PRESS RELEASE

for immediate distribution

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

Edmonton, Alberta | November 10, 2020

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the third quarter and nine months ended September 30, 2020. Revenue was up 35% to $73.05 million compared to Q3-2019. Year to date revenue was up 12% to $145.87 million compared to the same period last year. Growth in revenue is due to the year to date increase in single-family lot sales in both Canada (290 compared to 250) and the United States (229 compared to 24). This led to the 66% increase in community development revenue over Q3-2019 and 1% year to date. Revenue in our Investment Properties and REIT divisions grew by 2% over Q3-2019 and 3% year to date 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 (GLA) grew by 2% as a result of four properties with a total of 36,314 sf transferred from our Property Development division during the quarter, while GLA in the REIT grew by 10%.

Net income in the third quarter and year to date was significantly impacted by non-cash fair value gains on REIT units and fair value losses on investment properties. In Q3-2020, valuations of investment properties resulted in a non-cash fair value loss of $0.86 million contributing to a lower net income of $7.53 million in the quarter compared $16.07 million in Q3-2019. Year to date net income was positively impacted by non-cash fair value gains of $56.32 million on REIT units as the unit price went from $8.12 at the beginning the year to $3.83 at September 30, 2020. Year to date net income was $11.58 million or $0.35 per share (basic) compared with a net income of $20.80 million or $0.62 per share (basic) in the same period of 2019.

These drastic swings in net income caused by non-cash gains and losses are the reason that management relies on Funds from Operations (FFO) as a better reflection of Melcor's true operating performance. FFO was up 34% to $14.32 million or $0.43 per share in the quarter and up 21% to $29.52 million or $0.89 per share year to date. The FFO increase over last year is primarily due to the 14% decrease in general and administrative spending over Q3-2019 and 16% year to date as we have focused on minimizing controllable expenses.

Darin Rayburn, Melcor's President and Chief Executive Officer, commented on the quarter: "We are pleased with our results through the first nine-months of 2020, a year that challenged the whole world in so many unanticipated ways. I am especially grateful to our team, who rose to the challenge, and through self-sacrifice and smart planning delivered these results.

As has been the case for the past few years, our diversification strategies of expanding to the US and increasing our portfolio of income producing properties continue to have a positive effect on our results. Our US operations contributed nearly a third of our year to date revenue.

Year to date US results include the complete sellout of our second phase of Harmony near Denver, Colorado. We began servicing a new phase in the third quarter to maintain inventory supply to match current sales velocity.

Investment properties and the REIT were the divisions most impacted by COVID-19. We worked with our tenants to provide temporary relief to support them through this time. We also participated in the CECRA program on behalf of qualified tenants. As of September 30, we had collected 93% of third quarter rent and 85% of second quarter rent, with $4.92 million in outstanding arrears. We expect to collect all deferred and uncollected rent.

We continue to grow our portfolio of commercial properties, with the property development team delivering 36,314 square feet of fully leased neighbourhood shopping centre buildings to investment properties for active management. They have a further 191,716 square feet under active development or completed and awaiting lease-up.

Gross margin erosion is a result of a combination of factors, including bad debts related to the CECRA program (primarily in the REIT), the volume of revenue from Harmony, which as a new community carries higher costs to build brand awareness and competitive pricing to drive initial sales velocity, and lower margins in Canadian community development due to the trend towards smaller product types and minimal land sales in the quarter.

Our results year to date come from thoughtful planning to ensure that our product will meet market demand and focused execution through volatile times. Throughout our 97 year history, we have pivoted when necessary to ensure the future strength of our company. 2020 has been a year unlike any other, yet Melcor continued to grow."

The Board today declared a quarterly dividend of $0.08 per share, payable on December 31, 2020 to shareholders of record on December 15, 2020. The dividend is an eligible dividend for Canadian tax purposes.

Third Quarter Results

Given the longer term nature of real estate development, comparison of any three-month period may not be meaningful.

Revenue in Q3-2020 was up 35% over Q3-2019 and 12% year to date. The main contributor to this increase was the release of the second stage of Harmony (Aurora, CO), which sold out and contributed $25.68 million in revenue in the quarter, with overall US lot sales having contributed $32.45 million year to date.

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. In 2019, 85.09 acres of land sales made up 45% of Community Development revenue, compared to 0.80 acres contributing 1% of revenue year to date in 2020. Community Development revenue was up 66% in the quarter and 1% year to date, primarily due to COVID-19 delaying the spring selling season into the summer and the bulk purchase of lots in Harmony.

Our income producing divisions (Investment Properties and REIT) continue to grow, with a 7% increase in GLA under management contributing to third quarter revenue growth of 2% over Q3-2019 and 3% year to date. During the quarter our Property Development division transferred 4 buildings (36,314 sf) for $13.87 million in transfer revenue.

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

COVID-19 continues to impact results as described in the Significant Event - COVID-19 section of this MD&A. The main impacts in Q3-2020 and year to date are:

- Investment Property valuations resulting in fair value losses of $69.54 million year to date.
- The decline in the REIT's traded security values, with a 53% decrease in the trading price of trust units (compared to December 31, 2019), resulting in a $56.32 million fair value gain.
- Provisions for doubtful accounts of $1.64 million.
- CECRA rent forgiveness of $0.82 million.

FINANCIAL HIGHLIGHTS

- Revenue was up 12% year to date and 35% in the quarter as a result of increased lots sales in both Canada and the US during Q3-2020 and year to date. The second phase of Harmony in the US sold out during the quarter, contributing $25.68 million in revenues. Overall US lot sales from the first and second phases of Harmony contributed $27.51 million in Q3-2020 compared to $2.89 million in Q3-2019.
- Funds from operations (FFO) increased 21% year to date and 34% in the quarter. This increase is a result of our continued focus on reducing general and administrative expenses, which were down 14% in the quarter and 16% year to date; in conjunction with lower distributions on REIT units and reduced finance costs.
- Year to date net income was positively impacted by the non-cash fair value gains on REIT units of $56.32 million due to the drastic swing in the REIT unit price from December 31, 2019 at $8.12 per unit down to $3.83 per unit on September 30, 2020 as worldwide equity markets experienced significant volatility due to COVID-19. This non-cash increase to net income was offset by non-cash fair value losses on investment properties of $69.54 million. Both these gains 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 cautious new development, have resulted in a 32% reduction to single-family lot inventory since September 30, 2019. Community phases under development are comprised of predominantly smaller, more affordable product types such as laned homes, duplex, townhomes and multi-family sites as there has been demand from builders for these products. In 2020, we introduced three new communities:
    - **North Clifton Estates (Kelowna, BC)**: We began marketing the initial phase of North Clifton Estates in Kelowna, BC in Q1-2020. This high-end Okanagan lake front community is just 20 minutes from downtown Kelowna and has generated significant interest, resulting in 13 of the 44 lots in Phase 1 sold as of Q3-2020.

  - **Lanark Landing (Airdrie, AB)**: The remaining first phase showhomes opened during the quarter. The first phase of this community features a variety of home types (laned single-family, duplex and townhome). Interest in the project has been strong and we have begun development of the next phase, which introduces front drive single-family and duplex to the product mix.
  - **Rosewood at Secord (Edmonton, AB):** Showhomes in our new community of Rosewood opened this fall. This community, featuring affordable modern farmhouse, prairie contemporary, heritage and classic modern style single-family and townhomes with multi-family sites is garnering strong interest.

  Interest in Harmony (Aurora, CO) remained strong throughout the quarter and our builder group bought out an additional 15 lots in phase 1 and bought out all inventory in phase 2 (181 lots). The STEM-focused neighbourhood school, Harmony Ridge, is set to open for the 2020-21 school year and the community centre with pool was completed in June 2020; however, it remains closed due to COVID-19. Phase 3 of the community is now under development.

- **Property Development** transferred four buildings (36,314 sf) to our Investment Property division during the quarter. The Property Development team has a total of 133,225 sf currently under construction in six projects. A further 58,491 sf is complete and awaiting lease-up and/or transfer in two projects.
- Total GLA under management has increased 7% via transfers from property development (132,426 sf) and third party acquisitions (283,000 sf) and partially offset by two divestures (87,000 sf) since September 30, 2019. Revenue in our income-producing divisions (**Investment Properties** and **REIT**) was up 2% over Q3-2019 and 3% over the same period last year. Revenue growth from portfolio growth was offset by reduced recovery revenue on account of lower direct operating costs and lower same-asset performance. 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 rent collection information.

  The invesment property portfolio remained stable in the third quarter (fair value loss of $0.86 million) following a full revaluation of our Canadian portfolio by our external valuation professionals in the second quarter (year to date loss of $69.54 million). Valuation losses were partially offset by gains in our Property Development division as a result of continued development on several projects.

- Our golf courses (**Recreational Properties**) opened May 1 in BC and May 7 in Alberta, later than the weather would have allowed due to COVID-19 restrictions. These late opening dates were offset by renewed interest in golf as a less-risky recreation option, and our courses made headway on lost revenue in the third quarter while also improving margin.

RETURNING VALUE

- We continue to return value to our shareholders and unit holders:
  - We paid a quarterly dividend of $0.08 per share on September 30, 2020. The dividend was cut following the first quarter to conserve cash and support our response to COVID-19.
  - On November 10, 2020 we declared a quarterly dividend of $0.08 per share, payable on December 31, 2020 to shareholders of record on December 15, 2020. The dividend is an eligible dividend for Canadian tax purposes.
  - The REIT paid distributions of $0.03 per unit in July, August and September for a quarterly ACFO payout ratio of 73%. Distributions made subsequent to September 2020 remained at $0.03 per unit to conserve cash to support its response to COVID-19.

Selected Highlights

($000s except as noted)	**Three-months**			**Nine-months**		
	30-Sept-20	30-Sept-19	Change	**30-Sept-20**	30-Sept-19	Change
Revenue	**73,051**	53,946	35.4 %	**145,871**	129,915	12.3 %
Gross margin (%) *	**36.4 %**	43.5 %	(16.3)%	**43.3 %**	49.5 %	(12.5)%
Net income (loss)	**7,526**	16,068	(53.2)%	**11,576**	20,795	(44.3)%
Net margin (%) *	**10.3 %**	29.8 %	(65.4)%	**7.9 %**	16.0 %	(50.6)%
Funds from operations *	**14,315**	10,696	33.8 %	**29,516**	24,348	21.2 %
Per Share Data ($)						
Basic earnings (loss)	**0.23**	0.48	(52.1)%	**0.35**	0.62	(43.5)%
Diluted earnings (loss)	**0.23**	0.48	(52.1)%	**0.35**	0.62	(43.5)%
Funds from operations *	**0.43**	0.32	34.4 %	**0.89**	0.73	21.9 %

As at ($000s except as noted)	**30-Sept-20**	31-Dec-19	Change
Shareholders' equity	**1,087,572**	1,080,257	0.7 %
Total assets	**2,029,003**	2,096,047	(3.2)%
Per Share Data ($)			
Book value *	**32.83**	32.51	1.0 %

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three and nine months ended September 30, 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 4.54 million sf in commercial real estate assets and 604 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

November 10, 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 September 30, 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) applicable to the preparation of interim financial statements, i*ncluding IAS 34, Interim Financial Reporting*, 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 November 10, 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.

Forward-looking Statements

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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.

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 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. We also caution readers that the ongoing COVID-19 pandemic has resulted in both new and increased risk, creating significant uncertainty as to the outlook for Melcor. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risks in our annual MD&A and the updated risk disclosure contained in the Business Environment & Risks section contained 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 Melcor or on its behalf.

