Management's Discussion & Analysis

March 17, 2021

The following discussion of Melcor's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2020.

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

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

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on March 17, 2021.

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".

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 or 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 2021 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 Risks in our annual MD&A.

Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by 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, business and industrial parks, office buildings, retail commercial centres and golf courses.

Since 1923, our focus has been the business of real estate. We've built over 140 communities across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage 4.63 million square feet (sf) in commercial real estate assets and 604 residential rental units. We have been a public company since 1968 (TSX:MRD).

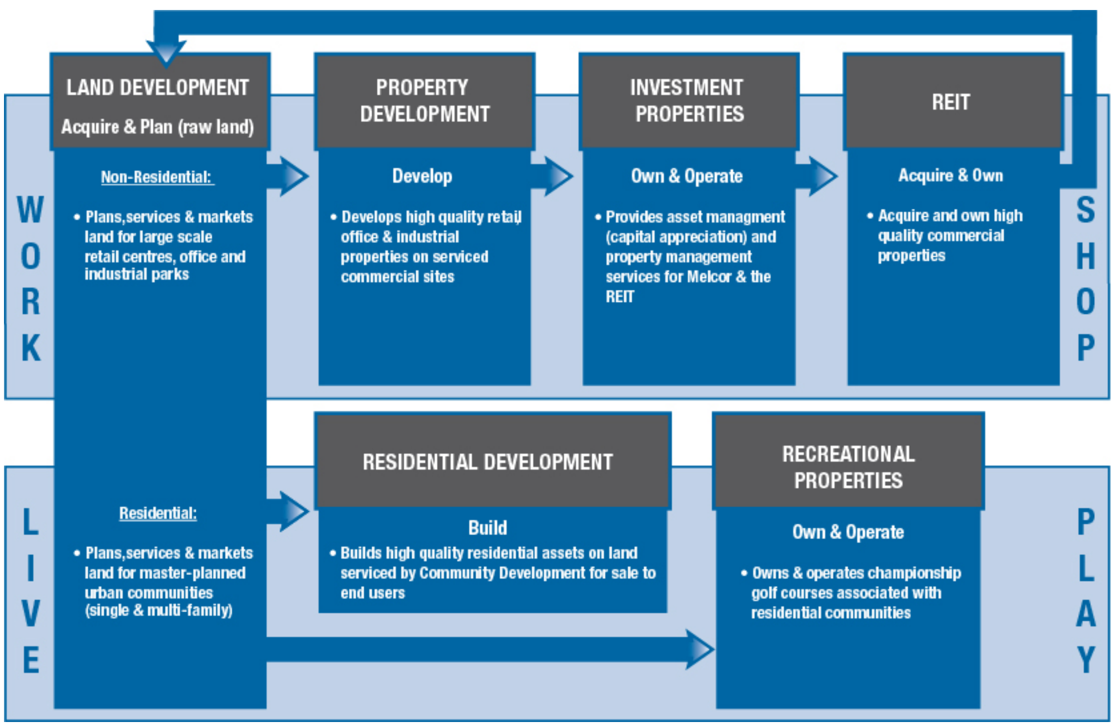
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

- acquiring raw land and planning residential communities and commercial developments (Community Development)
- project managing development, leasing and construction of commercial properties (Property Development)
- operating a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property management of REIT owned properties (Investment Properties)
- acquiring and owning high quality office, retail, industrial and residential assets (Melcor Real Estate Investment Trust or the REIT, formed May 1, 2013 through an IPO. We retain a controlling 55.3% effective interest in the REIT and continue to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement.)

In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreation Properties. Melcor has $2.00 billion in assets.

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



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

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

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

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

Strategy

Our fundamental goals are to:

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

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

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

Community Development: Reduced Inventory & Hot New Housing Market

Throughout 2020, we maintained our conservative and disciplined approach to new community development in our Canadian markets. We continued to focus on reducing older inventory in existing communities and made excellent progress in this regard.

In early 2020, we launched our initial phase of North Clifton Estates in Kelowna, BC, a high-end Okanagan lake-front community just 20 minutes from downtown Kelowna. With significant interest, over half of the 44 lots were sold in 2020 and the first phase is now sold out.

We launched two new communities, Lanark Landing in Airdrie, AB and Rosewood at Secord in west Edmonton, AB. Showhome parades in both communities opened during the year. In a strong housing market, both communities are selling well and new phases are being built this year.

The housing market is also strong south of the border. We sold 241 lots in our Harmony development in Aurora, CO, including the sell-out of phase 2.

Throughout the past few years, we have shifted the product type in our residential developments to meet trending changes in market demand. More stringent mortgage qualifications came into effect in early 2019, which, combined with the continued soft economy, have increased the popularity of more affordable product types — townhomes, duplex, zero lot line or traditional single family with secondary suites to assist with mortgage qualifications.

Property Development: Strength in Neighbourhood Shopping Centres

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

Asset Management: COVID Impacts Linger

Our Investment Properties and REIT divisions performed exceptionally well given the uncertainty introduced by COVID-19. We remain cautious about the long-term impact on our tenants.

Our geographic and revenue source diversification strategies have served to offset the softness in Canadian residential development. Our commercial property divisions now manage 4.63 million sf of income-generating assets, providing stable results throughout the year to smooth out the seasonal nature of construction related divisions.

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

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

Assets

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

Division	Assets	Strategy
Community Development	10,500 acres of raw land inventory in strategic growth corridors	Reduce older inventory. Maintain right mix of inventory, available at the right time to meet market needs Increase market share by maintaining best in class design and community amenities
Property Development	Prospects for over 5.4 million sf of new development based on existing plans Completed and transferred 132,498 sf (11 buildings) in 2020 66,204 sf is currently under construction, while a further 41,199 sf is completed and awaiting lease-up and/or transfer.	Plan, build and lease retail, office, industrial and multi-family residential real estate projects Maintain 3-5 year inventory of developable assets Maximize value of existing assets through vertical development or re-development
Investment Properties & REIT	4.63 million sf of commercial property and 604 residential units under management, diversified across 4 asset classes in 3 provinces and 2 states As Property Development projects are completed, our GLA continues to grow.	Improve existing assets with value-added investments to achieve higher occupancy rates and increase rent per square foot Be the landlord of choice by providing consistent, high-quality service
Recreational Properties	4 championship golf courses	Maintain strong reputation through consistent course quality and player experience Grow revenue from food and beverage operations

Diversification

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

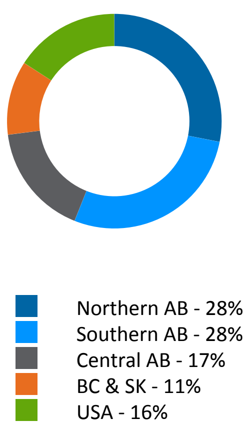
- The mix of land and property types held (residential, office, retail, industrial)
- The regional profile of our assets (Alberta, Saskatchewan, BC & western/southwestern US)
- The type of revenue each asset generates (including steady revenue from income-producing properties and revenue that fluctuates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

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

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

LAND INVENTORY

Inventory by Region



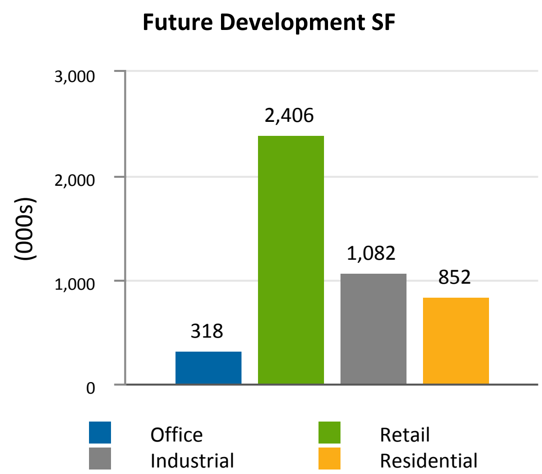
Inventory by Land Use

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

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

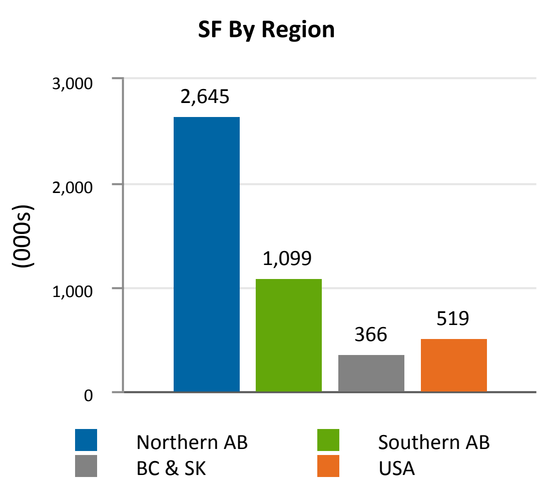
Melcor has been developing commercial properties since the 1970s and has built over 2.5 million sf. Our future development pipeline is 4.7 million sf based on current development plans.

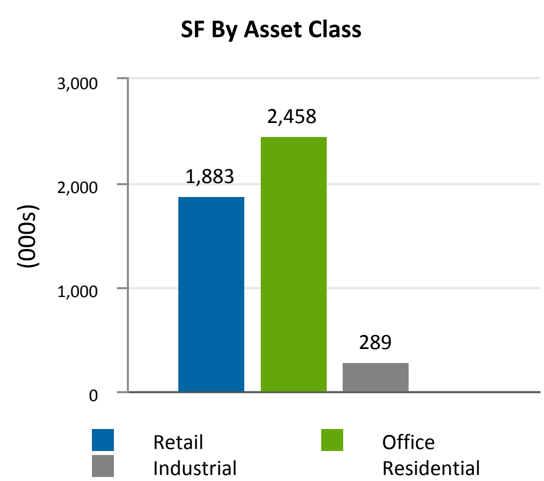
PROPERTY DEVELOPMENT



Investment Properties manages 4.63 million sf of geographically diverse income-producing assets (including those owned by the REIT) to provide consistent annuity income and cash flow. Our total portfolio under management is diversified across asset class, property mix and region. The regional asset mix is primarily commercial in western Canada, with the majority of these assets owned by the REIT. Our US portfolio is a blend of residential and commercial properties. The goal of the Investment Properties division is to be the landlord of choice by providing exceptional customer care. We continually enhance and improve existing properties through capital investment to maximize occupancy, rental rates and tenant retention and prepare properties for vend-in to the REIT.

