which payments of interest and principal will be suspended temporarily.

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 $2,307 (December 31, 2019 - $2,273). Due to the volatility resulting from the uncertainty surrounding COVID-19, there is risk that these rates will fluctuate significantly. We are not subject to other significant market risks pertaining to our financial instruments.

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

13. EVENTS AFTER THE REPORTING PERIOD

Normal Course Issuer Bid

On April 1, 2020 Melcor commenced a normal course issuer bid ("NCIB") which allows us to purchase up to 1,661,033 shares for cancellation, representing approximately 5% of Melcor's issued and outstanding trust units. The shares may be repurchased up to a maximum daily limit of 1,000. The price which Melcor will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2021.

In accordance with temporary relief announced by the TSX on March 23, 2020, the number of shares that can be purchased pursuant to the NCIB is subject to a current daily maximum of 1,616 shares (which is equal to 50% of 3,233, being the average daily trading volume from September 2019 through to February 29, 2020). Following the expiry of such temporary relief on June 30, 2020 (or such later date as may be announced by the TSX), the number of Shares that can be purchased pursuant to the NCIB will be subject to a daily maximum of 1,000 shares (which is the greater of 25% of 3,233 or 1,000).

In connection with the commencement of the NCIB, Melcor also 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 Melcor ordinarily would not be active in the market due to regulatory restrictions or self imposed trading blackout period.

As of May 20, 2020, there were 35,020 common shares purchased for cancellation by Melcor pursuant to the NCIB at a cost of $231.

REIT Normal Course Issuer Bid

On April 1, 2020 the REIT commenced a normal course issuer bid ("REIT NCIB") which allows the REIT to purchase up to 655,792 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,207. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The REIT NCIB ends one year from commencement on March 31, 2021.

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

As of May 20, 2020, there were 59,526 trust units purchased for cancellation by the REIT pursuant to the NCIB at a cost of $209. Following the expiration of the blackout on May 15, 2020 the REIT suspended its purchases under the NCIB program in light of the continued market volatility and in an effort to conserve cash.

Distributions on REIT trust units

On May 14, 2020 the REIT declared a distribution of $0.03 per unit for the month of May 2020. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
May 2020	May 29, 2020	June 15, 2020	$0.03 per unit

Dividends declared

On May 20, 2020 our board of directors declared a dividend of $0.08 per share payable on June 30, 2020 to shareholders of record on June 15, 2020.

Impact of COVID-19

Subsequent to the quarter, the continued government measures to combat the spread of COVID-19 have resulted in further impact. Events that have taken place subsequent to March 31, 2020 as a result of this pandemic are as follows:

Rental Revenue

As a result of COVID-19 and the direct impact on many of the Melcor's tenants, Melcor has proactively engaged with lessees in order to provide temporary rent relief. The amount and duration of the relief provided is dependent on the tenant's situation and include full or partial deferral of lease payments for periods of one to four months or on a month to month basis. Deferred amounts remain owing and are repayable over a fixed term.

Subsequent to the quarter, the government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses. The program will provide forgivable loans to qualifying commercial property owners to cover 50% of three monthly rent payments that are payable by eligible small business tenants, requiring the tenant to pay 25% and the landlord to forgive the remaining 25% of the lease payments. At this time it is too premature to determine with certainty how many of Melcor's tenants will quality for this program.

Melcor remains committed to supporting its tenants through this period while ensuring we remain financially strong in order to navigate through this period of uncertainty.

REIT Units

Due to the volatility in the equity markets the REIT continues to experience significant fluctuations in the fair value of their units. As at May 20, 2020 the market value of these units was $3.55. The REIT expects to continue to experience significant volatility as the situation evolves.

Mortgages & Vendor Take Back Loans Payable

Subsequent to March 31, 2020 and in connection with COVID-19, amending mortgage agreements have been entered into with various financial institutions related to Melcor's mortgages. These amendments have been entered into in order to provide Melcor with temporary relief periods related to the payment of principal and interest, or just interest, on these mortgages in an effort to conserve cash. These amendments will result in a period of time in which Melcor will not be required to make payments of interest or principal, but the term and interest rate related to the mortgage will not change. Accrued interest and principal payments during the relief period will be added proportionally to the remainder of the mortgage term which will not change.

Also subsequent to the quarter, Melcor entered into six vendor take back amending agreements with various lenders with a principal balance of $18,394 in order to obtain temporary relief as a result of COVID-19. The terms of the agreements vary by lender and loan, providing Melcor with relief of scheduled principal and interest payments over the remaining term of the loan, or extending the term of the loan. No changes were made to interest rates or security provided.