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Our Business

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

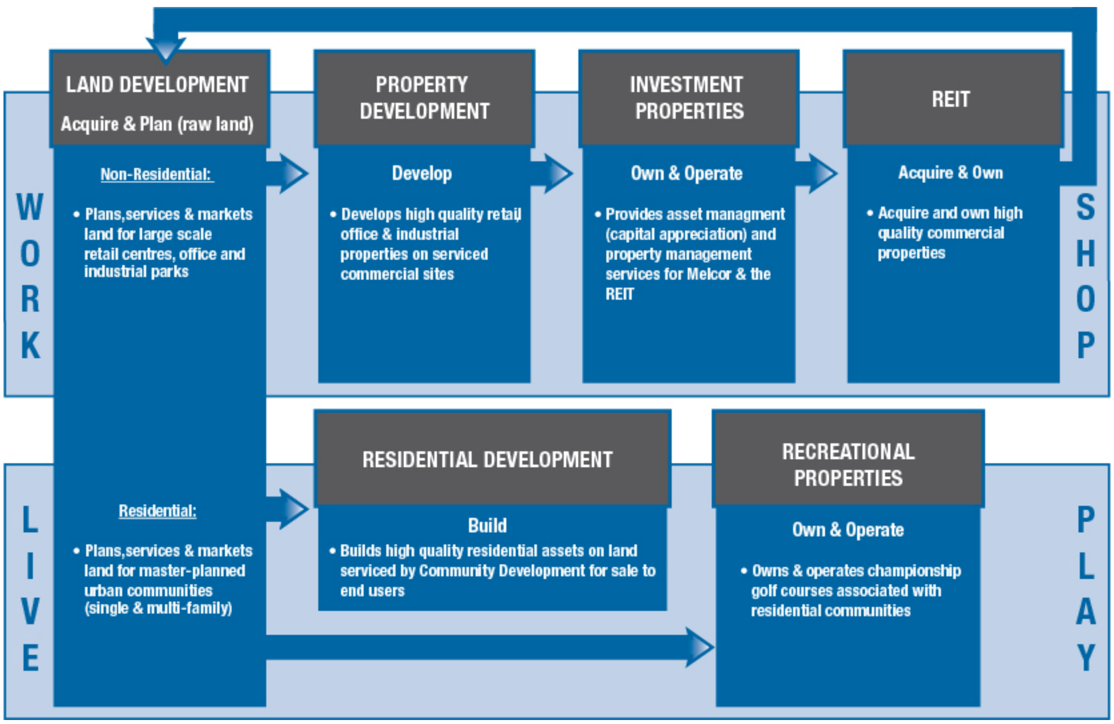
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

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

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

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



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

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

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

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. Initial measures included mandatory closure of all non-essential businesses until Stage 2 of Alberta's relaunch strategy allowed them to reopen after June 12. This had a material impact on many of our tenants.

While Canada is now in the midst of the second wave, the long-term impact of COVID-19 related economic stressors remains to be seen.

Melcor responded quickly 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.

We use Alberta Health Services (AHS) guidelines as a baseline for the operations of all business units. In many cases, our precautions exceed the recommended actions.

We re-opened our offices to staff in August with protocols in place to limit contact and cohort sizes. Masks are required to be worn unless working in a private space.

After working closely with AHS on event design, we executed three successful community events in mid-September. We have no further plans to hold community events and we continue to promote safe practices in all business units, including promoting virtual showhome tours.

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

Operations Update

Both Melcor and the REIT implemented measures since March 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 dividend to $0.10 per share and the June, September and December dividends to $0.08 per share.
- Reducing REIT distributions to $0.03 per trust unit for April through December.
- Deferring discretionary capital spending planned for 2020 in an effort to improve near term liquidity and reduce non-essential activities at our properties. Strategic value-adding asset enhancement and preservation projects remain a cornerstone of our long-term strategy to improve our assets and retain and attract tenants. In the current environment we remain focused on our long-term objectives while balancing near-term needs in establishing our priorities to endure this pandemic.
- 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 for two months and reduced remuneration for all remaining staff from April 1st to July 31st. The majority of furloughed staff returned to work on July 1st, in some cases as part of a work share program. Eight employees were permanently laid off and the board and senior management remained on reduced remuneration through Q3-2020.

The majority of these deferrals have now ended with repayments underway. 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 lease payments 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 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.

To date, we have been pleasantly surprised by the minimal impact COVID-19 has had on community development and recreational properties. New home sales in Canada, while slow through April, picked up significantly in May and June and remained stable through the the third quarter. New home sales in Harmony (Aurora, CO) remained steady throughout the year, resulting in the sell-out of the second phase (181 lots) in Q3-2020. In spite of the delayed opening of our golf courses, they were busy throughout the season and managed to improve margins by 15% in the quarter and 8% year to date by reducing staffing, improving operating efficiencies and focusing on simpler food and beverage menu choices.

In spite of these successes over the past two quarters, we caution that COVID-19 fall-out may have a negative impact on our future cash flow and net operating income.

Collections Update

As a result of COVID-19 and the direct impact on many of our tenants, we have and continue to proactively engage with our tenants to provide temporary relief through rent deferral agreements. The amount and duration of relief provided is dependent on the tenant's situation and includes 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. As of September 30, we had collected 93% of third quarter rent and 85% of second quarter rent, with $4.92 million in outstanding arrears, of which $0.91 million has been deferred and a further $1.64 million has been provided for as bad debt where collectibility is doubtful. The majority of our tenants are working cooperatively with us in finding mutually acceptable arrangements for repayment of arrears.

The following table outlines our rent collections in the second and third quarters by asset class.

Collections by Asset Class (% of Total Billed Rent)

	Q2-2020	Q3-2020	Total	Office	Retail	Industrial	Residential
Tenant collected	81	91	**86**	89	80	93	100
Government collected	4	2	**3**	2	4	3	—
Total collected	**85**	**93**	**89**	**91**	**84**	**96**	**100**
Provisions and write-offs for bad debts	9	4	**7**	6	9	4	—
Deferred receivables	3	—	**1**	1	3	—	—
Uncollected	3	3	**3**	2	4	—	—
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Melcor expects full collection of deferred and uncollected amounts. To date 97% of October 2020 billed rent has been collected.

The federal government, in partnership with the provinces and territories, created the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses that qualify for the months of April through September 2020. Under the program, the government covers 50% of rent payable by eligible small business tenants, while the landlord forgives at least 25% of rent covered by the application, with the tenant paying the balance.

We completed CECRA applications on behalf of 106 tenants representing approximately 7% of Melcor's billed rent for the program period at a net cost of $0.82 million for the nine-months ended September 30, 2020.

On October 9th the federal government announced a new commercial rent program, the Canadian Emergency Rent Subsidy (CERA) program, to succeed the CECRA program. The program is to provide direct tenant rent support; however details and conditions have yet to be finalized.

Year to date we have recorded $1.64 million in bad debt expense unrelated to the CECRA program. The increase in expected credit losses is due to the current environment.

The following table outlines our bad debts expense recorded year to date:

Bad Debt Expenses and Write-offs ($000s)

	Nine-months ended September 30, 2020			Nine-months ended September 30, 2019	
	CECRA Write-offs	**Net Other Bad Debts Expense**	**Total Bad Debts Expense**	Net Other Bad Debts Expense	Total Bad Debts Expense
Retail	**523**	**778**	**1,301**	102	102
Office	**256**	**860**	**1,116**	105	105
Industrial	**44**	**—**	**44**	—	—
Other	**—**	**—**	**—**	—	—
Total	**823**	**1,638**	**2,461**	207	207

The following table illustrates our outstanding billed receivables (excluding deferred amounts), deferrals and allowances as at September 30, 2020 and December 31, 2019 by asset class. Accrued and other receivables of $6.44 million (2019 - $8.90 million) are not reflected in the figures illustrated below.

Tenant Receivables and Provisions ($000s)					
	Nine-months ended September 30, 2020			December 31, 2019	
	Tenant Billed Receivables	**Deferred Tenant Receivables**	**Allowance for Doubtful Accounts**	Tenant Billed Receivables	Allowance for Doubtful Accounts
Retail	**2,193**	**642**	**(598)**	435	(124)
Office	**1,798**	**267**	**(1,043)**	678	(131)
Industrial	**1**	**—**	**—**	18	—
Other	**18**	**—**	**—**	3	—
Total	**4,010**	**909**	**(1,641)**	1,134	(255)

In addition to deferral arrangements Melcor has entered into lease amendments with certain tenants to provide near term rent relief. These arrangements underscore our continued partnership with our tenants to support them in enduring the length of the pandemic and being successful long-term.

We worked diligently with our tenants to support them through the first wave of COVID-19. We believe that the strong relationships that we continually build with our tenants are a key factor in our strong rental collection rates throughout this challenging period. Based on current conditions, we expect rent collections to remain stable; however, caution that despite all efforts, we anticipate an increase in tenant delinquencies due to the lingering impacts of COVID-19.

Valuation Update

Due to the rapidly evolving and widespread impacts of the pandemic, our total Canadian portfolio was revalued by our external valuation professionals during the nine-months ended September 30, 2020, resulting in a fair value loss of $69.54 year to date, or 6% of our portfolio value. Losses were due to declining stabilized NOI and projected cash flows as well as a 25-50 bps increase in capitalization rates and discount rates. To date conditions within our US portfolio have remained stable.

Financing & Liquidity

The financing environment, including commercial lending, has been significantly impacted by the effects of COVID-19 and various government measures undertaken. While conditions have improved since the first wave of the pandemic, lenders remain cautious, and conditions remain uncertain as to the near and long-term impacts of the pandemic on real estate fundamentals. Melcor continues to focus on cash conservation in order to bolster near term liquidity. Total liquidity (cash and line availability) was $79.21 million as at September 30, 2020 (December 31, 2019 - $67.68 million).

Outlook

Even in this more stable environment, it is not possible to accurately predict the extent and duration of the impact of COVID-19 on our future results.

Third Quarter Highlights

($000s except as noted)	Three months ended			Nine months ended		
	30-Sept-20	30-Sept-19	Change	**30-Sept-20**	30-Sept-19	Change
Revenue	**73,051**	53,946	35.4 %	**145,871**	129,915	12.3 %
Gross margin (%) *	**36.4 %**	43.5 %	(16.3)%	**43.3 %**	49.5 %	(12.5)%
Net income (loss)	**7,526**	16,068	(53.2)%	**11,576**	20,795	(44.3)%
Net margin (%) *	**10.3 %**	29.8 %	(65.4)%	**7.9 %**	16.0 %	(50.6)%
Funds from operations *	**14,315**	10,696	33.8 %	**29,516**	24,348	21.2 %
Per Share Data ($)						
Basic earnings (loss)	**0.23**	0.48	(52.1)%	**0.35**	0.62	(43.5)%
Diluted earnings (loss)	**0.23**	0.48	(52.1)%	**0.35**	0.62	(43.5)%
Funds from operations *	**0.43**	0.32	34.4 %	**0.89**	0.73	21.9 %

As at ($000s except as noted)	**30-Sept-20**	31-Dec-19	Change
Shareholders' equity	**1,087,572**	1,080,257	0.7 %
Total assets	**2,029,003**	2,096,047	(3.2)%
Per Share Data ($)			
Book value *	32.83	32.51	1.0 %

**See non-standard measures for calculation.*

Given the longer term nature of real estate development, comparison of any three-month period may not be meaningful.