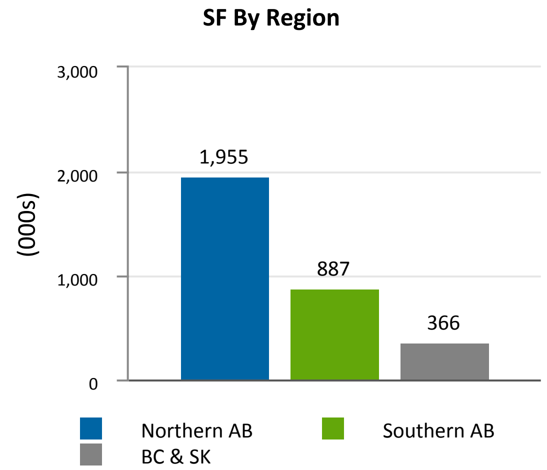
TOTAL GLA MANAGED

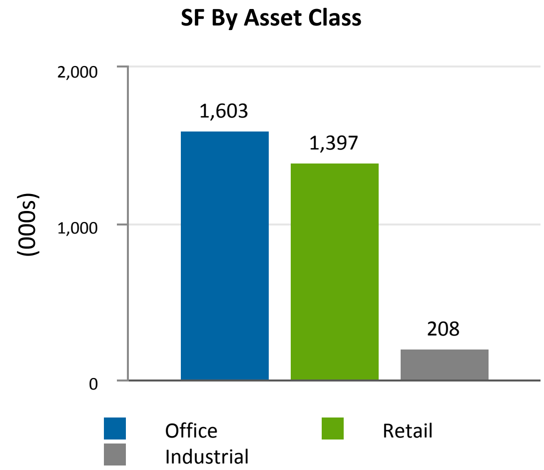




The REIT owns 3.21 million sf of income-producing assets that are managed by the Investment Properties division. The REIT is a vehicle for realizing the value created throughout the Melcor value chain as raw land is developed for commercial use (Community Development) and commercial properties are built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

TOTAL GLA OWNED BY THE REIT

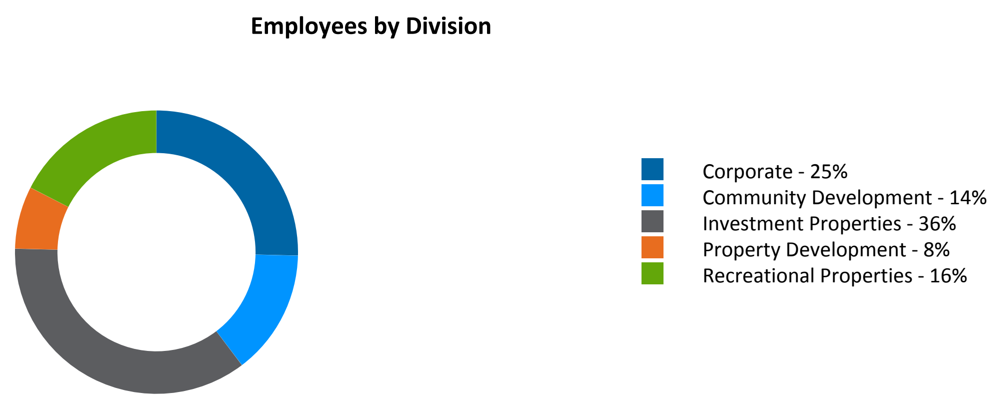




Key Performance Drivers

A High Performance Team

A strong and engaged workforce is a key component of achieving our growth objectives. Our team fuels our success by profitably managing residential and commercial development, continually moving future projects through the municipal approval process, managing our assets and ensuring tenant satisfaction, and developing strong relationships with our suppliers, contractors, builders, tenants and other stakeholders. The average tenure of our team is 8.68 years and we have 22 team members (7 active) on Melcor's Quarter Century Club.



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

Real Estate Inventory

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

- 10,500 acres of developable land
- 4,629,675 sf of leasable commercial property and 604 residential units under management in 3 provinces and 2 states
- Potential to develop over 4.7 million sf of new commercial property (based on current planned development)

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

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

Developed lot inventory

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

	December 31, 2020				December 31, 2019			
	CANADA			USA	CANADA			USA
(including joint arrangements at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)
Open	959	59.00	126.09	64	1,112	59.00	130.44	136
Transfers	—	—	—	—	—	—	—	—
New developments	459	—	—	181	515	17.22	36.39	—
Internal sales	—	—	—	—	—	—	(36.93)	—
Sales	(770)	(9.38)	—	(241)	(668)	(17.22)	(3.81)	(72)
Year end	648	49.62	126.09	4	959	59.00	126.09	64

Active residential development in Canada, while slow and cautious at the beginning of the year with the uncertainty of the COVID-19 impact on home sales, ramped up by the end of the year as we began running out of inventory in certain communities. We developed 459 new single-family lots, down 11% compared to 2019 and sold 770, an increase of 15% compared to 2019.

For US residential development, our community of Harmony outside of Denver, CO was very busy throughout 2020. We developed and then completely sold out of phase 2. We also sold an additional 60 single-family lots in phase 1, leaving four lots remaining. To meet this strong market demand, we began developing a portion of phase 3 containing 277 lots in late 2020.

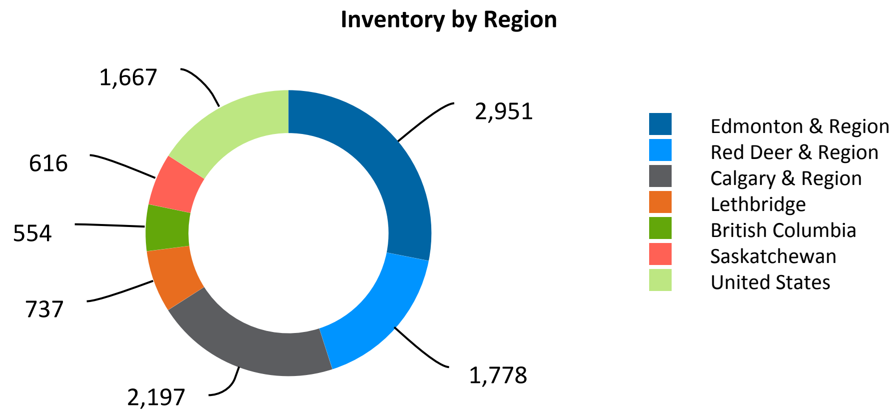
Our strong focus on clearing out older inventory held by Melcor and by our builders was quite successful in the year. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development.

We are well positioned to respond to current market strength and have a strong development program in place for 2021.

Raw land inventory

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

We did not purchase land in 2020 as we were focused on conserving cash in a year made unpredictable due to COVID-19. In 2019 we purchased 470.60 acres of land. Our inventory consists of 10,500 acres, located in our operating regions as follows:



Financial Resources

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

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

We primarily use fixed rate, long-term mortgage financing on our income-producing assets to raise capital for acquisitions, development activities, and other business expenditures. As such, most of our borrowings are in the form of long-term, property specific financings such as mortgages or project financings secured by specific assets. At the end of 2020, Melcor had project specific financings on three residential and four commercial projects totaling $66.25 million.

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

Our operations are supported by a syndicated operating line of credit with total availability of $188.55 million, which margins our land development assets (raw land inventory, land under development and agreements receivable). With a strong focus on collecting on receivables and reducing overall leverage throughout 2020, Melcor is well positioned to take advantage of acquisition and growth opportunities.

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

Corporate Sustainability

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

Environmental Commitment

Land Development

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

- low impact development techniques to reduce and absorb runoff (smaller driveways, more greenspace)
- unique naturalized storm water management ponds that mimic the natural environment. Now well-established in several communities, these ponds re-create a very natural environment that attracts a variety of wildlife
- natural raw land features to inform the design of the community
- mature trees and native species in landscaping and require individual home purchasers to do the same to not only beautify the community, but to increase natural absorption of rain water and snow melt
- plentiful community gathering spaces - parks, playgrounds, community gardens and orchards

In addition, Melcor is a partner of Edmonton Area Land Trust, committed to preserving natural treasures like the Larch Sanctuary

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

Property Development

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

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

The Fountain Tire building, completed in 2014, received the ENERGY STAR designation in early 2020. Natural Resources Canada confers this designation on the the most energy efficient office buildings across the country.

Property Management

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

Examples of our commitment to environmental best practices include:

- All properties have LED lights
- 80% of our buildings have motion-sensing lights that turn off when no one is present
- We have active recycling programs in all buildings
- We engage specialists to monitor and analyze our energy usage and identify potential improvements. Of 12 properties benchmarked from 2012 - 2020 we realized:
    - reduced electricity consumption of 21%
    - decrease in natural gas consumption of 4%
    - reduced equivalent greenhouse gases by 32%
- One building achieved ENERGY STAR certification in early 2020, recognizing the top 25% of office buildings in Canada in terms of efficiency. We are tracking other office buildings in our portfolio for this certification.

Recreational Properties

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

Social Responsibility

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

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

We demonstrate social responsibility through our relationships with all stakeholders and the communities where we operate. Our commitment to being the landlord of choice is much more than a slogan. It is lived by every team member, as demonstrated by the results of our recent tenant survey. We surveyed 16 office buildings in November 2019 and both our property managers and building operators achieved a 92% approval rate. While no surveys were completed in 2020, anecdotal responses to our approach to communicating and working with tenants on COVID matters were remarkably positive.

Diversity & Inclusion

We are committed to fostering a diverse, inclusive and safe work environment. Our people are at the heart of our strategy and one of three core values is to "empower and care for our exceptional team." Our CEO, Darin Rayburn, recently completed the Diversity & Inclusion (D&I) Foundations and the D&I Influencer certificate program via the Canadian Centre for Diversity and Inclusion, and the Indigenous Canada certficate from the Faculty of Native Studies at the University of Alberta.

Women make up 38% of Melcor's management committee, 37% of management and 41% of our overall team.

Our human capital strategy also emphasizes health and wellness, including mental health. In 2020, we doubled the benefit available for psychological services to support the mental well-being of staff. Food for Thought lunch and learn sessions are offered periodically to encourage learning on a variety of topics, including food waste, the benefits of proper sleep and meditation. In 2020, these sessions were offered virtually, including a very well-received session on leading children through the pandemic.