Revenue in Q3-2020 was up 35% over Q3-2019 and 12% year to date. The main contributor to this increase was the release of the second stage of Harmony (Aurora, CO), which sold out and contributed $25.68 million in revenue in the quarter, with overall US lot sales having contributed $32.45 million year to date.

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. In 2019, 85.09 acres of land sales made up 45% of Community Development revenue, compared to 0.80 acres contributing 1% of revenue year to date in 2020. Community Development revenue was up 66% in the quarter and 1% year to date, primarily due to COVID-19 delaying the spring selling season into the summer and the bulk purchase of lots in Harmony.

Our income producing divisions (Investment Properties and REIT) continue to grow, with a 7% increase in GLA under management contributing to third quarter revenue growth of 2% over Q3-2019 and 3% year to date. During the quarter our Property Development division transferred 4 buildings (36,314 sf) for $13.87 million in transfer revenue.

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

COVID-19 continues to impact results as described in the Significant Event - COVID-19 section of this MD&A. The main impacts in Q3-2020 and year to date are:

- Investment Property valuations resulting in fair value losses of $69.54 million year to date.
- The decline in the REIT's traded security values, with a 53% decrease in the trading price of trust units (compared to December 31, 2019), resulting in a $56.32 million fair value gain.
- Provisions for doubtful accounts of $1.64 million.
- CECRA rent forgiveness of $0.82 million.

FINANCIAL HIGHLIGHTS

- Revenue was up 12% year to date and 35% in the quarter as a result of increased lots sales in both Canada and the US during Q3-2020 and year to date. The second phase of Harmony in the US sold out during the quarter, contributing $25.68 million in revenues. Overall US lot sales from the first and second phases of Harmony contributed $27.51 million in Q3-2020 compared to $2.89 million in Q3-2019.
- Funds from operations (FFO) increased 21% year to date and 34% in the quarter. This increase is a result of our continued focus on reducing general and administrative expenses, which were down 14% in the quarter and 16% year to date; in conjunction with lower distributions on REIT units and reduced finance costs.

- Year to date net income was positively impacted by the non-cash fair value gains on REIT units of $56.32 million due to the drastic swing in the REIT unit price from December 31, 2019 at $8.12 per unit down to $3.83 per unit on September 30, 2020 as worldwide equity markets experienced significant volatility due to COVID-19. This non-cash increase to net income was offset by non-cash fair value losses on investment properties of $69.54 million. Both these gains 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 cautious new development, have resulted in a 32% reduction to single-family lot inventory since September 30, 2019. Community phases under development are comprised of predominantly smaller, more affordable product types such as laned homes, duplex, townhomes and multi-family sites as there has been demand from builders for these products. In 2020, we introduced three new communities:
    - **North Clifton Estates (Kelowna, BC)**: We began marketing the initial phase of North Clifton Estates in Kelowna, BC in Q1-2020. This high-end Okanagan lake front community is just 20 minutes from downtown Kelowna and has generated significant interest, resulting in 13 of the 44 lots in Phase 1 sold as of Q3-2020.
    - **Lanark Landing (Airdrie, AB)**: The remaining first phase showhomes opened during the quarter. The first phase of this community features a variety of home types (laned single-family, duplex and townhome). Interest in the project has been strong and we have begun development of the next phase, which introduces front drive single-family and duplex to the product mix.
    - **Rosewood at Secord (Edmonton, AB):** Showhomes in our new community of Rosewood opened this fall. This community, featuring affordable modern farmhouse, prairie contemporary, heritage and classic modern style single-family and townhomes with multi-family sites is garnering strong interest.

  Interest in Harmony (Aurora, CO) remained strong throughout the quarter and our builder group bought out an additional 15 lots in phase 1 and bought out all inventory in phase 2 (181 lots). The STEM-focused neighbourhood school, Harmony Ridge, is set to open for the 2020-21 school year and the community centre with pool was completed in June 2020; however, it remains closed due to COVID-19. Phase 3 of the community is now under development.

- **Property Development** transferred four buildings (36,314 sf) to our Investment Property division during the quarter. The Property Development team has a total of 133,225 sf currently under construction in six projects. A further 58,491 sf is complete and awaiting lease-up and/or transfer in two projects.
- Total GLA under management has increased 7% via transfers from property development (132,426 sf) and third party acquisitions (283,000 sf) and partially offset by two divestures (87,000 sf) since September 30, 2019. Revenue in our income-producing divisions (**Investment Properties** and **REIT**) was up 2% over Q3-2019 and 3% over the same period last year. Revenue growth from portfolio growth was offset by reduced recovery revenue on account of lower direct operating costs and lower same-asset performance. 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 rent collection information.

  The invesment property portfolio remained stable in the third quarter (fair value loss of $0.86 million) following a full revaluation of our Canadian portfolio by our external valuation professionals in the second quarter (year to date loss of $69.54 million). Valuation losses were partially offset by gains in our Property Development division as a result of continued development on several projects.

- Our golf courses (**Recreational Properties**) opened May 1 in BC and May 7 in Alberta, later than the weather would have allowed due to COVID-19 restrictions. These late opening dates were offset by renewed interest in golf as a less-risky recreation option, and our courses made headway on lost revenue in the third quarter while also improving margin.

RETURNING VALUE

- We continue to return value to our shareholders and unit holders:
    - We paid a quarterly dividend of $0.08 per share on September 30, 2020. The dividend was cut following the first quarter to conserve cash and support our response to COVID-19.
    - On November 10, 2020 we declared a quarterly dividend of $0.08 per share, payable on December 31, 2020 to shareholders of record on December 15, 2020. The dividend is an eligible dividend for Canadian tax purposes.

- The REIT paid distributions of $0.03 per unit in July, August and September for a quarterly ACFO payout ratio of 73%. Distributions made subsequent to September 2020 remained at $0.03 per unit to conserve cash to support its response to COVID-19.

REVENUE & MARGINS

Revenue was up 35% to $73.05 million compared to Q3-2019. Year to date, revenue was up 12% to $145.87 million. Community Development revenue was up by 66% to $43.08 million over Q3-2019 and up 1% to $60.79 million year to date due to a significant increase in lot sales in both the US and Canada during the quarter. Q3-2020 revenues from single-family lot sales in Canada were up 9% to $14.01 million. Despite year to date growth in single-family lot sales in Canada, revenue was down 3% to $26.16 million as a result of product mix. The sale of 196 single-family lots in the US resulted in revenues of $27.51 million ($US20.34 million) in the quarter compared to 24 lots and $2.89 million ($US2.18 million) in revenues in Q3-2019. In the prior period we completed 85.09 acres in land sales for $27.38 million compared to 2020 where land sales generated $0.42 million on a 0.80 acre multi-family site.

COVID-19 delayed the typical spring selling season for residential sales in Canada, resulting in fewer single-family lot sales through the first half of the year. Following this delay, pent up demand resulted in a 60% increase in lots sold compared to Q3-2019 and a 16% increase year to date. Registration of the second phase of Evergreen (Red Deer, AB) resulted in 62 lot sales during the quarter. Our Community Development division margin erosion is a result of several factors, including:

- increase in sales in the US: making up over 50% of revenue in the quarter and year to date, US gross margin is lower at 20% due to higher finance costs and the costs associated with pioneering development in a new area
- Canadian margin has been impacted by growing market driven demand for smaller, more affordable product type such as zero lot line, duplex and townhomes contributing to lower price per lot sold
- minimal land sales, which are higher margin in nature, compared to 2019.

Our income producing divisions growth through third party acquisitions and transfers from Property Development continued to stabilize company wide revenues. Revenues were up $0.63 million or 2% in the quarter and $2.53 million or 3% year to date. Revenue growth was offset by reduced recovery revenue on account of lower direct operating costs lower same-asset performance and the sale of two office properties in our US portfolio. Revenue from income producing divisions was stable year to date at 51% of total divisional revenue.

Gross margin decreased 16% compared to Q3-2019 and by 13% year to date as a result of margin compression in our Community Development division. Community Development's gross margin can have a wide range based on the mix of product type sold in any period. Margins in the REIT and Investment Property divisions decreased from 60% in Q3-2019 to 55% in Q3-2020 due to $0.82 million in bad debts expense related to participation in the CECRA program, in addition to $0.69 million in provisions for bad debts expense unrelated to the CECRA program. Although our Income Property division continued to yield strong margins, the REIT was more significantly impacted by CECRA and rent deferrals, contributing to the 7% decrease in margin.

Net income is 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 net income can fluctuate significantly from quarter to quarter 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. 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		Nine months ended	
	30-Sept-20	30-Sept-19	**30-Sept-20**	30-Sept-19
Net income for the period	**7,526**	16,068	**11,576**	20,795
Amortization of operating lease incentives	**1,910**	3,161	**5,955**	5,919
Fair value adjustment on investment properties	**857**	(3,300)	**69,540**	(1,359)
Depreciation on property and equipment	**504**	525	**1,173**	1,153
Stock based compensation expense	**208**	189	**644**	548
Non-cash finance costs	**1,786**	611	**2,809**	1,973
Gain on sale of asset	**(3)**	(61)	**(39)**	(83)
Deferred income taxes	**(169)**	(7,677)	**(5,818)**	(8,283)
Fair value adjustment on REIT units	**1,696**	1,180	**(56,324)**	3,685
FFO	**14,315**	10,696	**29,516**	24,348
FFO per share	**0.43**	0.32	**0.89**	0.73

FFO was up $3.62 million or 34% in the quarter and $5.17 million or 21% year to date. This increase is a result of several initiatives undertaken to counter-balance reduced gross profit:

- Our disciplined focus on reducing controllable G&A expenses, which were down 14% in the quarter and 16% year to date;
- Reduction in the REIT's monthly distribution by 47% effective April 2020;
- Lower year to date finance costs, as a result of reduced indebtedness and lower borrowing costs on our variable rate debt on account of the decline in the prime rate to date in 2020.

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 September 30		Three-months September 30		Three-months September 30		Three-months September 30		Three-months September 30	
($000s except as noted)	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Revenue	**43,076**	25,897	**13,973**	13,559	**9,241**	9,589	**18,441**	17,468	**4,380**	3,854
Portion of total revenue	**48 %**	37 %	**16 %**	19 %	**10 %**	14 %	**21 %**	25 %	**5 %**	5 %
Cost of sales	**(32,635)**	(17,800)	**(13,867)**	(13,500)	**(3,898)**	(4,100)	**(8,470)**	(6,782)	**(2,267)**	(2,579)
Gross margin	**10,441**	8,097	**106**	59	**5,343**	5,489	**9,971**	10,686	**2,113**	1,275
Gross margin %	**24 %**	31 %	**1 %**	— %	**58 %**	57 %	**54 %**	61 %	**48 %**	33 %
Portion of total margin	**37 %**	32 %	**— %**	— %	**19 %**	21 %	**36 %**	42 %	**8 %**	5 %
General and administrative expense	**(1,800)**	(2,068)	**(390)**	(561)	**(538)**	(607)	**(748)**	(697)	**(683)**	(723)
Fair value adjustment on investment properties	**—**	—	**2,462**	2,931	**(1,315)**	(1,373)	**(2,535)**	462	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**3**	61
Interest income	**105**	326	**—**	7	**1**	11	**13**	28	**—**	—
Segment earnings (loss)	**8,746**	6,355	**2,178**	2,436	**3,491**	3,520	**6,701**	10,479	**1,433**	613

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Nine-months September 30		Nine-months September 30		Nine-months September 30		Nine-months September 30		Nine-months September 30	
($000s except as noted)	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Revenue	**60,793**	60,241	**14,171**	13,595	**28,571**	28,985	**55,830**	52,886	**7,140**	7,856
Portion of total revenue	**37 %**	37 %	**9 %**	8 %	**17 %**	18 %	**34 %**	32 %	**4 %**	5 %
Cost of sales	**(45,697)**	(41,561)	**(13,867)**	(13,500)	**(11,540)**	(12,097)	**(23,622)**	(21,228)	**(4,117)**	(5,210)
Gross profit	**15,096**	18,680	**304**	95	**17,031**	16,888	**32,208**	31,658	**3,023**	2,646
Gross margin %	**25 %**	31 %	**2 %**	1 %	**60 %**	58 %	**58 %**	60 %	**42 %**	34 %
Portion of total profit	**22 %**	29 %	**— %**	— %	**25 %**	26 %	**48 %**	49 %	**4 %**	4 %
General and administrative expense	**(4,825)**	(6,088)	**(1,320)**	(1,765)	**(1,845)**	(1,727)	**(2,279)**	(2,161)	**(1,648)**	(1,913)
Fair value adjustment on investment properties	**—**	—	**3,070**	3,541	**(14,922)**	(5,353)	**(59,831)**	(258)	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**39**	83
Interest income	**344**	782	**13**	21	**18**	28	**60**	89	**—**	—
Segment earnings (loss)	**10,615**	13,374	**2,067**	1,892	**282**	9,836	**(29,842)**	29,328	**1,414**	816

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, which in turn develops commercial properties on the land.