The focus on a positive, empowering work environment creates an engaged and dedicated workforce with 22 employees having served the company for 25+ years. The average tenure of our employees is 8.68 years.

Community Investment: Supporting Local

Being invested in the communities where we do business is an important part of who we are. As we pursue excellence in our business, we also want the communities where we do business to be the best they can be. We give where we live to build strong communities. Our giving and involvement focuses on key pillars of strong communities: education, health, youth, sports, public gathering places such as libraries, and social programs that lend a helping hand to those in need. Our employees also make meaningful contributions to local charities through fundraising activities and by volunteering their time and talent with local not-for-profit organizations.

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

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

Effective Governance

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practices form the foundation of a sustainable company and long-term value creation for share- and unit-holders.

Melcor's Management Committee, which reviews and approves the projects we undertake, is 38% female.

Examples of our commitment to effective corporate governance practices include:

- a board of directors comprised of a majority of independent directors
- as the chair is related to the company, we have appointed a lead director
- 25% of directors are female; 25% of independent directors
- 33% of our executive team is female

SIGNIFICANT EVENT - COVID-19

The COVID-19 global pandemic arrived in western Canada in March 2020 and the federal and provincial governments responded with a series of emergency measures to slow the spread of the virus and ensure that our medical system did not become overwhelmed. The initial lock-down, including the mandatory closure of all non-essential businesses from March until June 2020, had a material impact on many of our tenants, as well as on the normal home buying process as showhomes had to adjust to changing protocols. A second lock-down of non-essential businesses occurred from November 2020 until February 2021.

The long-term impact of COVID-19 related economic stressors remains to be seen. It is difficult to estimate the future impact to the Melcor's financial performance, and because of this future results could be materially different from current estimates.

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(ed) the recommended actions.

We re-opened our offices to limited staff in August with protocols in place to limit contact and cohort sizes. As per provincial recommendations, we closed our offices to all but a skeleton staff once again in November and they remain closed.

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.

COVID-19 Measures

Both Melcor and the REIT undertook a series of measures 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(d):

- Reduced Melcor's March dividend to $0.10 per share and the June, September dividends to $0.08 per share.
- Reduced REIT distributions to $0.03 per trust unit for April through December. Subsequent to year end, the REIT increased its distribution by 17% to $0.035 per unit for Q1-2021.
- Deferred discretionary capital spending planned for 2020. In addition to improved near term liquidity, this reduced non-essential activity and traffic to our properties. Strategic asset enhancement and preservation projects remain a cornerstone of our long-term strategy to improve our assets and retain and attract tenants, and will resume priority based on the short and long-term needs of our assets.
- Deferred sales tax, property tax and utility payments where available.
- Worked 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 Q4-2020. At the end of the year, Melcor was successful in accessing the Canada Emergency Wage Subsidy Program (CEWS) and received $2.51 million. This allowed us to avoid further layoffs, bring our staff back up to full-time hours and top up previously cut wages.

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 until 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, with momentum growing through the third and fourth quarters. 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 and additional sales in the first phase reducing remaining inventory to four lots, which are reserved for a future showhome parade. Sales velocity is strong and builders are eagerly anticipating the next phase. In spite of the delayed opening of our golf courses, they were busy throughout the season and with thoughtful strategy, improved gross margin to 43% from 27% by reducing staffing, improving operating efficiencies and focusing on simpler food and beverage menu choices.

We caution that COVID-19 fall-out may not be over, and may continue to have a negative impact on our future cash flow and net operating income should current federal subsidy programs cease.

Collections & Bad Debt Update

We proactively engaged with tenants to provide temporary relief through rent deferral agreements as a result of COVID-19 and continue to do so where necessary. 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 December 31, we had collected 99% of fourth quarter rent, 94% of third quarter rent and 87% of second quarter rent, with $3.45 million in outstanding arrears, of which $0.52 million has been deferred and a further $1.18 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, third and fourth quarters by asset class.

Collections by Asset Class Q2, Q3 & Q4 2020 (% of Total Billed Rent)

	Q2-2020	Q3-2020	Q4-2020	Total	Office	Retail	Industrial	Residential
Tenant collected	83	92	**99**	**92**	94	88	93	100
Government collected	4	2	—	**2**	1	3	2	—
Total collected	**87**	**94**	**99**	**94**	**95**	**91**	**95**	**100**
Provisions and write-offs for bad debts	9	4	—	**4**	3	7	3	—
Deferred receivables	2	—	—	—	—	1	—	—
Uncollected	2	2	**1**	**2**	2	1	2	—
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Melcor expects full collection of deferred and uncollected amounts. To date 98% of January 2021 and 96% of February 2021 billed rent has been collected plus an additional $0.72 million in payments related to prior periods.

The federal government, in partnership with the provinces and territories, created the Canada Emergency Commercial Rent Assistance (CECRA) program 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 25% of rent covered by the application, with the tenant paying the balance.

We completed CECRA applications on behalf of 106 tenants representing approximately 8% of Melcor's billed rent for the program period at a net cost of $0.86 million for the twelve-months ended December 31, 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.

During 2020 we recorded $1.43 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 for 2020:

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

	Year ended December 31, 2020			Year ended December 31, 2019	
	CECRA Write-offs	**Net Other Bad Debts Expense**	**Total Bad Debts Expense**	Net Other Bad Debts Expense	Total Bad Debts Expense
Retail	**563**	**831**	**1,394**	132	132
Office	**256**	**588**	**844**	166	166
Industrial	**44**	**10**	**54**	—	—
Other	**—**	**—**	**—**	7	7
Total	**863**	**1,429**	**2,292**	305	305

The following table illustrates our outstanding billed receivables (excluding deferred amounts), deferrals and allowances as at December 31, 2020 and December 31, 2019 by asset class. Accrued and other receivables of $10.15 million (2019 - $8.90 million) are not reflected in the figures illustrated below.

Tenant Receivables and Provisions ($000s)

	Year ended December 31, 2020			Year ended December 31, 2019	
	Tenant Billed Receivables	**Deferred Tenant Receivables**	**Allowance for Doubtful Accounts**	Tenant Billed Receivables	Allowance for Doubtful Accounts
Retail	**1,953**	**424**	**(764)**	435	(124)
Office	**880**	**99**	**(409)**	678	(131)
Industrial	**64**	**—**	**(10)**	18	—
Other	**28**	**—**	**—**	3	—
Total	**2,925**	**523**	**(1,183)**	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 in the long-term.

We worked diligently with our tenants throughout 2020 and believe that the strong relationships that we continually build with them are a key factor in our strong rental collection rates throughout this challenging period. We expect rent collections to remain stable; however, we anticipate tenant delinquencies may grow 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 in Q2-2020. The revaluation resulted in a fair value loss of $76.48 million in 2020, or 7% of our portfolio value. These valuation losses were due to declining property income (stabilized NOI) and projected cash flows as well as a 25-50 bps increase in capitalization rates and discount rates. Our US portfolio fair value loss was $5.46 million (US - $4.16 million).

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 $95.94 million as at December 31, 2020 (December 31, 2019 - $67.68 million).

COVID-19 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. Please refer to the discussion under the Outlook section for more information.

2020 Highlights

($000s except as noted)	**2020**	**2019**	**Change**
Revenue	**226,818**	207,971	9.1 %
Gross margin (%) *	**43.3 %**	46.5 %	(6.9)%
Fair value adjustment on investment properties	**(76,480)**	12,234	(725.1)%
Net income	**11,464**	37,741	(69.6)%
Net margin (%) *	**5.1 %**	18.1 %	(71.8)%
Funds from operations *	**51,424**	38,265	34.4 %
Shareholders' equity	**1,077,429**	1,080,257	(0.3)%
Total assets	**2,001,285**	2,096,047	(4.5)%
Per Share Data			
Basic earnings	**0.34**	1.13	(69.9)%
Diluted earnings	**0.34**	1.13	(69.9)%
Funds from operations *	**1.55**	1.15	34.8 %
Book value *	**32.56**	32.51	0.2 %

* See non-standard measures for definitions and calculations.

2020 revenue grew by 9% as a result of growth in Community Development division revenue. Our Harmony community in the US contributed $34.16 million to revenue as we both developed and sold out our second phase (181 lots). We also sold additional lots in phase one and have only four lots remaining and they are reserved for a future showhome parade. US revenue, which includes both investment properties and residential development, made up 22% of total revenue.

Our portfolio of income properties grew 1% to 4.63 million sf via properties constructed and transferred internally. The Property Development team transferred 11 buildings (132,498 sf) to Investment Properties in 2020 with the majority of these properties being transferred during the last quarter as they are generally tied to the construction season in Alberta. These new buildings will contribute to revenue growth in 2021. Investment Properties and the REIT had a combined revenue growth of 2% and represent 41% of revenue. GLA growth was partially offset by the sale of a US office property with a total of 24,154 sf during the year.

Although COVID-19 presented obstacles throughout the 2020 fiscal year, single-family lot sales in Canada were up 15% compared to 2019. Community Development division revenue was down 7% in the divisional results table as we did not sell any land to our Property Development group in the current year, this is eliminated upon consolidation. With a strategic focus on managing inventory combined with cautious consideration of COVID-19, we developed 11% fewer lots than 2019, and made no land purchases during the year. Promotions were in place throughout 2020 in various communities to move inventory.

Showhomes in two of our newer communities opened during the year:

- Lanark Landing in Airdrie, AB features a variety of home types, with the first phase comprised of affordable entry product that has been selling well (laned single-family, duplex and townhome). A new phase with front drive product (duplex and single family) was also delivered this year.

- Rosewood at Secord in Edmonton, AB features affordable modern farmhouse, prairie contemporary, heritage and classic modern style single-family and townhomes and has also been moving at a higher than typical sales velocity.

With a disciplined focus on reducing controllable G&A expense, FFO increased by 34%.

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

Investing for growth

In an effort to conserve cash and navigate cautiously through an unpredictable year, we did not make any land purchases in 2020.

Our Property Development division completed and transferred 11 buildings (132,498 sf) in 2020 with a further 84,606 sf under development and 51,158 sf completed and awaiting lease up at year end. Revenue was up 5% over 2019 as 33% more GLA was completed and transferred compared to last year. Revenue from the Property Development division is eliminated on consolidation. Transfers to Investment Properties will positively impact results in future years as we continue to grow our income-producing assets for long-term holding or for sale to the REIT. We continued to progress commercial land through the development, approvals and lease-up process and have an additional 9 buildings in 5 projects expected to be completed and transferred to Investment Properties in 2021.