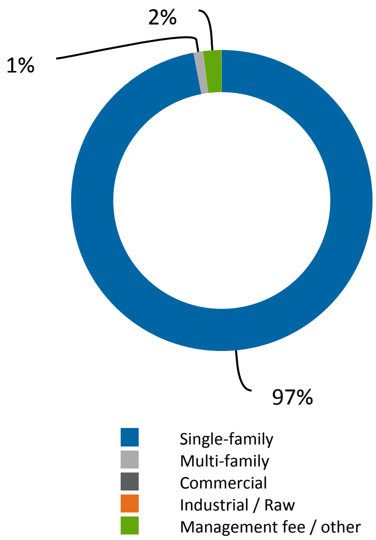
Master-planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and multi-family 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.

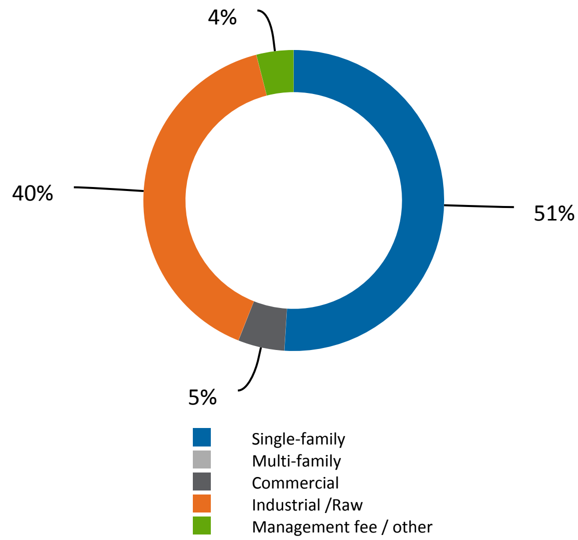
Sales Activity

REVENUE BY TYPE

Nine months ended September 30, 2020



Nine months ended September 30, 2019



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. Community Development division revenue is highly dependent on the demand for new homes in the regions where we hold land as well as the timing of single-family lot registrations, and the timing of raw, commercial, industrial and multi-family land sales.

Consolidated	Three months ended		Nine months ended	
	30-Sept-20	30-Sept-19	**30-Sept-20**	30-Sept-19
Canada Sales data: (including joint ventures at 100%)				
Single family sales (number of lots)	**184**	115	**290**	250
Gross average revenue per single-family lot ($)	**124,000**	150,000	**139,200**	154,200
Multi-family sales (acres)	**0.80**	—	**0.80**	—
Gross average revenue per multi-family acre ($)	**523,600**	—	**523,600**	—
Commercial sales (acres)	**—**	—	**—**	3.42
Gross average revenue per commercial land acre ($)	**—**	—	**—**	871,300
Industrial sales (acres)	**—**	2.82	**—**	3.81
Gross average revenue per industrial land acre ($)	**—**	312,800	**—**	319,400
Land sales to government bodies - raw, other (acres)	**—**	59.26	**—**	59.26
Gross average revenue per other land acre ($)	**—**	148,300	**—**	148,300
Other land sales - raw, other (acres)	**—**	—	**—**	18.60
Gross average revenue per other land acre ($)	**—**	—	**—**	763,000
US Sales data:				
Single family sales (number of lots)	**196**	24	**229**	24
Gross average revenue per single-family lot ($)	**137,700**	120,600	**139,407**	120,600
Other land sales - raw, other (acres)	**—**	—	**—**	1.98
Gross average revenue per other land acre ($)	**—**	—	**—**	1,029,000
Divisional results: (including joint ventures at Melcor's interest)				
Revenue ($000s)	**43,076**	25,897	**60,793**	60,241
Earnings ($000s)	**8,746**	6,355	**10,615**	13,374

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

The COVID-19 pandemic delayed the typical spring selling season for new homes by several months in Canada. Construction timelines were stretched as a result of precautions taken to stop the spread, and some of our showhomes in new communities opened during the height of the lockdown, using virtual showhome tours and other safe options for home viewing. With comparatively fewer land sales, which tend to be higher margin than single-family lots, gross margin was reduced to 25% year to date compared to 31% in 2019. We continue to focus on inventory reduction with 228 of the lots sold in Canada coming from existing lot inventory (developed and registered in prior years).

The average selling price on single-family lots in Canada decreased 17% over Q3-2020 and 10% year to date as a result of the combination of product type and selling region. Single-family lot sales covered a broad spectrum of price points in Q3-2020, from lower-priced townhomes and duplexes to higher-priced lake-view estate lots.

The second phase of Evergreen (Red Deer, AB) registered in the quarter, resulting in 62 lots sold to builders for revenue of $2.97 million (at JV%).

2019 revenue included 85.09 acres of raw land and commercial land sales, which generated revenue of $27.38 million. We sold 0.80 acres of multi-family land in Q3-2020.

Harmony continues to perform well. In the quarter, we sold an additional 15 lots in phase 1 (revenue of $1.83 million ($US1.38 million)) and all 181 lots in phase 2 for revenue of $25.68 million ($US18.97 million). We have begun development on half of phase 3 to support current sales velocity. This phase includes 277 lots and introduces duplex and fee simple townhome products to the community.

Due to the larger phase sizes (~200-300 lots/phase vs. less than 100 lots/phase in Canada) and bulk buying by production builders, US sales will remain uneven.

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 September 30, 2020**			Three months ended September 30, 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	**99**	—	—	94	—	2.82
Red Deer	**71**	—	—	7	—	—
Calgary Region	**2**	—	—	6	—	59.26
Lethbridge	**8**	—	—	2	—	—
Kelowna	**4**	**0.80**	—	6	—	—
United States	**196**	—	—	24	—	—
	380	**0.80**	—	139	—	62.08

Regional Sales Analysis	**Nine months ended September 30, 2020**			Nine months ended September 30, 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	**170**	—	—	189	—	18.36
Red Deer	**81**	—	—	15	—	—
Calgary Region	**5**	—	—	27	—	62.68
Lethbridge	**18**	—	—	13	—	—
Kelowna	**16**	**0.80**	—	6	—	4.05
United States	**229**	—	—	24	—	1.98
	519	**0.80**	—	274	—	87.07

Single-family lot sales may vary significantly quarter over quarter as plan registrations typically occur in the third and fourth quarters.

The third quarter increase in revenue in the community development division is largely attributed to the 196 lot sales in Harmony (229 year to date), which contributed revenues of $27.51 million during the quarter and $32.45 million year to date.

Edmonton continues to be one of our strongest markets for single-family lot sales. Year to date sales have been strong in our popular community of Rosenthal in west Edmonton, as well as Jensen Lakes in St. Albert and Cavanagh in south Edmonton. The second phase of Evergreen in Red Deer registered in the quarter and accounts for 62 lot sales.

Inventory

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

Developed Inventory	**Nine months ended September 30, 2020**			Nine months ended September 30, 2019		
(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**	1,248	59.00	130.44
Purchases	**—**	**—**	**—**	—	—	—
New developments	**275**	**—**	**—**	28	—	—
Internal sales	**—**	**—**	**—**	—	—	(1.97)
Sales	**(519)**	**(0.80)**	**—**	(135)	—	(2.44)
	779	**58.20**	**126.09**	1,141	59.00	126.03

Our primary market has traditionally been Alberta. Market conditions remain uncertain throughout the province in light of COVID-19 and depressed oil prices, 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 September 30, 2019 and by 24% 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. No land has been purchased in 2020 in line with our cash conservation strategy.

In the year to date period of 2019, we purchased the following:

- 158.03 acres in Red Deer for $12.80 million
- 80.00 acres in the Edmonton region for $2.45 million
- 160.00 acres in Lethbridge for $9.75 million, and
- 72.57 acres in the US for $3.61 million (US$2.70 million).

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 Unlimited, 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		Nine months ended	
	30-Sept-20	30-Sept-19	**30-Sept-20**	30-Sept-19
Total revenue	**13,973**	13,559	**14,171**	13,595
Revenue from property transfers	**13,867**	13,500	**13,867**	13,500
Management fees revenue	**106**	59	**304**	95
Margin (%) on property transfers	**11 %**	25 %	**11 %**	25 %
Square footage transferred (sf, at 100%)	**36,314**	20,832	**36,314**	20,832
Number of buildings transferred	**4**	3	**4**	3
Fair value gains on investment properties	**2,462**	2,931	**3,070**	3,541

Property Development transferred four buildings (36,314 sf) to Investment Properties in Q3-2020: two retail buildings at The District in Calgary, one retail building at Jensen Lakes Crossing in St. Albert and one retail building in Clearview Market Square in Red Deer for total revenue of $13.87 million. Margin on property transfers was lower due to property mix and lower valuations. COVID-19 has significantly impacted commercial real estate valuations, with declining lease rates, longer lease-up assumptions and higher vacancy allowances, in conjunction with continued market uncertainty and economic challenges have resulted in a 25-50 bps increase in capitalization rates and discount rates on certain assets.

New development activity in these projects resulted in fair value gains of $2.46 million during the quarter and $3.07 million year to date. Management has examined each project on a case by case basis and we continue to develop where we remain confident in our lessees prospects. We have paused development on a few projects where the risk profile increased significantly due to COVID-19. We are continually evaluating the rapidly changing environment and await improved and more stable conditions to advance other development initatives.

The Property Development division currently has 191,716 sf under active development or completed and awaiting lease-up.

Regional Highlights

($000s and at JV%, except as noted)	Three months ended		Nine months ended	
Fair value adjustments by region	**30-Sept-20**	30-Sept-19	**30-Sept-20**	30-Sept-19
Northern Alberta	**780**	1,618	**780**	1,695
Southern Alberta	**1,682**	1,313	**2,290**	1,846
	2,462	2,931	**3,070**	3,541

Northern Alberta: Fair value gains of $0.78 million were recorded in the quarter as a result of new development activity at neighbourhood shopping centres:

- Shoppes at Jagare Ridge (Edmonton: $0.24 million in gains),
- Jensen Lakes Crossing (St. Albert: $0.48 million in gains on two buildings), and
- Clearview Market Square (Red Deer: $0.27 million in gains).