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

- four residential units in Arizona for a sales price of $1.11 million (US$0.84 million) (net of transaction costs) were sold throughout the year. The sale price was settled through cash.
- an Arizona office property, Perimeter, was sold for $6.07 million (US$4.63 million), net of transaction costs, on August 28, 2020.

Return to Shareholders

We continued to distribute profits to our shareholders, although at a reduced rate due to cash conservation efforts in response to the effects of COVID-19. In 2020, we paid dividends of $0.34 per share compared to $0.50 per share in 2019.

We declared a dividend of $0.10 per share on March 17, 2021 payable on March 31, 2021 to shareholders of record on March 25, 2021. The dividend is an eligible dividend for Canadian tax purposes.

We have been paying dividends since 1969.

Revenue & Margins

Revenue was up 9% to $226.82 million in 2020 due to strong performance of the Community Development division and REIT revenue growth due to new GLA added. In the prior year, our Community Development division revenue included $25.04 million in revenues from inter-company sales to our Property Development Division which are eliminated upon consolidation. Therefore, after eliminations, 2019 Community Development revenue from third-party sales contributed $98.17 million to total revenues compared to 2020 revenues of $115.09 million, an increase of 17%. During the year we sold 15% more single-family lots in Canada and 235% more lots in the US compared to 2019. Lots sales in the US will remain lumpy due to the nature of development activity and market demand.

Revenue generated from single-family lot sales in Canada was up 5% to $71.01 million and the average lot price increased by 12% due to an increase in estate lot sales throughout the year in both Edmonton and Kelowna. The increased interest in estate lots in Canada mirrors the overall increase in market activity due to COVID-19. Home buyers are actively moving on up out of their discomfort zone as a result of COVID-19.

In the US, revenue from single-family lot sales increased by $25.49 million or 294% over 2019 due to new activity, and the average lot price increased by 17%. We were able to increase lot prices as we transition from a pioneering to an established community. The community is quite popular and has seen steady sales velocity. Increased revenue from single-family lots in Canada and the US was partially offset by lower land sales.

COVID-19 delayed the typical spring selling season for residential sales in Canada, resulting in few single-family lot sales through the first half of the year. Following this delay, pent up demand resulted in a 15% increase in lots sold compared to 2019. Margin erosion in the Community Development division is a result of several factors, including:

- the increase in sales in the US: making up over 50% of revenue in the quarter and year to date, US gross margin is lower (22%) due to higher finance costs and the costs associated with pioneering development in a new area and first phase infrastructure development. We anticipate this margin improving over time as we now have more favourable financing in place, and with the success of the first two phases in Harmony, we have increased the pricing on lots in the development. Margins are anticipated to exceed 30% in subsequent phases.
- minimal land sales, which are higher margin in nature, compared to 2019

Revenue from our income-producing portfolio (including REIT properties) was up 2% over 2019. Our REIT division saw an increase of 5% in revenues as a result of third-party acquisitions completed in April and November of 2019. Property Development transfer revenue (down 5%) is eliminated on consolidation; however, these properties will contribute to future revenue for our income-producing portfolio.

Gross margin decreased to 43% in 2020 compared to 47% in 2019 as a result of lower margin on our US lot sales and our participation in the CECRA program. Our income-producing portfolio (including REIT properties), which contributed 41% of total revenues in 2020 had a gross margin of 58% compared to 59% in 2019. This small decrease in our income-producing portfolio gross margin was affected by our participation in the CECRA program, which increase bad debts expense by $0.86 million, in addition to $1.43 million in provision for bad debts expense unrelated to the CECRA program. Margins earned in our Community Development division were down 2%. Margins in this division are affected by a number of factors, including types of lots, development costs, the timing of the original land purchase and the relative real-estate market strength at the time of sale. Land that has been in inventory for many years typically generates higher margin on sale. Gross margin on income properties is more stable in nature and serves to neutralize volatility in Community Development margin.

Net margin declined to 5% from 18% in 2019. Net margin is impacted by swings in fair value adjustments recorded on our investment properties and REIT units. Net income was $11.46 million, down from $37.74 million in 2019, largely as a result of fair value losses of $76.48 million recorded on our investment properties. Adjustments related to the REIT had a positive impact of $37.53 million in 2020. Fair value adjustments on investment properties are a result of market forces that are out of management's control. Adjustments related to the REIT are due to volatility in the equity markets that impacted the price of the REIT units.

Fair value losses of $76.48 million were recorded in 2020 compared to fair value gains of $12.23 million in 2019. COVID-19 was a large contributor to the significant losses recognized this year.

Funds From Operations (FFO)

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

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

Below is a reconciliation of net income to FFO:

($000s)	Year Ended	
	2020	2019
Net income for the year	**11,464**	37,741
Amortization of operating lease incentives	**7,879**	7,867
Fair value adjustment on investment properties	**76,480**	(12,234)
Depreciation on property and equipment	**1,407**	1,381
Stock based compensation expense	**873**	717
Non-cash financing costs	**2,043**	3,442
Gain on sale of asset	**(40)**	(83)
Deferred income taxes	**(5,409)**	(9,241)
Fair value adjustment on REIT units	**(43,273)**	8,675
FFO *	**51,424**	38,265
Per Share Data		
FFO per share *	**1.55**	1.15

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

FFO increased 34% to $51.42 million from $38.27 million in 2019. This increase is a result of our disciplined focus on reducing controllable G&A expenses, which were down 19% over 2019. The following initiatives to combat the effects of COVID-19 were taken to reduce G&A:

- implemented wage roll-backs for executive officers
- furloughed approximately 25% of full-time staff for two months
- reduced remuneration for all remaining staff from April 1st to July 31st

Divisional Results

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

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

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

The following table summarizes operating division results:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31	
($000s except as noted)	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Revenue	**115,087**	123,207	**40,186**	42,507	**38,004**	39,494	**74,572**	71,159	**7,703**	8,466
Portion of total revenue	**42%**	43%	**15%**	15%	**14%**	14%	**27%**	25%	**3%**	3%
Cost of sales	**(80,269)**	(83,747)	**(39,817)**	(42,300)	**(15,519)**	(16,276)	**(31,240)**	(28,772)	**(4,388)**	(6,189)
Gross profit	**34,818**	39,460	**369**	207	**22,485**	23,218	**43,332**	42,387	**3,315**	2,277
Gross margin (%)	**30%**	32%	**1%**	—%	**59%**	59%	**58%**	60%	**43%**	27%
Portion of total gross profit	**33.0%**	37%	**—%**	—%	**22%**	22%	**42%**	39%	**3%**	2%
General and administrative expense	**(5,822)**	(7,914)	**(1,766)**	(2,307)	**(2,141)**	(2,381)	**(3,043)**	(2,868)	**(1,862)**	(2,298)
Fair value adjustment on investment properties	**—**	—	**3,658**	6,888	**(20,392)**	(809)	**(62,748)**	(1,622)	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**40**	83
Interest income	**444**	960	**13**	28	**18**	42	**72**	117	**—**	—
Segment Earnings (loss)	**29,440**	32,506	**2,274**	4,816	**(30)**	20,070	**(22,387)**	38,014	**1,493**	62

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

Community Development

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

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

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

As at December 31, 2020 we held 10,500 acres of raw land for future development and developed land inventory included 648 single-family lots in Canada, 4 single-family lots in the US, 50 acres for multi-family development, and 126 acres for commercial and industrial development.

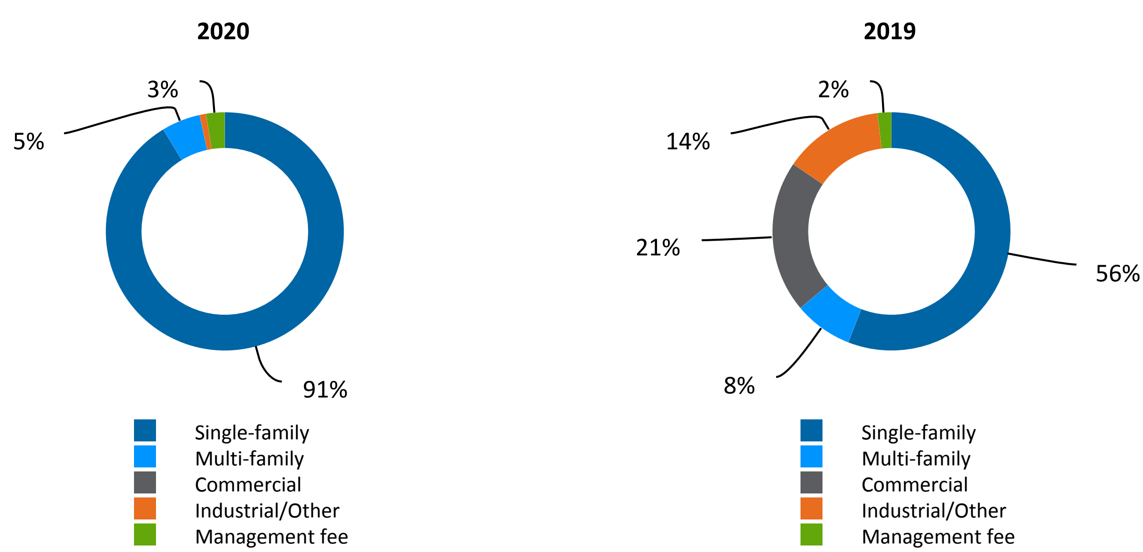
Sales Activity

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

The COVID-19 pandemic delayed the typical spring selling season for new homes by several months in Canada in 2020. Construction timelines were also stretched as a result of precautions taken to stop the spread, with some new showhomes taking months longer to open than planned. After the first lock down lifted, the housing market exploded as a result of pent up demand and has remained strong to date.

To meet this market demand, we plan to bring on 20 new phases in 14 communities in 2021 to replenish inventory. We continued our focus on clearing out existing inventory held by Melcor (lots) and by our builders (spec homes) in 2021 and have active marketing programs in place to support this objective.