Development continues at neighbourhood shopping centres in Northern Alberta with 63,700 sf under active development or completed and awaiting lease-up. Two buildings nearing completion at the Shoppes of Jagare Ridge are expected to transfer to Investment Properties in Q4-2020.

Southern Alberta: Year to date fair value gains of $2.29 million relate to new development activity at the following properties:

- The District (Calgary: $2.02 million in gains on 4 buildings), and
- Kingsview Market Square and Kingsview Commercial (Airdrie: $0.27 million in net gains on 3 buildings).

We broke ground on the eagerly anticipated Calgary Farmers' Market West building (54,000 sf in Greenwich) in the third quarter. Southern Alberta has 128,023 sf under active development or completed and awaiting lease-up.

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	2,700	7,950
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	1,585,000	563,805	22,052
Campsite Industrial	Spruce Grove	*Industrial Park*	170,000	13,700	—
The Shoppes at Jagare Ridge	South Edmonton	*Neighbourhood shopping centre*	105,000	27,900	40,020
Jensen Lakes Crossing	St. Albert	*Neighbourhood shopping centre*	150,000	90,813	4,940
Woodbend Market	Leduc	*Neighbourhood shopping centre*	140,000	3,000	10,783
Greenwich	West Calgary	*Regional mixed use centre*	325,000	—	54,000

The Property Development team commenced construction on 2 CRUs during the quarter in Edmonton and Leduc. We have a total of 133,225 sf currently under construction and a further 58,491 sf complete and awaiting lease-up and/or transfer.

Expected Future Projects					
Project	Location	Type	Total SF *	Ownership Interest	Expected Start (year)
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. Currently our Investment Properties division manages 4,536,008 sf of income-producing commercial GLA and 604 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. While we continue to see pockets of opportunity we anticipate the effects of the pandemic to negatively impact the commercial leasing market in the future. We also enhance our portfolio by upgrading the appearance, functionality and desirability of our properties, thereby increasing their rental potential. We have continued with our essential capital expenditures while deferring non-essential projects to minimize activity at our properties and improve near term liquidity.

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		Nine months ended	
	30-Sept-20	30-Sept-19	**30-Sept-20**	30-Sept-19
Commercial properties GLA under management (sf, total)	**4,536,008**	4,225,829	**4,536,008**	4,225,829
Properties owned and managed (sf)	**941,122**	918,896	**941,122**	918,896
Properties managed (sf)	**3,594,886**	3,306,933	**3,594,886**	3,306,933
Revenue (total)	**9,241**	9,589	**28,571**	28,985
Canadian properties	**3,611**	3,440	**10,903**	9,950
US properties	**4,194**	4,543	**12,899**	14,082
Management fees	**1,301**	1,297	**4,210**	4,003
Parking lots and other assets	**135**	309	**559**	950
Net operating income (NOI) *	**5,501**	5,704	**18,030**	16,977
Funds from operations *	**5,219**	5,360	**16,510**	16,526
Funds from operations per share *	**0.16**	0.16	**0.50**	0.50

** 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 191,716 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 half of the year. During the quarter, Property Development transferred four buildings representing 36,314 sf (at 100%) to the Investment Properties division. Over the past twelve months, Property Development has transferred 12 buildings representing 132,426 sf (at 100%). Revenue generated on assets acquired from Property Development, as well as those currently under development and held through the nine months period, was $3.19 million (2019 - $1.60 million).

Occupancy on Canadian properties was 83% at September 30, 2020, down 3% from Q2-2020 and 1% over year end. Commercial weighted average base rents (WABR) were down over the prior quarter at $28.38 compared to $30.01 in Q2-2020. Occupancy and WABR were both impacted by transfers durign the quarter where the tenants leases have not commenced. As at September 30, 2020 we have 39,000 sf of leases committed for future occupancy.

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

($000s and at JV%, except as noted)	Three months ended		Nine months ended	
	30-Sept-20	30-Sept-19	**30-Sept-20**	30-Sept-19
Same asset NOI*	**1,695**	2,057	**5,576**	6,164
Properties transferred from PD	**706**	331	**1,918**	844
NOI*	**2,401**	2,388	**7,494**	7,008
Amortization of operating lease incentives	**(129)**	(151)	**(414)**	(523)
Straight-line rent adjustment	**169**	75	**218**	371
Gross profit	**2,441**	2,312	**7,298**	6,856

** See non-standard measures for definition.*

Gross profit was up $0.13 million or 6% over Q3-2019 and $0.44 million or 6% year to date, while NOI was flat over Q3-2019 and up $0.49 million or 7% year to date. Properties transferred from the Property Development division over the past 12 months, as well as those currently under development added $0.71 million in NOI in the third quarter of 2020 (Q3-2019 - $0.33 million). On a same asset basis, NOI was down 18% or $0.36 million over Q3-2019 and down 10% or $0.59 million year to date due to $0.39 million in bad debts expense recorded (2019 - $0.10 million) and lower same-asset performance.

US properties

Revenue on US properties was $4.19 million compared to $4.54 million in Q3-2019 (year to date - $12.90 million compared with $14.08 million in 2019). In Q4-2019 we disposed of a 63,112 sf office property (Centennial Airport Plaza) which contributed $0.48 million in 2019 revenue (2020 - $nil). During Q3-2020 we disposed of three residential units in Arizona for a sales price of $0.86 million (US$0.64 million) (net of transaction costs). During the quarter we also disposed of a 24,154 sf office property (Perimeter) for $6.07 million ($US4.63 million) (net of transaction costs and including tenant incentives and straight line rent adjustments of $0.58 million (US$0.44 million)). The sales prices were settled through cash.

Occupancy on the portfolio was 85% at September 30, 2020, down 3% from Q2-2020 and year end due to tenant turnover on lease expiration at three properties and sale of Perimeter which was 100% occupied.

Weighted average base rent (WABR) for Q3-2020 was $22.35 per sf compared to $19.32 in Q3-2019 and $20.53 at year end. WABR on our US commercial properties increased modestly in 2020 due to the sale of Centennial Airport Plaza which had a lower than average WABR. Residential occupancy was stable at 99%.

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

($000s and at JV%, except as noted)	Three months ended		Nine months ended	
	30-Sept-20	30-Sept-19	**30-Sept-20**	30-Sept-19
Same asset NOI *	**1,360**	1,280	**4,816**	4,273
Third party disposals	**202**	193	**354**	525
NOI	**1,562**	1,473	**5,170**	4,798
Foreign currency translation	**571**	484	**1,834**	1,566
Amortization of operating lease incentives	**(285)**	(317)	**(893)**	(816)
Straight-line rent adjustment	**(26)**	179	**89**	879
Gross profit	**1,822**	1,819	**6,200**	6,427

** See non-standard measures for definition.*

Gross profit was stable over Q3-2019, and NOI was up $0.09 million or 6%. Same asset NOI was up $0.08 million or 6% over Q3-2019 and $0.54 million or 13% year to date due to lower operating costs on account of the COVID-19 pandemic and reduced activity levels at many of our properties where we have deferred and suspended non-essential operating activities. Year to date gross profit was down due to property sales and lower straight line rent adjustments.

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 5% over 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) decreased 3% or $0.14 million over Q3-2019 as a result of lower NOI and partially offset by lower G&A costs during the quarter. Year to date FFO remained stable over 2019.

REIT

The REIT owned 39 income-producing office, retail and industrial properties, comprising 3,208,299 square feet of gross leasable area (GLA) at September 30, 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 November 10, 2020 we have a controlling 55.4% interest in the REIT through ownership of all Class B LP Units (September 30, 2020 - 55.4%, 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		Nine months ended	
	30-Sept-20	30-Sept-19	**30-Sept-20**	30-Sept-19
Gross leasable area (GLA) (sf)	**3,208,299**	2,925,738	**3,208,299**	2,925,738
Occupancy % (weighted by GLA)	**88.4 %**	90.1 %	**88.4 %**	90.1 %
Fair value of portfolio	**718,705**	720,651	**718,705**	720,651
Rental revenue	**18,441**	17,468	**55,830**	52,886
Net operating income (NOI) *	**10,567**	11,460	**34,270**	33,854
Same asset NOI * *(see calculation following)*	**9,532**	11,249	**30,730**	33,490
Fair value adjustment on investment properties	**(2,535)**	462	**(59,831)**	(258)
Funds from operations *	**10,147**	10,885	**32,877**	32,257
Funds from operations per share *	**0.30**	0.33	**0.99**	0.97

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

Rental revenue increased $0.97 million or 6% over Q3-2019 and $2.94 million or 6% year to date as a result of the acquisition of Melcor Crossing in November, 2019. Melcor Crossing contributed rental revenue of $1.73 million in Q3-2020 and $5.24 million year to date (2019 - $nil). Revenue from this new property acquisition was partially offset by a decline in same-asset revenues due to reduced recovery revenue on account of lower direct operating costs, declining lease rates and increased vacancy.

Year to date, we signed 308,167 sf of new and renewed leasing (including holdovers) and maintained steady occupancy at 88.4%. Approximately 38,000 sf of new leasing relates to short-term deals which are not expected to produce long-term cash flows. In 2020, 104 leases representing 332,622 sf or 10.4% of our portfolio are up for renewal. We have retained 79.6% of expiring leases (representing 209,644 sf) as at September 30, 2020 in spite of the COVID-19 pandemic and challenging market conditions in many of our operating regions. While we continue to see pockets of opportunity, we anticipate the effects of the pandemic to continue to negatively impact the commercial leasing market in the future.

Weighted average base rent was $16.51, down $0.28 compared to December 31, 2019 and down $0.13 over Q3-2019 due to lower rates on short-term deals. Occupancy is up slightly compared to year end.

Direct operating expenses were up 11% year to date due to $1.98 million in bad debts recorded during the period. Direct operating expenses related to the acquisition of Melcor Crossing were $1.92 million (2019 - $nil).

Property taxes and utilities were up 4% year to date, with same-assets down 4%. Property taxes declined across the portfolio as a result of lower valuations due to the cancellation and reduction of planned mill rate increases in many municipalities. Utilities were down year to date due to reduced consumption during the height of the pandemic. Utilities normalized in the third quarter as a result of many of our tenants returning to operations in their space during the quarter.

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

($000s except as noted)	Three months ended		Nine months ended	
	30-Sept-20	30-Sept-19	**30-Sept-20**	30-Sept-19
Same asset NOI *	**9,532**	11,249	**30,730**	33,490
Acquisitions	**1,035**	211	**3,540**	364
NOI before adjustments	**10,567**	11,460	**34,270**	33,854
Amortization of operating lease incentives	**(911)**	(868)	**(2,888)**	(2,671)
Straight-line rent adjustment	**315**	94	**826**	475
Net rental income	**9,971**	10,686	**32,208**	31,658

** 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 rental income.

NOI was down 8% over Q3-2019 and up 1% year to date due to bad debts recorded and partially offset by new properties acquired in 2019. Same-asset NOI was down 15% over Q3-2019 (8% year to date) due to $1.23 million in bad debts recorded ($1.98 million year to date). Excluding bad debts same-asset NOI was $10.74 million in the quarter and $32.58 million year to date, down 4% and 3% over 2019 as a result of lower occupancy on certain properties. Third quarter same-asset NOI was down $1.00 million of 9% over Q2-2020, excluding bad debts same-asset NOI was down 3% over the second quarter due to lease restructures and lower other revenues.