REVENUE BY TYPE



The following table summarizes our activity:

Consolidated	2020	2019
Canada Sales data: (including joint ventures at 100%)		
Single-family sales (number of lots)	770	668
Gross average revenue per single family lot ($)	144,937	128,993
Multi-family sales (acres)	9.38	17.22
Gross average revenue per multi-family acre ($)	1,232,617	1,080,180
Commercial sales (acres)	—	36.93
Gross average revenue per commercial land acre ($)	—	771,591
Other land sales - Industrial, Other (acres)	1.14	3.84
Gross average revenue per other land acre ($)	200,000	319,422
Raw land sales to municipalities (acres)	5.14	84.33
Gross average revenue per raw land acre ($)	275,000	214,144
US Sales data: (including joint ventures at 100%)		
Single-family sales (number of lots)	241	72
Gross average revenue per single family lot ($)	140,548	120,400
Other land sales - Industrial, Other (acres)	—	2.98
Gross average revenue per other land acre ($)	—	763,673
Financial results: (including joint ventures at Melcor's interest)		
Revenue ($000s)	115,087	123,207
Earnings ($000s)	29,440	32,506

Regional Highlights

Edmonton & Region	2020	2019
Sales data:		
Single-family sales (number of lots)	495	480
Multi-family sales (acres)	8.58	17.22
Commercial sales (acres)	—	14.55
Other land sales - Industrial & Other (acres)	1.14	3.84
Raw land sales to municipalities (acres)	5.14	15.88
Financial results:		
Revenue ($000s)	52,246	69,538
Earnings ($000s)	15,220	19,688

The strong single-family housing market created by COVID-19 resulted in a 3% increase in the number of lots sold while the average selling price is up 10%. Product sold in the year included a broad mix, from price-sensitive townhomes and duplexes to luxury estate lots within our Jagare Ridge and Jensen Lakes communities.

We continued to offer a variety of price-sensitive options in all neighbourhoods, including duplexes, townhomes, detached garage homes, homes with secondary or garage suites and zero lot-line homes. Throughout 2020, we actively marketed and sold lots to the public to clear out older inventory.

Overall revenue decreased by 25% due to less raw land sales compared to the prior year. Multi-family and commercial land sales generated $20.13 million in revenues (at JV%) in 2019 compared to $6.84 million in revenues (at JV%) in 2020.

Red Deer & Region	2020	2019
Sales data:		
Single-family sales (number of lots)	109	34
Commercial sales (acres)	—	10.53
Financial results:		
Revenue ($000s)	6,112	4,040
Earnings ($000s)	1,445	1,078

Following several years of soft market, the central Alberta region saw a 221% increase in the number of single-family lots sold as the second phase of Evergreen registered during the third quarter of the year, resulting in 62 lot sales. A further 23 lots were sold from phase 1. The new phase includes two new product types: duplex and townhome. Sales also remained steady at the Vista in Sylvan Lake. With renewed strength in the new home market, we anticipate current sales velocity to continue.

Calgary & Region	2020	2019
Sales data:		
Single-family sales (number of lots)	107	127
Multi-family sales (acres)	—	—
Commercial sales (acres)	—	11.85
Other land sales - Industrial & Other (acres)	—	—
Raw land sales to municipalities (acres)	—	64.40
Financial results:		
Revenue($000s)	8,300	30,474
Earnings ($000s)	2,062	8,728

Market demand in the Calgary Metropolitan Area mirrored our other regions with a slow uptake in the early part of the year followed by ramped up interest since June. The reduction in lots sold is a result of a the timing of bulk lot sales to builders via the lot draw process as well as a lack of inventory as the region closed the year with only 45 lots remaining. We are actively replenishing supply and plan to develop new phases in our existing communities of Lanark Landing and Sunset Ridge, and bring on a new community - Cobblestone Creek - in Airdrie, AB.

The new showhomes in our brand new community of Lanark Landing opened during the height of the first lockdown, so we used virtual showhome tours and other safe options for home viewing in the community. The second phase of Lanark Landing was registered in the fall and made up 63% of single-family lots sold in the Calgary region. The community has been selling well and we plan to bring on the another phase to keep up with builder demand.

We anticipate similar sales activity in 2021 and have sufficient land with various levels of approval to meet market demand in the short and medium term.

Lethbridge	2020	2019
Sales data:		
Single-family sales (number of lots)	27	19
Multi-family sales (acres)	0.80	—
Financial results:		
Revenue ($000s)	2,998	2,619
Earnings ($000s)	790	611

Single-family lot sales increased by 42% while revenue increased by 14%. Despite the continued soft market as a result of oversupply, the construction of a central park amenity in Garry Station sparked momentum resulting in 14 lot sales in 2020 compared to 6 in 2019.

Kelowna	2020	2019
Sales data:		
Single-family sales (number of lots)	32	8
Raw land sales to municipalities (acres)	—	4.05
Financial results:		
Revenue ($000s)	11,276	5,321
Earnings (loss) ($000s)	3,079	1,203

Our first phase in the new community of North Clifton Estates registered late in 2019. We sold 23 of the 44 lots in 2020, contributing to increased revenues of $5.73 million. This community boasts high end Okanagan lake-front estate lots, and has received a significant amount of interest as evidenced by lot sales made during the year. We anticipate continued rapid absorption of this community.

With the strong housing market, we are advancing planning at both BlueSky and North Clifton Estates. The latest phase of BlueSky should be registering shortly and adds 41 lots to inventory.

United States	2020	2019
Sales data:		
Single-family sales (number of lots)	241	72
Other land sales - Industrial & Other (acres)	—	2.98
Financial results:		
Revenue ($000s)	34,155	11,215
Earnings ($000s)	6,844	1,113

Our builder group bought all 181 lots in phase 2 and an additional 60 lots from phase 1 in our community of Harmony near Aurora, CO. Phase 3 is currently under development and we plan to bring on an additional 277 lots in 2021.

We are actively marketing and working on final approvals for all of our land assets in the US, including:

- Paseo Place, a 120 acre land holding and La Privada, a 198 acre land holding. These adjacent projects are located in Goodyear, AZ.
- Two land holdings totalling 138 acres in Buckeye, AZ.

We intend to sell these projects as paper lots, which means we do not plan to develop ourselves. We continue to seek land acquisition opportunities in AZ and CO and to advance planning and approvals on all land holdings.

Property Development

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

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

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

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

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

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

Division Highlights

($000s and at JV%, except as noted)	2020	2019
Total revenue	**40,186**	42,507
Revenue from property transfers	**39,817**	42,300
Management fees	**369**	207
Margin (%) on property transfers	**15 %**	8 %
Square footage transferred (sf, at 100%)	**132,498**	99,794
Number of buildings transferred	**11**	8
Fair value gains on investment properties	**3,658**	6,888

Property Development completed and transferred 11 buildings (132,498 sf) to Investment Properties in the last half of 2020 and has another 51,158 sf completed and awaiting lease up and/or transfer. A further 84,606 sf remains under development and we continue to move new projects through the planning and development approval process. We anticipate another active construction season in 2021 and anticipate commencing construction on an additional 119,160 sf.

Regional Highlights

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

($000s)	2020	2019
Northern Alberta	**1,051**	3,357
Southern Alberta	**2,607**	3,531
	3,658	6,888

Northern Alberta transferred 51,824 sf (6 buildings) to Investment Properties. Notable activity during 2020 includes:

- Jensen Lakes Crossing: we completed construction and transferred 2 buildings (9,795 sf). These buildings generated fair value gains of $0.48 million.
- Jagare Ridge: we completed construction and transferred 3 buildings (39,019 sf). These buildings generated fair value gains of $0.06 million. This development is now complete.
- Clearview CRU 9: we transferred a 3,010 sf CRU. We also completed construction on an additional CRU (8,000 sf) in 2020 which will transfer when it meets transfer criteria.

Southern Alberta transferred 80,674 sf (5 buildings) to Investment Properties. Notable activity during 2020 includes:

- The District: we completed the transfer of the Veterinary Clinic (21,315 sf) for fair value gains of $0.48 million in 2020. We also transferred a 7,158 sf building. We completed construction on two additional CRUs (22,200 sf) in 2020 which will require lease up in order to meet criteria for transfer.
- Kingsview: two CRUs (18,701 sf) in Kingsview market were transferred during the fourth quarter. These buildings generated fair value losses of $1.16 million in 2020.
- Kingsview Commercial: we transferred one building (33,500 sf) to our investment property division. This building generated $1.26 million in fair value gains. This project is now complete.

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

Future development opportunities

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

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

Current Projects					
Project	Location	Type	Total SF [1]	Developed and transferred to IP or sold [2]	SF under development or developed and awaiting lease up
The Village at Blackmud Creek [4]	South Edmonton	*Regional business park*	550,000	198,905	—
Telford Industrial	Leduc	*Industrial Park*	500,000	143,118	—
West Henday Promenade [4]	West Edmonton	*Regional mixed use centre*	515,000	116,300	—
Kingsview Market	Airdrie	*Regional shopping centre*	331,000	200,601	—
Kingsview Commercial [3]	Airdrie	*Regional shopping centre*	33,500	33,500	—
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	278,100	241,600	12,204
Clearview Market 2	Red Deer	*Neighbourhood shopping centre*	80,000	3,010	17,949
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	1,285,000	563,768	22,426
Campsite Industrial	Spruce Grove	*Industrial Park*	170,000	13,700	—
The Shoppes at Jagare Ridge [3]	South Edmonton	*Neighbourhood shopping centre*	105,000	105,000	—
Jensen Lakes Crossing	St. Albert	*Neighbourhood shopping centre*	150,000	95,713	4,423
Woodbend Market	Leduc	*Neighbourhood shopping centre*	140,000	3,000	10,783
Greenwich	West Calgary	*Regional mixed use centre*	325,000	—	63,579
Vista Ridge	Sylvan Lake	*Neighbourhood shopping centre*	20,000	—	4,400

Expected Future Projects					
Project	Location	Type	Total SF [1]	Ownership Interest	Expected Start (year)
Laredo	Red Deer	*Neighbourhood shopping centre*	10,000	100%	2022
Secord	Edmonton	*Neighbourhood shopping centre*	75,000	60%	2022
Keystone Common	North Calgary	*Regional power centre*	700,000	100%	2023
Mattson	Edmonton	*Neighbourhood shopping centre*	75,000	50%	2024+
Rollyview	Leduc	*Neighbourhood shopping centre*	75,000	100%	2024+
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	100%	2023
Rosenthal	Edmonton	*Neighbourhood mixed use*	30,000	50%	2024+
West Pointe Marketplace	Lethbridge	*Regional power centre*	750,000	100%	2024+
Westview Commercial	West Calgary	*Neighbourhood shopping centre*	150,000	100%	2024+
Sora	South Calgary	*Neighbourhood shopping centre*	60,000	50%	2024+

1. Total SF represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end users. For example, grocers usually buy land from Melcor and build/own their building. Total SF is periodically recalibrated based on current market conditions and changes to development plans.
2. Developed and transferred to IP or sold includes estimated sf of sites sold to retailers for development as described above.
3. Projects completed in 2020.