Funds from operations

FFO was down 7% in the third quarter at $10.15 million and up 2% over the prior year at $32.88 million. Third quarter FFO was negatively impacted by $0.67 million in bad debts expense related to participation in the CECRA program in addition to $0.56 million in other provisions for bad debt expense as a result of increased arrears, driving a decline in same asset performance. Lower same asset NOI was partially offset by growth in the REIT portfolio over the last twelve months and higher straight-line rent adjustments which fluctuate due to the timing of signed leases and timing tenant incentives. Lease restructures completed during the period led to an increase in SLR during the quarter.

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 $4.38 million in the quarter and $7.14 million year to date, an increase of 14% in the quarter and decrease of 9% year to date due to the COVID related late start to the season.

Our Black Mountain course opened on May 1, 2020, in accordance with BC Health regulations, and the Edmonton and Spruce Grove courses under management opened on May 7, 2020. Health regulations limit contact allowed and thus our clubhouses, including food and beverage operations and the pro shops, were operating at lower capacity in order to protect all patrons. We anticipated a decline in revenue in 2020 as a result of the late start and COVID precautionary measures undertaken. While revenue is lower year to date, margin improved to 48% from 33% in Q3-2019 as a result of reduction to staffing and improved operating efficiencies.

As a relatively safe recreational and social activity, golf enjoyed renewed popularity in 2020. Coupled with favourable weather conditions, rounds played to the end of the third quarter increased by 13% over the prior year in spite of having approximately 15% fewer days due to the late opening. Melcor operated golf courses in Alberta closed on October 18, 2020 although The Grill's remain open on winter hours.

	Ownership interest	Season opened 2020	Rounds of Golf	Season opened 2019	Rounds of Golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	**May 7**	**27,828**	April 12	23,542
The Links (Spruce Grove)	100%	**May 7**	**26,418**	April 13	21,017
Black Mountain (Kelowna)	100%	**May 1**	**29,995**	April 3	29,809
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	**May 5**	**24,356**	April 19	21,895

General & Administrative Expense

General and administrative expenses (G&A) were down 14% over Q3-2019 and 16% year to date as a result of wage roll-backs for executive officers, reduced remuneration for remaining staff, COVID related layoffs and careful monitoring of expenses. The majority of these roll-backs have now reverted as described in the Significant Event - COVID-19 section. Corporate G&A has decreased by 18% over Q3-2019 and 14% year to date as management has continued to prudently manage controllable expenses as well as make adjustments in light of COVID-19. Community Development G&A has decreased 21% or $1.26 million over 2019 as a result of managing controllable expenses with the division.

Income Tax Expense

The statutory tax rate is 25% for the three and nine months ended September 30, 2020 (2019 - 27%). The most significant adjustment impacting the 2020 effective tax rate was the fair value adjustment on REIT units, which is not subject to tax. Other items that impacted the effective tax rate include permanent differences related to revaluation adjustments on investment properties, distributions to REIT unitholders and the non-taxable portion of REIT income.

Liquidity & Capital Resources

The following table represents selected information as at September 30, 2020, compared with December 31, 2019.

As at ($000s except as noted)	**30-Sept-20**	31-Dec-19
Cash & cash equivalents	**36,266**	36,980
Restricted cash	**11,331**	—
Accounts receivable	**9,717**	9,783
Agreements receivable	**55,645**	76,406
Revolving credit facilities	**93,902**	93,315
Accounts payable and accrued liabilities	**42,994**	43,582
Total assets	**2,029,003**	2,096,047
Total liabilities	**941,431**	1,015,790
Debt to equity ratio*	**0.87**	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.

Melcor implemented a number of measures since March to conserve cash and place our business in a position where we are able to support our builders, suppliers and tenants through COVID-19. These measures include:

- Reducing Melcor's March dividend to $0.10 per share and the June and September dividends to $0.08 per share.
- 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 from April 1st to July 31st. The majority of furloughed staff returned to work on July 1st, in some cases as part of a work share program. Eight employees were permanently laid off and senior management remains on reduced remuneration.

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 lease payments where appropriate, depending on the financial need and potential for access to government relief programs.

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 September 30, 2020, our total general debt outstanding was $744.18 million compared to $751.35 million on December 31, 2019.

A summary of our debt is as follows:

As at ($000s)	**30-Sept-20**	31-Dec-19
Melcor - revolving credit facilities	**70,937**	70,451
REIT - revolving credit facility	**22,965**	22,864
Project specific financing	**69,389**	68,436
Secured vendor take back debt on land inventory	**31,285**	39,005
Debt on investment properties and golf course assets	**484,727**	484,413
REIT - convertible debentures	**64,880**	66,184
General debt	**744,183**	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 September 30, 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 September 30, 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 flow from (used in) operating, investing and financing activities, as reflected in our consolidated statement of cash flow:

($000s)	Three months ended		Nine months ended	
	30-Sept-20	30-Sept-19	30-Sept-20	30-Sept-19
Cash flow from operating activities	**13,927**	21,391	**34,284**	20,719
Cash flow used in investing activities	**(535)**	(6,824)	**(14,613)**	(29,568)
Cash flow from (used in) financing activities	**(6,363)**	(12,428)	**(20,882)**	13,687

During Q3-2020, cash flow from operating activities was $13.93 million, a decrease of $7.46 million over Q3-2019. Collections on agreements receivable during the quarter were down at $1.83 million compared to $14.77 million in Q3-2019. The decrease in collections on agreements receivable was partially offset by a decrease in cash spent on tenant incentives and direct leasing costs activities at $1.84 million in the quarter compared to $4.62 million in Q3-2019, as well as no cash spent on land purchases in Q3-2020 compared to $4.00 million in Q3-2019. Operating assets and liabilities tend to fluctuate quarter over quarter depending on the timing of payments due and receivables, which resulted in cash outflows of $7.79 million in Q3-2020 compared to cash inflows of $15.80 million in Q3-2019.

Cash flows used in investing activities was $0.54 million in Q3-2020 compared with $6.82 million during Q3-2019. We continue to develop commercial properties and invest in our portfolio resulting in $7.42 million of cash outflows in Q3-2020 which were offset by proceeds from the disposal of investment properties during the quarter of $6.93 million. Cash flow used in the purchase of investment properties in Q3-2019 was $1.05 million, no such purchases were made during Q3-2020.

Cash flow used in financing activities were $6.36 million during the quarter compared to $12.43 million in Q3-2019. Repayments on the credit facility were $9.44 million in Q3-2019 compared with draws of $8.77 million in Q3-2020. Draws on the credit facility were offset by net repayments on our general debt in the third quarter of 2020 of $12.32 million compared with net proceeds of $1.50 million in Q3-2019. Proceeds from general debt in the current quarter of $22.20 million relate to current project specific financing agreements in place at the start of the period, as well as one new mortgage and a mortgage refinance resulting in cash proceeds of $17.65 million.

In the quarter, we paid a $0.08 per share dividend for a total of $8.63 million paid year to date. This compares to Q3-2019 payments of $0.13 per share for a total of $12.65 million.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at September 30, 2020 there were 33,129,561 common shares issued and outstanding, 939,400 options, and 133,807 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 September 30, 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 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. 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 November 10, 2020, 100,916 shares were repurchased for cancellation under this NCIB, for a total of 126,316 shares purchased in 2020 under NCIB agreements.

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.

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 November 10, 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 and cancelled its automatic share purchase plan agreement in light of the continued market volatility and in an effort to conserve cash.

Quarterly Results

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

	Three Months Ended							
($000s)	30-Sept-20	30-June-20	31-Mar-20	31-Dec-19	30-Sept-19	30-June-19	31-Mar-19	31-Dec-18
Revenue	**73,051**	39,053	33,767	78,056	53,946	41,085	34,884	119,982
Net income (loss)	**7,526**	(62,590)	66,640	16,946	16,068	3,137	1,590	36,526
FFO	**14,315**	9,276	5,925	13,917	10,696	7,975	5,677	30,671
Per Share								
Basic earnings (loss)	**0.23**	(1.88)	2.00	0.51	0.48	0.09	0.05	1.09
Diluted earnings (loss)	**0.23**	(1.88)	2.00	0.51	0.48	0.09	0.05	1.09
FFO	**0.43**	0.28	0.18	0.42	0.32	0.24	0.17	0.92
FFO Diluted	**0.43**	0.28	0.18	0.42	0.32	0.21	0.17	0.92
Book value *	**32.83**	32.76	34.88	32.51	32.20	31.76	31.88	30.21

** 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 September 30, 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		Nine months ended	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Segment Earnings	**3,491**	3,520	**282**	9,836
Fair value adjustment on investment properties	**1,315**	1,373	**14,922**	5,353
General and administrative expenses	**538**	607	**1,845**	1,727
Interest income	**(1)**	(11)	**(18)**	(28)
Amortization of operating lease incentives	**413**	467	**1,306**	1,337
Straight-line rent adjustment	**(255)**	(252)	**(307)**	(1,248)
Divisional NOI	**5,501**	5,704	**18,030**	16,977

REIT

($000s)	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Segment Earnings (Loss)	**6,701**	10,479	**(29,842)**	29,328
Fair value adjustment on investment properties	**2,535**	(462)	**59,831**	258
General and administrative expenses	**748**	697	**2,279**	2,161
Interest income	**(13)**	(28)	**(60)**	(89)
Amortization of operating lease incentives	**911**	868	**2,888**	2,671
Straight-line rent adjustment	**(315)**	(94)	**(826)**	(475)
Divisional NOI	**10,567**	11,460	**34,270**	33,854

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		Nine months ended	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Net income for the period	**7,526**	16,068	**11,576**	20,795
Amortization of operating lease incentives	**1,910**	3,161	**5,955**	5,919
Fair value adjustment on investment properties	**857**	(3,300)	**69,540**	(1,359)
Depreciation on property and equipment	**504**	525	**1,173**	1,153
Stock based compensation expense	**208**	189	**644**	548
Non-cash finance costs	**1,786**	611	**2,809**	1,973
Gain on sale of asset	**(3)**	(61)	**(39)**	(83)
Deferred income taxes	**(169)**	(7,677)	**(5,818)**	(8,283)
Fair value adjustment on REIT units	**1,696**	1,180	**(56,324)**	3,685
FFO	**14,315**	10,696	**29,516**	24,348

Investment Properties

($000s)	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Segment Earnings	**3,491**	3,520	**282**	9,836
Fair value adjustment on investment properties	**1,315**	1,373	**14,922**	5,353
Amortization of operating lease incentives	**413**	467	**1,306**	1,337
Divisional FFO	**5,219**	5,360	**16,510**	16,526

REIT

($000s)	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Segment Earnings (Loss)	**6,701**	10,479	**(29,842)**	29,328
Fair value adjustment on investment properties	**2,535**	(462)	**59,831**	258
Amortization of operating lease incentives	**911**	868	**2,888**	2,671
Divisional FFO	**10,147**	10,885	**32,877**	32,257