Investment Properties

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

Our Investment Properties division oversees 4.63 million 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 and acquired from third parties elsewhere. Our goal is to improve the operating efficiency of each property for stable and growing cash flow, making them attractive assets for the REIT to purchase under its Right of First Offer (ROFO) option. In our management capacity, we are committed to efficient property management for optimized operating costs, occupancy and rental rates, providing the REIT and our joint venture partners with best in class management services. We focus on client retention through continuous customer contact and ongoing service evaluations. We also enhance our portfolio by upgrading the appearance, functionality and desirability of our properties, thereby increasing their rental potential.

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

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

Operating Results

($000s except as noted)	2020	2019
Commercial properties GLA under management (sf, total)	**4,629,675**	4,588,003
Properties owned and managed (sf)	**997,414**	994,176
Properties managed (sf)	**3,632,261**	3,593,827
Revenue (total)	**38,004**	39,494
Canadian properties	**14,899**	13,673
US properties	**16,661**	18,590
Management fees	**5,722**	5,940
Parking lots and other assets	**722**	1,291
Net operating income (NOI) *	**23,660**	23,432
Funds from operations *	**22,116**	22,699
Funds from operations per share *	**0.66**	0.68

** See non-standard measures for calculation.*

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

Canadian properties

Our Canadian property portfolio grew in 2020 via our Property Development activities. Over the past twelve months, the Property Development division completed and transferred eleven buildings, adding 132,498 sf to owned and managed GLA and generating an increase in NOI over 2019. In 2019, eight buildings were transferred from Property Development, adding 99,794 sf of GLA. With 84,606 sf of GLA under active development in the Property Development division, and another 51,158 sf completed and awaiting lease up, we expect our Canadian property portfolio to continue to grow.

Revenue generated on assets acquired from Property Development and held through the period was $4.35 million in 2020 (2019 - $4.79 million).

Occupancy on properties owned by Investment Properties was 79% at December 31, 2020 (2019 - 84%). The decrease in occupancy was due to new properties transferred from the Property Development division with lower in-place occupancy. Committed occupancy is 81%. Weighted average base rent rate was $25.49 (2019 - $30.40), down $4.91 due to new properties transferred from the Property Development division, which have lower in-place rents, and lower rates on new leasing and pandemic related lease restructures.

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

($000s except as noted)	2020	2019
Same asset NOI *	**7,569**	8,538
Third party acquisition	**—**	—
Properties transferred from PD	**2,355**	1,158
Properties transferred to REIT	**—**	(33)
NOI	**9,924**	9,663
Amortization of operating lease incentives	**(596)**	(662)
Straight-line rent adjustment	**584**	568
Gross profit	**9,912**	9,569

** See non-standard measures for definition.*

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

Gross profit was $9.91 million up 4% from 2019 as a result of properties transferred from the Property Development Division over the past 12 months.

Same asset NOI was down 11% over 2019 at $7.57 million due to higher average vacancy and lower lease rates in 2020.

US properties

In the third quarter, we sold a 24,154 sf office property (Perimeter Building) in Scottsdale, AZ for $6.68 million (US$5.10 million). This office property located in the Greater Phoenix was acquired in April 2014 for $4.50 million (US$4.08 million). Our portfolio is concentrated in the Phoenix and Denver areas; regions we view as a hedge to our Canadian resource derived economic exposure. Revenues from this asset was $0.45 million (US$0.33 million) (2019 - $0.66 million (US$0.50 million).

Revenue decreased 10% over 2019, primarily due to 63,112 sf of office properties sold in the fourth quarter of 2019, resulting in 87,266 sf of properties sold within the last 16 months. Same asset NOI was up 7% over 2019 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.

Occupancy on commercial US properties was 83% (2019 - 88%). The decrease is due to tenant turnover on lease expiration at three properties and the sale of perimeter which was 100% occupied. Rental rates on commercial US properties remained stable at $20.91 (2019 - $20.53).

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

($000s except as noted)	2020	2019
Same asset NOI *	**6,159**	5,733
Third party acquisitions	**—**	—
Third party disposals	**349**	755
NOI	**6,508**	6,488
Foreign currency translation	**2,243**	2,118
Amortization of operating lease incentives	**(1,150)**	(1,158)
Straight-line rent adjustment	**68**	1,038
Gross profit	**7,669**	8,486

** See non-standard measures for definition.*

Management fees & other

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the asset manager. Management fees were down $0.22 million or 4% compared to 2019, due to $0.67 million in acquisition fees paid under the REIT asset management agreement related to two acquisitions completed in 2019. Lower acquisition fees were offset by higher REIT leasing fees and property management fees payable under various agreements.

During 2020 we recognized $0.72 million in revenues on our parking stalls and other assets, down 44% from 2019 revenue of $1.29 million. These revenues fluctuate from period to period and were impacted by the COVID-19 pandemic with many businesses having at least a portion of their workforce working from home if possible during somepoint of 2020.

Funds from Operations

Funds from operations (FFO) decreased by $0.58 million or 3% over 2019 as a result of lower NOI and partially offset by lower G&A costs during the year.

Fair Value of Investment Portfolio

The fair value of our portfolio increased by $13.21 million over 2019. The increase in fair value was the result of $38.54 million in transfers of completed properties from Property Development and $2.90 million in property improvements. Other changes included fair value losses of $20.39 million, disposals of $6.60 million, foreign currency translation loss of $2.19 million, and changes to tenant improvements and straight line rent.

For the year ended December 31, 2020, Melcor's internal valuation team performed the valuation assessment. Our total Canadian portfolio was revalued by our external valuation professionals in Q2-2020. We realized a fair value loss of $20.39 million throughout the year. In 2019, valuations resulted in a fair value loss of $0.81 million.

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

($000s)	2020	2019
Alberta - all assets	**(14,936)**	1,132
US - residential	**390**	(555)
US - commercial	**(5,846)**	(1,386)
	(20,392)	(809)

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

REIT

The REIT owned 39 income-producing office, retail and industrial properties, representing 3,208,298 sf in GLA and a land lease community at December 31, 2020. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants operating in a variety of industries.

We held a controlling 55.3% effective interest in the REIT through ownership of all Class B LP Units at December 31, 2020 (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)	2020	2019
Rental revenue	**74,572**	71,159
Net operating income (NOI) *	**46,456**	45,300
Same asset NOI *(see calculation following)*	**41,705**	44,193
Fair value adjustments	**(62,748)**	(1,622)
Occupancy	**88 %**	88 %
Funds from operations *	**44,140**	43,177
Funds from operations per share *	**1.33**	1.30

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

Rental revenue increased $0.47 million or 3% over Q4-2019 and $3.41 million or 5% over 2019 as a result of third-party acquisitions completed in 2019: Melcor Crossing (Nov-2019), and Staples Centre (Apr-2019). In 2020 Melcor Crossing contributed rental revenue of $7.17 million (2019 - $0.98 million) and Staples Centre contributed rental revenue of $0.98 million (2019 - $0.67 million). Revenue from these new properties was partially offset by a decline in same-asset revenue due to reduced recovery revenue on account of lower direct operating costs, declining lease rates (including lease restructures completed as part of pandemic relief), and increased vacancy.

In 2020 we completed 258,661 sf of lease renewals (including holdovers) and had 87,189 sf in new leases commence for steady occupancy of 87.6%. While we continue to see pockets of opportunity, we anticipate that the COVID pandemic will remain a drag on the commercial leasing market.

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. We typically expect recovery revenue to correlate with changes in recoverable operating expenses. Recovery revenue was up 1% in 2020 while direct operating expenses increased 9% over 2019. Our recovery ratio (recoveries divided by direct operating expenses) was down 7% over 2019 due to $0.71 million in CECRA related write-offs and $1.04 million in bad debts expense (2019 - $0.20 million) (Collectively "Bad Debts"). Removing the bad debts, our recovery ratio was down 2% over 2019 due to higher vacancy at certain properties and fluctuations in expenditures incurred within the portfolio year to year.

Direct operating expenses were up 9% over 2019 due to $1.75 million in bad debts recorded, including CECRA related write-offs, in 2020 (2019 - $0.20 million). Direct operating expenses related to Melcor Crossing were $2.69 million in 2020 compared to $0.44 million in 2019 when it was only included in results since its acquisition in November.

Operating expenses were up 15% over 2019 as a result of new property acquisitions and bad debts. Excluding bad debts, operating expenses were up 4% in 2020. At 1% of rental revenue, our provision for bad debt (excluding CECRA write-offs) is unprecedented and our expectation is that it will remain elevated in the near term.

($000s except as noted)	2020	2019
Same asset NOI *	**41,705**	44,193
Acquisitions	**4,751**	1,107
Disposals	**—**	—
NOI before adjustments	**46,456**	45,300
Amortization of operating lease incentives	**(3,779)**	(3,541)
Straight-line rent adjustment	**655**	628
Net rental income	**43,332**	42,387

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

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

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

Funds from Operations

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

Fair Value of REIT Portfolio

	2020	2019
Number of properties	**39**	39
Total GLA (sf)	**3,338,397**	3,339,030
GLA (REIT owned %) (sf)	**3,208,298**	3,208,950
Fair value of portfolio ($000s)	**716,292**	776,212
Weighted average capitalization rate	**7.00 %**	6.82 %
Weighted average terminal cap rate	**6.92 %**	6.87 %
Weighted average discount rate	**8.02 %**	7.76 %

The REIT's portfolio remained stable in the fourth quarter following a full revaluation of our portfolio by our external valuation professionals in the second quarter. Approximately 89% of the portfolio realized a valuation write-down, with losses ranging from 1% to 17%. The revaluations resulted in fair value losses of $62.75 million for the year. For the year ended December 31, 2019, 32 phases of 53 legal phases with a fair value of $444.70 million were valued by qualified independent external valuation professionals, resulting in a fair value loss of $1.62 million. Refer to note 28 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

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

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

($000s)	2020	2019
Northern Alberta	**(40,553)**	2,431
Southern Alberta	**(18,488)**	(1,469)
Saskatchewan & British Columbia	**(3,707)**	(2,584)
	(62,748)	(1,622)

Commercial real estate is currently trending towards lower lease rates, longer lease-up assumptions and higher vacancy allowances driving a 5% decrease in stabilized NOI. Continued market uncertainty and economic challenges have resulted in a 25-50 bps increase in capitalization rates and discount rates on many of our assets.