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

MELCOR

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

Unaudited ($000s)	For the three months ended **September 30, 2020**	 September 30, 2019	For the nine months ended **September 30, 2020**	 September 30, 2019
Revenue (note 7)	**73,051**	53,946	**145,871**	129,915
Cost of sales	**(46,456)**	(30,486)	**(82,729)**	(65,620)
Gross profit	**26,595**	23,460	**63,142**	64,295
General and administrative expense	**(4,705)**	(5,497)	**(13,996)**	(16,616)
Fair value adjustment on investment properties (note 5 and 11)	**(857)**	3,300	**(69,540)**	1,359
Adjustments related to REIT units (note 10)	**(2,871)**	(3,398)	**51,759**	(10,351)
Gain on sale of assets	**3**	61	**39**	83
Operating earnings	**18,165**	17,926	**31,404**	38,770
Interest income	**125**	427	**454**	1,081
Finance costs	**(7,646)**	(7,333)	**(20,437)**	(21,399)
Net finance costs	**(7,521)**	(6,906)	**(19,983)**	(20,318)
Income before income taxes	**10,644**	11,020	**11,421**	18,452
Income tax (expense) recovery	**(3,118)**	5,048	**155**	2,343
Net income for the period	**7,526**	16,068	**11,576**	20,795
Income per share:				
Basic income per share	**0.23**	0.48	**0.35**	0.62
Diluted income per share	**0.23**	0.48	**0.35**	0.62

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income

Unaudited ($000s)	For the three months ended **September 30, 2020**	 September 30, 2019	For the nine months ended **September 30, 2020**	 September 30, 2019
Net income for the period	**7,526**	16,068	**11,576**	20,795
Other comprehensive income				
Items that may be reclassified subsequently to net income:				
Currency translation differences	**(3,626)**	1,923	**4,451**	(4,341)
Comprehensive income	**3,900**	17,991	**16,027**	16,454

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	**September 30, 2020**	December 31, 2019
ASSETS		
Cash and cash equivalents	**36,266**	36,980
Restricted cash (note 3)	**11,331**	—
Accounts receivable	**9,717**	9,783
Income taxes recoverable	**2,469**	7,058
Agreements receivable	**55,645**	76,406
Land inventory (note 4)	**755,735**	754,331
Investment properties (note 5 and 11)	**1,090,394**	1,141,591
Property and equipment	**13,342**	13,498
Other assets	**54,104**	56,400
	2,029,003	2,096,047
LIABILITIES		
Accounts payable and accrued liabilities	**42,994**	43,582
Income taxes payable	**—**	855
Provision for land development costs	**52,879**	56,183
General debt (note 6)	**744,183**	751,353
Deferred income tax liabilities	**51,392**	57,174
REIT units (note 10 and 11)	**49,983**	106,643
	941,431	1,015,790
SHAREHOLDERS' EQUITY		
Share capital (note 8)	**72,354**	72,556
Contributed surplus	**4,719**	4,083
Accumulated other comprehensive income (AOCI)	**25,973**	21,522
Retained earnings	**984,526**	982,096
	1,087,572	1,080,257
	2,029,003	2,096,047

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited ($000's)	Equity attributable to Melcor's shareholders				
	Share capital	**Contributed surplus**	**AOCI**	**Retained earnings**	**Total equity**
Balance at January 1, 2020	**72,556**	**4,083**	**21,522**	**982,096**	**1,080,257**
Net income for the period	—	—	—	11,576	11,576
Cumulative translation adjustment	—	—	4,451	—	4,451
Transactions with equity holders					
Dividends	—	—	—	(8,625)	(8,625)
Share repurchase (note 8)	(210)	—	—	(521)	(731)
Employee share options					
Value of services recognized	—	644	—	—	644
Share issuance	8	(8)	—	—	—
Balance at September 30, 2020	**72,354**	**4,719**	**25,973**	**984,526**	**1,087,572**

Unaudited ($000's)	Equity attributable to Melcor's shareholders				
	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
Balance at January 1, 2019	72,821	3,366	29,129	962,249	1,067,565
Net income for the period	—	—	—	20,795	20,795
Cumulative translation adjustment	—	—	(4,341)	—	(4,341)
Transactions with equity holders					
Dividends	—	—	—	(12,646)	(12,646)
Share repurchase	(191)	—	—	(916)	(1,107)
Employee share options					
Value of services recognized	—	548	—	—	548
Balance at September 30, 2019	72,630	3,914	24,788	969,482	1,070,814

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

	For the three months ended		For the nine months ended	
Unaudited ($000's)	**September 30, 2020**	September 30, 2019	**September 30, 2020**	September 30, 2019
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	**7,526**	16,068	**11,576**	20,795
Non cash items:				
Amortization of tenant incentives	**1,910**	3,161	**5,955**	5,919
Depreciation of property and equipment	**504**	525	**1,173**	1,153
Stock based compensation expense	**208**	189	**644**	548
Non-cash finance costs	**1,786**	611	**2,809**	1,973
Straight-line rent adjustment	**(134)**	(262)	**(755)**	(1,465)
Fair value adjustment on investment properties (note 5 and 11)	**857**	(3,300)	**69,540**	(1,359)
Fair value adjustment on REIT units (note 10 and 11)	**1,696**	1,180	**(56,324)**	3,685
Gain on sale of assets	**(3)**	(61)	**(39)**	(83)
Deferred income taxes	**(169)**	(7,677)	**(5,818)**	(8,283)
	14,181	10,434	**28,761**	22,883
Agreements receivable	**1,827**	14,773	**20,761**	50,968
Development activities	**12,525**	(10,992)	**(1,602)**	(22,687)
Purchase of land inventory (note 4)	**—**	(4,000)	**—**	(12,496)
Payment of tenant lease incentives and direct leasing costs	**(1,837)**	(4,623)	**(5,624)**	(9,107)
Change in restricted cash (note 3)	**(4,978)**	—	**(11,503)**	—
Operating assets and liabilities	**(7,791)**	15,799	**3,491**	(8,842)
	13,927	21,391	**34,284**	20,719
INVESTING ACTIVITIES				
Purchase of investment properties (note 5)	**—**	(1,050)	**—**	(13,528)
Additions to investment properties (note 5)	**(7,421)**	(5,431)	**(20,817)**	(15,633)
Net proceeds from disposal of investment properties (note 5)	**6,925**	—	**7,182**	314
Purchase of property and equipment	**(43)**	(477)	**(1,029)**	(883)
Proceeds on disposal of property and equipment	**4**	134	**51**	162
	(535)	(6,824)	**(14,613)**	(29,568)
FINANCING ACTIVITIES				
Revolving credit facilities	**8,773**	(9,441)	**587**	34,545
Proceeds from general debt	**22,201**	17,714	**35,065**	51,223
Repayment of general debt	**(34,520)**	(16,213)	**(46,842)**	(57,967)
Repurchase of REIT units	**—**	(216)	**(336)**	(361)
Dividends paid	**(2,650)**	(3,992)	**(8,625)**	(12,646)
Common shares repurchased (note 8)	**(167)**	(280)	**(731)**	(1,107)
	(6,363)	(12,428)	**(20,882)**	13,687
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	**83**	(179)	**497**	(145)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**7,112**	1,960	**(714)**	4,693
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**29,154**	29,460	**36,980**	26,727
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**36,266**	31,420	**36,266**	31,420
Total income taxes paid	**4,000**	13,874	**7,712**	22,508
Total interest paid	**7,208**	8,144	**24,786**	23,532

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 September 30, 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 November 10, 2020, Melcor through an affiliate, holds an approximate 55.4% 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.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on November 10, 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.

a) Restricted Cash

Restricted cash can only be used for specific purposes. As at September 30, 2020 our restricted cash represents amounts required to be used for specific land development activities related to our Harmony land project in the US. These cash balances are either currently held in escrow for distribution related to these activities, or have been set aside to be placed in escrow for distribution as stipulated by our amended loan agreement.

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.

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

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 the following 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.

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, as 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

	September 30, 2020	December 31, 2019
Raw land held	**401,940**	399,456
Land under development	**164,803**	146,743
Developed land	**188,992**	208,132
	755,735	754,331

During the nine month period ended September 30, 2020, there were no land purchases made.

During the comparative nine month period ended September 30, 2019, we purchased 470.6 acres of land at a cost of $28,608 and received vendor financing of $16,112.

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 September 30, 2020 management does not consider there to be a negative impact on the current carrying value 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:

	September 30, 2020	December 31, 2019
Investment properties	**1,003,299**	1,063,026
Properties under development	**87,095**	78,565
Total	**1,090,394**	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:

			Nine months ended September 30, 2020
	Investment Properties	**Properties under Development**	**Total**
Balance - beginning of period	1,063,026	78,565	**1,141,591**
Additions			
Direct leasing costs	602	269	**871**
Property improvements	2,745	—	**2,745**
Development costs	—	17,769	**17,769**
Capitalized borrowing costs	—	303	**303**
Disposals	(6,600)	—	**(6,600)**
Transfers	12,881	(12,881)	**—**
Fair value adjustment on investment properties	(72,610)	3,070	**(69,540)**
Foreign currency translation (included in OCI)	3,255	—	**3,255**
Balance - end of period	**1,003,299**	**87,095**	**1,090,394**

			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.

Disposals

On August 28, 2020, we disposed of an office building in Arizona for a sales price of $6,069 (US$4,633) (net of transaction costs and including tenant incentives of $379 (US$289)) and straight line rent of $203 (US$155). The sale price was settled through cash.

During the third quarter, we also disposed of three residential units in Arizona for a sales price of $863 (US$647) (net of transaction costs). The sale price was settled through cash.

Year to date, we disposed of one additional residential unit in Arizona for a sales price of $250 (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

	September 30, 2020	December 31, 2019
Melcor - revolving credit facilities	70,937	70,451
REIT - revolving credit facility	22,965	22,864
Project specific financing	69,389	68,436
Secured vendor take back debt on land inventory	31,285	39,005
Debt on investment properties and golf course assets	484,727	484,413
REIT - convertible debentures	64,880	66,184
General debt	744,183	751,353

During the nine months ended September 30, 2020, Melcor entered into mortgage amending agreements with various lenders in order to obtain temporary relief as a result of COVID-19. As of September 30, 2020, mortgage amending agreements entered into related to twenty-eight mortgages with an outstanding principal balance of $275,466. 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 debt modifications, with the impact of these modifications being insignificant.

During the nine months ended, Melcor entered into amending vendor take back agreements with various lenders in order to obtain temporary relief as a result of COVID-19. As of September 30, 2020, amending agreements entered into related to seven vendor take back debt with an outstanding principal balance of $24,671. The terms of the agreements vary by lender. Melcor has accounted for these agreements as debt modifications, with the impact of these modifications being insignificant.

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

	September 30, 2020	December 31, 2019
Balance - beginning of period	68,436	62,639
Cash movements		
Loan repayments	(16,576)	(4,058)
New project financing	16,975	10,801
Non-cash movements		
Foreign currency translation included in OCI	554	(946)
Balance - end of period	69,389	68,436

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

	September 30, 2020	December 31, 2019
Balance - beginning of period	39,005	40,842
Cash movements		
Principal repayments		
Scheduled amortization on debt	(7,720)	(17,660)
Non-cash movements		
New secured vendor take back debt	—	16,112
Amortization of non-cash interest	—	(289)
Balance - end of period	31,285	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:

	September 30, 2020	December 31, 2019
Balance - beginning of period	**484,413**	454,342
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(9,853)**	(15,178)
Mortgage repayments	**(12,693)**	(55,803)
New mortgages	**18,090**	103,753
Non-cash movements		
Deferred interest payments	**926**	—
Deferred financing fees capitalized	**(102)**	(637)
Amortization of deferred financing fees	**438**	444
Change in derivative fair value swap	**1,696**	865
Foreign currency translation included in OCI	**1,812**	(3,373)
Balance - end of period	**484,727**	484,413

7. REVENUE

Total Revenues	**For the three months ended**		**For the nine months ended**	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Revenue from contracts	**50,951**	33,865	**79,441**	67,756
Revenue from other sources	**22,100**	20,081	**66,430**	62,159
	73,051	53,946	**145,871**	129,915

Timing of contract revenue recognition	**For the three months ended**		**For the nine months ended**	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
At a point in time	**46,246**	29,032	**65,314**	52,566
Over time	**4,705**	4,833	**14,127**	15,190
	50,951	33,865	**79,441**	67,756

As a result of COVID-19 and the direct impact on many of 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 includes 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.