The REIT continues to monitor its portfolio and the market in assessing fair value changes and cautions readers that further fair value adjustments may be required in the future.

Recreational Properties

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

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

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

Operating Results

($000s except as noted)	2020	2019
Revenue	7,703	8,466
Gross profit	3,315	2,277
Gross margin (%)	43.0 %	26.9 %
Earnings	1,493	62

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 limited 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 during 2020. We anticipated a decline in revenue in 2020 as a result of the late start and COVID precautionary measures undertaken. While revenue down 9%, gross margin improved to 43% from 27% in 2020 as a result of reduced 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 in 2020 increased by 15% to 116,473 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 remained open on winter hours until November 1, 2020.

Food and beverage contributed revenue of $1.77 million compared to $2.64 million in 2019.

		2020		
	Ownership interest	Season opened	Season closed	Rounds of golf *
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	May 7	October 18	29,523
The Links (Spruce Grove)	100%	May 7	October 18	27,900
Black Mountain (Kelowna)	100%	May 1	November 6	33,531
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	May 5	October 15	25,519
		2019		
	Ownership interest	Season opened	Season closed	Rounds of golf *
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 12	October 28	24,670
The Links (Spruce Grove)	100%	April 13	October 28	22,129
Black Mountain (Kelowna)	100%	April 3	November 11	32,358
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	April 19	October 20	22,200

** Rounds of golf indicated at 100%.*

General and Administrative Expense

General and administrative expenses decreased by 19% over 2019, as a result of wage roll-backs for executive officers, reduced remuneration for remaining staff, COVID related layoffs, funding under CEWS 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 14% over 2019 as management has continued to prudently manage controllable expenses a well as make adjustments in light of COVID-19. Community Development G&A has decreased 26% or $2.09 million over 2019 as a result of managing controllable expenses and moving a large portion of the marketing activities for this division to our in-house talent.

Income Tax Expense

The statutory tax rate for the year ended December 31, 2020 is 24% (2019 - 26.5%). The most significant adjustment impacting the 2020 effective tax rate was the fair value gain 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 the loss in the REIT (after removal of fair value gain on Class B units) which is not deductible for tax purposes.

Financing

As at December 31, 2020, our total general debt outstanding was $721.79 million compared to $751.35 million in 2019. The financing function is managed by our corporate division and decisions on how to deploy operating and acquisition funds are a centrally managed corporate decision. We use various forms of financing to fund our development and acquisition activities. We are often able to leverage the assets in one division to fund development opportunities in others.

A summary of our debt is as follows:

As at ($000s)		2020	2019
Melcor - revolving credit facilities	a	59,925	70,451
REIT - revolving credit facility	b	9,986	22,864
Project specific financing	c	66,248	68,436
Secured vendor take back debt on land inventory	d	28,616	39,005
Debt on investment properties and golf course assets	e	490,801	484,413
REIT - convertible debentures	f	66,210	66,184
		721,786	751,353

a) Melcor - revolving credit facilities

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

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

Under the terms of the facilities, Melcor pledges specific agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral. The facilities that mature on July 31, 2022 are renewable one year in advance of expiry and may be modified.

A summary of the credit facilities is as follows:

As at ($000s)		2020	2019
Credit limit approved	i)	188,550	196,133
Supportable credit limit	ii)	150,613	148,992
Credit used		(59,925)	(70,451)
Credit available		90,688	78,541

i) The portion of these loan limits that relate solely to Melcor Developments Ltd. is $120.00 million (2019 - $120.00 million) with the remaining balance pertaining to specific joint arrangements.

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

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

As at ($000s)	2020	2019
Total letter of credit facility	76,097	72,660
Letters of credit issued	(25,304)	(26,886)
Available for issue	50,793	45,774

b) REIT - revolving credit facility

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

As at December 31, 2020 we had $9.99 million (December 31, 2019 - $22.86 million) drawn from the facility; and posted letters of credit of $nil (December 31, 2019 - $0.15 million).

c) Project specific financing

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

The composition of our project specific financing is as follows:

As at ($000s)	2020	2019
Project specific debt on investment properties under development, with interest rates between 2.75% and 2.95% (2019 - 4.25% to 4.45%)	45,858	38,329
Project specific debt on land, with interest rates between 3.45% and 9.48% (2019 - 4.95% to 9.48%)	20,390	30,107
	66,248	68,436
Weighted average effective interest rate	3.89 %	5.43 %

As at December 31, 2020 $13.34 million (2019 - $19.09 million) of debt was payable in US dollars (2020 - US $10.48 million and 2019 - US $14.70 million). Project specific debt is due on demand.

d) Secured vendor take back debt on land inventory

This debt is primarily comprised of loans on the acquisition of land that are held by the land vendor (fixed and variable rate financing with repayments over 3 to 5 years) or from financial institutions (variable rate financing with repayments over 3 to 5 years). Current debts mature from 2021 to 2023.

As at ($000s)	2020	2019
Agreements payable with interest at the following contractual rates:		
Fixed rates of 4.00% - 5.45% (2019 - 4.00% to 5.00%)	24,167	31,947
Variable rate of 4.45% (2019 - 5.95%)	4,449	7,058
	28,616	39,005
Weighted average effective interest rate	4.33 %	4.34 %

As at December 31, 2020 no debt was payable in US dollars (2019 - $nil).

e) Debt on investment properties and golf course assets

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

Debt on investment properties and golf course assets in the amount of $490.80 million, excluding fair value adjustments and deferred finance fees, reflects financing placed on investment properties that have a carrying value of $798.50 million.

Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. New mortgage rates from Canadian lending institutions ranged from 3.24% to 3.83% in 2020.

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

As at ($000s)	2020	2019
Canadian mortgages at fixed rates	**377,657**	374,106
Canadian mortgages at variable rates	**49,431**	45,414
Canadian mortgage with interest only payments	**440**	—
US mortgages at fixed rates	**52,303**	54,310
US mortgages at variable rates	**12,023**	13,029
	491,854	486,859
Interest rate ranges	**(2.54% - 5.55%)**	(2.54% - 5.55%)
Weighted average effective interest rate	**3.39 %**	3.48 %

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

Year	Loan renewal amount ($000s)	Weighted average interest rate	Number of loans
2021	69,332	2.93%	10
2022	26,578	3.43%	5
2023	67,489	4.09%	6
2024	55,759	4.01%	9
2025	41,589	3.83%	8
2026	24,333	3.70%	4
2027	—	—%	—
2028	17,453	4.07%	3
2029	49,922	3.36%	5
2030	18,138	2.84%	3

As at December 31, 2020, $64.33 million of debt was payable in US dollars (2019: $67.34 million).

f) REIT - convertible debentures

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

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

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

Liquidity & Capital Resources

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

As at ($000s except as noted)	2020	2019
Cash & cash equivalents	**29,201**	36,980
Accounts receivable	**12,414**	9,783
Agreements receivable	**73,336**	76,406
Revolving credit facilities	**69,911**	93,315
Accounts payable and accrued liabilities	**36,096**	43,582
Total assets	**2,001,285**	2,096,047
Total liabilities	**923,856**	1,015,790
Debt to equity ratio *	**0.86**	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.

On November 12, 2019 the REIT purchased a 283,235 sf regional shopping centre in Grande Prairie, Alberta ("Grande Prairie Acquisition") for $55.57 million (including transaction costs). The acquisition was satisfied with cash raised through the issuance of 1,225,822 Class B LP Units to Melcor Developments Ltd. for total consideration of $10.00 million and through the issuance of the 2019 Debentures.

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

Cash requirements

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

Contractual obligations include:

		Payments due by period			
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt on investment properties and golf course assets	491,854	82,061	122,007	119,258	168,528
Revolving credit facilities	69,911	69,911	—	—	—
Secured vendor take back debt on land inventory	28,616	16,822	6,077	5,717	—
Project specific financing	66,248	66,248	—	—	—
REIT debenture	69,000	—	23,000	46,000	—
Interest expense	118,368	24,441	36,322	25,176	32,429
Operating leases	410	182	228	—	—
Total contractual obligations	844,407	259,665	187,634	196,151	200,957

We also have a contractual obligation of $63.03 million on the non-controlling interest portion of REIT units as they are redeemable at the option of the holder.

Sources and uses of cash

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

	2020	2019
Cash flows from operating activities	**53,120**	31,226
Cash flows used in investing activities	**(17,414)**	(80,529)
Cash flows from (used in) financing activities	**(43,216)**	59,858

Cash from operations was $21.89 million higher in 2020. Net income, adjusted for non-cash items, contributed $50.63 million to cash from operations compared to $36.58 million in 2019. In an effort to conserve cash and proceed cautiously through the COVID-19 impact over 2020 we did not make any land purchases. In 2019 we purchased 471 acres for $12.50 million in cash outflows (net of vendor financing). Development activities resulted in $16.66 million in cash inflows in 2020 compared to $14.30 million outflows in 2019.

Collections on agreements receivables were $3.07 million compared $50.08 million in 2019. We also incurred $7.70 million in tenant incentives and direct leasing costs in 2020 to renew and secure new leases.

Cash used in investing activities was $17.41 million, an decrease of $63.12 million over 2019. During 2020, there were no cash outflows related to investment properties purchased. In 2019 the REIT purchased a retail investment property in Calgary, Alberta for a purchase price of $12.48 million and a 283,235 sf regional shopping centre in Grand Prairie, Alberta for $55.02 million; this contributed $67.50 million to the total cash outflows of $68.55 million in 2019.

During 2020 we disposed of a commercial building in Scottsdale, AZ as well as four residential units in Arizona for total proceeds of $7.18 million.

We continue to invest in improving our asset base through value enhancing projects. Additions to investment properties include development activities in Property Development and enhancements to properties held in the Investment Properties and REIT operating divisions. In 2020 we invested $23.59 million in properties under development, property improvements and capitalized borrowing costs, compared with $20.27 million in 2019.