During the nine-months ended September 30, 2020, the government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses.The program provides forgivable loans to qualifying commercial property owners to cover up to 50% of six monthly rent payments that are payable by eligible small business tenants, requiring the landlord to forgive at least 25% of rent covered by the application, with the tenant paying the balance. Participation in this program by Melcor has resulted in net rent payments forgiven of $822 recorded in cost of sales for the nine-months ended September 30, 2020.

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.

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

8. SHARE CAPITAL

Issued and outstanding common shares at September 30, 2020 are 33,129,561 (December 31, 2019 – 33,225,265). During the three and nine months ended September 30, 2020, there were no options exercised (Q3-2019 – nil).

During the first quarter 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 $55 and retained earnings reduced by $203. The NCIB commenced March 31, 2019 and ended March 30, 2020.

On April 1, 2020 Melcor commenced a new 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 September 30, 2020 there were 72,116 common shares purchased for cancellation by Melcor pursuant to the new NCIB. Share capital was reduced by $155 and retained earnings reduced by $318.

Year to date, there were a total of 96,316 common shares purchased for cancellation with share capital reduced by $210 and retained earnings reduced by $521 under the above mentioned NCIB agreements.

9. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues	**For the three months ended**		**For the nine months ended**	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
United States	**31,403**	7,508	**45,276**	19,124
Canada	**41,648**	46,438	**100,595**	110,791
Total	**73,051**	53,946	**145,871**	129,915

Total Assets		
As at	**September 30, 2020**	December 31, 2019
United States	**267,329**	256,144
Canada	**1,761,674**	1,839,903
Total	**2,029,003**	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 September 30, 2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	43,076	13,973	9,241	18,441	4,380	—	**89,111**	(16,060)	**73,051**
Cost of sales	(32,635)	(13,867)	(3,898)	(8,470)	(2,267)	—	**(61,137)**	14,681	**(46,456)**
Gross profit	10,441	106	5,343	9,971	2,113	—	**27,974**	(1,379)	**26,595**
General and administrative expense	(1,800)	(390)	(538)	(748)	(683)	(1,394)	**(5,553)**	848	**(4,705)**
Fair value adjustment on investment properties	—	2,462	(1,315)	(2,535)	—	—	**(1,388)**	531	**(857)**
Gain on sale of assets	—	—	—	—	3	—	**3**	—	**3**
Interest income	105	—	1	13	—	6	**125**	—	**125**
Segment earnings (loss)	8,746	2,178	3,491	6,701	1,433	(1,388)	**21,161**	—	**21,161**
Finance costs									**(7,646)**
Adjustments related to REIT units									**(2,871)**
Income before tax									**10,644**
Income tax expense									**(3,118)**
Net income for the period									**7,526**

For the three months ended September 30, 2019	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	25,897	13,559	9,589	17,468	3,854	—	**70,367**	(16,421)	**53,946**
Cost of sales	(17,800)	(13,500)	(4,100)	(6,782)	(2,579)	—	**(44,761)**	14,275	**(30,486)**
Gross profit	8,097	59	5,489	10,686	1,275	—	**25,606**	(2,146)	**23,460**
General and administrative expense	(2,068)	(561)	(607)	(697)	(723)	(1,707)	**(6,363)**	866	**(5,497)**
Fair value adjustment on investment properties	—	2,931	(1,373)	462	—	—	**2,020**	1,280	**3,300**
Gain on sale of assets	—	—	—	—	61	—	**61**	—	**61**
Interest income	326	7	11	28	—	55	**427**	—	**427**
Segment earnings (loss)	6,355	2,436	3,520	10,479	613	(1,652)	**21,751**	—	**21,751**
Finance costs									**(7,333)**
Adjustments related to REIT units									**(3,398)**
Income before tax									**11,020**
Income tax recovery									**5,048**
Net income for the period									**16,068**

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

For the nine months ended September 30, 2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	60,793	14,171	28,571	55,830	7,140	—	**166,505**	(20,634)	**145,871**
Cost of sales	(45,697)	(13,867)	(11,540)	(23,622)	(4,117)	—	**(98,843)**	16,114	**(82,729)**
Gross profit	15,096	304	17,031	32,208	3,023	—	**67,662**	(4,520)	**63,142**
General and administrative expense	(4,825)	(1,320)	(1,845)	(2,279)	(1,648)	(4,456)	**(16,373)**	2,377	**(13,996)**
Fair value adjustment on investment properties	—	3,070	(14,922)	(59,831)	—	—	**(71,683)**	2,143	**(69,540)**
Gain on sale of assets	—	—	—	—	39		**39**	—	**39**
Interest income	344	13	18	60	—	19	**454**	—	**454**
Segment earnings (loss)	10,615	2,067	282	(29,842)	1,414	(4,437)	**(19,901)**	—	**(19,901)**
Finance costs									**(20,437)**
Adjustments related to REIT units									**51,759**
Income before tax									**11,421**
Income tax recovery									**155**
Net income for the period									**11,576**

For the nine months ended September 30, 2019	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	60,241	13,595	28,985	52,886	7,856	—	**163,563**	(33,648)	**129,915**
Cost of sales	(41,561)	(13,500)	(12,097)	(21,228)	(5,210)	—	**(93,596)**	27,976	**(65,620)**
Gross profit	18,680	95	16,888	31,658	2,646	—	**69,967**	(5,672)	**64,295**
General and administrative expense	(6,088)	(1,765)	(1,727)	(2,161)	(1,913)	(5,205)	**(18,859)**	2,243	**(16,616)**
Fair value adjustment on investment properties	—	3,541	(5,353)	(258)	—	—	**(2,070)**	3,429	**1,359**
Gain on sale of assets	—	—	—	—	83	—	**83**	—	**83**
Interest income	782	21	28	89	—	161	**1,081**	—	**1,081**
Segment earnings (loss)	13,374	1,892	9,836	29,328	816	(5,044)	**50,202**	—	**50,202**
Finance costs									**(21,399)**
Adjustments related to REIT units									**(10,351)**
Income before tax									**18,452**
Income tax recovery									**2,343**
Net income for the period									**20,795**

(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 44.6% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at September 30, 2020 the REIT units had a fair value of $49,983. We recorded adjustments related to REIT units for the three and nine months ended September 30, 2020 of $2,871 and $51,759 (Q3-2019 - $3,398 and $10,351). 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.

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

On April 1, 2020 the REIT commenced a new 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.

During the nine-months ended, there were 59,526 share purchased for cancellation by the REIT pursuant to the new REIT NCIB at a cost of $208, which is recorded as reduction in the balance of REIT units on the consolidated statement of financial position.Year to date there were a total of 82,790 units purchased through the above NCIBs at a total cost of $336.

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

	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Fair value adjustment on REIT units (note 11)	**(1,696)**	(1,180)	**56,324**	(3,685)
Distributions to REIT unitholders	**(1,175)**	(2,218)	**(4,565)**	(6,666)
Adjustments related to REIT units	**(2,871)**	(3,398)	**51,759**	(10,351)

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	**September 30, 2020**	December 31, 2019
Assets	**729,109**	783,534
Liabilities	**462,055**	463,879
Net assets	**267,054**	319,655
Cost of NCI	**103,959**	103,959
Fair value of NCI	**49,983**	106,643

	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Rental revenue	**18,441**	17,468	**55,830**	52,886
Net income (loss) and comprehensive income (loss)	**(1,645)**	2,310	**21,477**	4,732
Cash flows from operating activities	**4,549**	2,979	**10,954**	6,842
Cash flows used in investing activities	**(116)**	(403)	**(685)**	(14,611)
Cash flows from (used in) financing activities, before distributions to REIT unitholders	**(2,717)**	(695)	**(3,346)**	14,277
Cash flows used in financing activities - cash distributions to REIT unitholders	**(1,177)**	(2,218)	**(4,913)**	(6,666)
Net increase (decrease) in cash and cash equivalents	**539**	(337)	**2,010**	(158)

(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, restricted cash, 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.

	September 30, 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**	**1,090,394**	**—**	**1,090,394**	**1,090,394**	1,141,591	1,141,591
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	**Level 3**	**—**	**677,544**	**677,544**	**695,147**	685,107	697,920
Convertible debentures	**Level 2**	**—**	**64,021**	**64,021**	**50,165**	63,104	67,990
Derivative financial liability							
Interest rate swaps	**Level 3**	**1,759**	**—**	**1,759**	**1,759**	62	62
Conversion feature on convertible debentures	**Level 3**	**859**	**—**	**859**	**859**	3,080	3,080
REIT units	**Level 1**	**49,983**	**—**	**49,983**	**49,983**	106,643	106,643

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.

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

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 September 30, 2020 of which 83 investment properties (of 93 legal phases) with a fair value of $968,299 were valued by qualified independent external valuation professionals during the period. Valuations performed during the period resulted in net fair value losses of $69,540. 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.

Weighted average annual stabilized net operating income for investment properties as at September 30, 2020 is $1,528 (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.

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

	Investment Properties			**Properties under Development**		
September 30, 2020	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.25%**	**10.00%**	**6.88%**	**6.00%**	**6.25%**	**6.10%**
Terminal capitalization rate	**5.75%**	**9.00%**	**6.87%**	**6.00%**	**6.50%**	**6.23%**
Discount rate	**6.25%**	**9.75%**	**7.93%**	**7.00%**	**7.50%**	**7.22%**

	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 $60,558 (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 $70,048 (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 September 30, 2020, the fair value of interest rate swap contracts was $1,759 (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 September 30, 2020 the fair value of the conversion feature on our convertible debenture was $859 (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 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 September 30, 2020 the fair value of the REIT units was $49,983, resulting in a fair value gain during the nine months ended of $56,324 (Q3-2019 - loss of $3,685) in the statement of income and comprehensive income for the period ended ended September 30, 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 have historically been 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 overall lack of historical write offs. During the current quarter, in light of COVID-19, management notes that there is risk associated with the receivables pertaining to tenant rent included with accounts receivables. As a result of the risks associated COVID-19 and its effect on the ability of tenants to settle their receivables, as well as government assistance programs put in place, Melcor has adjusted the expected credit losses on this specific group of receivables. At this time, based on the current economic outlook and the expected time-line impact of COVID-19, management has assessed and recorded the current expected credit loss at $1,641.

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 were suspended temporarily. The majority of these relief periods have now lapsed with resumption of regular repayments.

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 $2,319 (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

Distributions on REIT trust units

On October 15, 2020 the REIT declared a distribution of $0.03 per unit for the months of October, November and December 2020. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
October 2020	October 30, 2020	November 16, 2020	$0.03 per unit
November 2020	November 30, 2020	December 15, 2020	$0.03 per unit
December 2020	December 31, 2020	January 15, 2021	$0.03 per unit

Dividends declared

On November 10, 2020 our board of directors declared a dividend of $0.08 per share payable on December 31, 2020 to shareholders of record on December 15, 2020.