Cash from financing activities was down $103.07 million over 2019 largely a result of net repayments made towards our revolving credit facilities balance of $23.40 million compared to draws on our credit facilities in 2019 of $46.79 million. General debt contributed to a net cash outflows of $7.23 million through financings received and repayments made, compared to net cash inflows of $21.86 million in 2019.

During the year, we repurchased 134,816 shares which were canceled and returned to treasury for $0.98 million.

In 2020, we paid dividends of $0.34 per share (2019 - $0.50 per share), for a total cash outflow of $11.27 million, compared to $16.63 million paid in 2019.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at December 31, 2020 there were 33,091,061 common shares issued and outstanding, 809,900 stock options, and 314,913 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of shares issued. As at March 17, 2021 there were 33,091,061 common shares issued and outstanding, 809,900 stock options, and 314,913 restricted share units.

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

Normal Course Issuer Bid

On March 28, 2019 we announced an NCIB commencing April 1, 2019 and ending March 31, 2020. Under the bid, we may acquire up to 1,665,080 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 1,000 common shares.

On March 31, 2020 we announced a new NCIB commencing April 1, 2020 and ending March 31, 2021. Under the bid, we may acquire up to 1,661,033 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 1,000 common shares. As of March 17, 2020, 134,816 shares were purchased and cancelled in relation to the above NCIBs.

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

Also on April 1, 2020 the REIT commenced an NCIB ending March 31, 2021. Under the bid, we may acquire up to 655,792 trust units in total (approximately 5% of our issued and outstanding trust units) with a daily repurchase restriction of 3,207 trust units. As of March 17, 2021, 98,825 units have been purchased and cancelled.

In connection with the commencement of the REIT NCIB, we entered into an automatic share purchase plan agreement with a broker to allow for the purchase of trust units under the NCIB at times when we ordinarily would not be active in the market due to regulatory restrictions or self-imposed trading blackout periods. This plan was cancelled during 2020 in order to conserve cash as a response to COVID-19.

Off Balance Sheet Arrangements

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

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

Quarterly Results

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

	2020				2019			
($000s)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	80,947	73,051	39,053	33,767	78,056	53,946	41,085	34,884
Net income (loss)	(112)	7,526	(62,590)	66,640	16,946	16,068	3,137	1,590
FFO	21,908	14,315	9,276	5,925	13,917	10,696	7,975	5,677
Per Share								
Basic earnings (loss)	(0.01)	0.23	(1.88)	2.00	0.51	0.48	0.09	0.05
Diluted earnings (loss)	(0.01)	0.23	(1.88)	2.00	0.51	0.48	0.09	0.05
FFO basic	0.66	0.43	0.28	0.18	0.42	0.32	0.24	0.17
FFO diluted	0.66	0.43	0.28	0.18	0.45	0.32	0.21	0.17
Book value *	32.56	32.83	32.76	34.88	32.51	32.20	31.76	31.88

**See non-standard measures for definition*

We have historically experienced variability in our results of operations from quarter to quarter due to the seasonal nature of the development business and the timing of plan registrations with the municipalities. In the current year we experienced a delay in the spring and summer selling seasons for our Community Development division due to COVID-19, this resulted in pent up demand which increased our third and fourth quarter sales compared the the prior year. We typically experience the highest sales in our Community Development division in the fourth quarter, as this is when the majority of plans register. The fair value gains in our Property Development division are also seasonally affected, as the majority of construction in Alberta takes place during the spring and summer months.

Fourth Quarter

Three months ended December 31 ($000s)	2020	2019
Revenue	**80,947**	78,056
Cost of sales	**(45,870)**	(45,565)
Gross profit	**35,077**	32,491
General and administrative expense	**(4,260)**	(5,947)
Fair value adjustment on investment properties	**(6,940)**	10,875
Adjustments related to REIT units	**(14,225)**	(7,206)
Gain (loss) on sale of assets	**1**	—
Operating earnings	**9,653**	30,213
Interest income	**120**	254
Foreign exchange loss	**(369)**	(38)
Finance costs	**(7,620)**	(6,391)
Net finance costs	**(7,869)**	(6,175)
Income before income taxes	**1,784**	24,038
Income tax expense	**(1,896)**	(7,092)
Net income (loss) for the period	**(112)**	16,946
Earnings (loss) per share attributable to Melcor's shareholders:		
Basic earnings (loss) per share	**(0.01)**	0.51
Diluted earnings (loss) per share	**(0.01)**	0.51

Highlights of the fourth quarter include:

- Our Property Development division completed and transferred 7 buildings (96,184 sf) to Investment Properties.
- Our Community Development division registered 9 plans in 8 communities, which added 365 lots to inventory with 491 lots sold in Q4-2020. This compares to 9 plan registrations in 8 communities adding 481 lots to inventory with 465 lots sold in Q4-2019.
- During the fourth quarter, under our NCIB, we purchased 38,500 shares at a cost of $0.24 million. These shares have been canceled and returned to treasury.

Segmented information for the fourth quarter is as follows:

Three months ended December 31, 2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	54,294	26,015	9,433	18,742	563	—	109,047	(28,100)	**80,947**
Cost of sales	(34,572)	(25,950)	(3,979)	(7,618)	(271)	—	(72,390)	26,520	**(45,870)**
Gross profit	19,722	65	5,454	11,124	292	—	36,657	(1,580)	**35,077**
General and administrative expense	(997)	(446)	(296)	(764)	(214)	(2,264)	(4,981)	721	**(4,260)**
Fair value adjustment on investment properties	—	588	(5,470)	(2,917)	—	—	(7,799)	859	**(6,940)**
Interest income	100	—	—	12	—	8	120	—	**120**
Segment Earnings (loss)	18,825	207	(312)	7,455	79	(2,256)	23,998	—	**23,998**
Foreign exchange gain									**(369)**
Finance costs									**(7,620)**
Adjustments related to REIT units									**(14,225)**
Income before income taxes									**1,784**
Income tax expense									**(1,896)**
Net income for the period									**(112)**

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

Outlook

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

Although the impacts of COVID-19 present us with a level of unpredictability over market conditions and possible future restrictions that could impact our operations, we expect to navigate through 2021 by conservatively replenishing our depleted inventory in many communities. To meet this market demand, we plan to bring on 20 new phases in 14 communities in 2021. On the commercial side, retail activity remains steady and we expect that to continue in 2021. Our US assets delivered positive results in economies that are growing and that are counter cyclical to our resource dependence in Alberta.

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

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

Interest in the REIT

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

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

As of March 17, 2021, Melcor holds a 55.3% (December 31, 2019 - 55.1% and 2020 - 55.3%) effective interest in the REIT through ownership of all Class B LP units of the partnership through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

As we retain control over the REIT, we consolidate the REIT and record 100% of its revenues, expenses, assets and liabilities. We reflect the public's 44.7% interest (December 31, 2020 - 44.7%) in the REIT as a financial liability.

Arrangements between Melcor and the REIT

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

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

a. a base annual management fee calculated and payable on a quarterly basis, equal to 0.25% of the REIT's gross book value;

b. a capital expenditures fee equal to 5.0% of all hard construction costs incurred on capital projects in excess of $0.10 million;

c. an acquisition fee equal to 0.5% - 1.0% of the purchase price;

d. a financing fee equal to 0.25% of the debt and equity of all financing transactions completed for the REIT to a maximum of actual expenses incurred by Melcor.

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

a. a base fee of 3.0% of gross property revenue;

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

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

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

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

Business Environment & Risks

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

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

General Risks

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

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

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

Real Estate Risk

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

Other real property risks include:

- The value of the property and any improvements made to it;
- Rollover of leases and the ability to rent unleased suites;
- Financial stability of tenants and their ability to pay rent and fulfill their lease obligations; and
- Geographic concentration.

Cash available for dividends will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of space in our properties becomes vacant and cannot be leased on economically favourable lease terms.

General declines in real estate markets, including changes in demand for real estate resulting from COVID-19 and related economic conditions, will impact fair values reported or the cash flows associated with owning or disposing of such properties. Market assumptions applied for valuation purposes do not necessarily reflect Melcor's specific history or experience, and the conditions for realizing the fair values through a sale may change or may not be realized. Consequently, there is a risk that the actual fair values may differ, and the differences may be material. In addition, there is an inherent risk related to the reliance on and use of a single appraiser as this approach may not adequately capture the range of fair values that market participants would assign to the real estate properties. Certain ratios and covenants could be negatively affected by downturns in the real estate market and could have significant impact on the REIT's operating revenues and cash flows, as well as the fair values of the real estate properties.

Concentration of Assets Risk

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

Financing Risk

We use debt and other forms of leverage in the ordinary course of business to enhance returns to shareholders. Most leveraged debt within the business has recourse only to the assets being financed or margined and has no recourse to Melcor.We are subject to general risks associated with debt financing. The following risks may adversely affect our financial condition and results of operations:

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

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

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

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

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

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

Environmental Risk

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

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

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

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

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

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

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

Pandemics, Natural Disasters or Other Unanticipated Events

The occurrence of pandemics, natural disasters, or other unanticipated events, in any of the areas where we or our partners and suppliers operate could disrupt operations. In addition, pandemics, natural disasters or other unanticipated events could have a material adverse effect on our business, financial condition, results of operations and cash flows. 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 subsequent outbreaks 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 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
- trading price of the Melcor's securities
- negative impact to real estate valuations from declining revenue and lack of market activity
- ability to access capital markets at a reasonable cost
- 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 both internally and at the properties that we manage to reduce the spread of COVID-19.

We continually monitor the situation and will take additional measures if necessary. We will continue to transparently communicate our response plans with our staff, tenants and stakeholders.

Cyber Security Risk

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

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

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

Volatile Market Price of the Melcor's Securities

Financial markets have experienced significant price and volume fluctuations in recent years. In many cases volatile market movement impacts a wide variety of issuers unrelated to the operating performance, underlying asset values or prospects of such issuers. The market price of Melcor's securities may decline even if the our financial performance, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in losses. As well, certain institutional investors may base their investment decisions on consideration of Melcor's environmental, governance and social practices and performance according to such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited investment or no investment in Melcor's securities by those institutions. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil exist for a protracted period of time, our operations and the trading price of our securities could be adversely affected.

Community Development

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

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

Property Development

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

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

Investment Properties and REIT

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

Recreational Properties

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

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

Other Financial Information

Critical Accounting Estimates

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

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

Changes in Accounting Policies and Adoption of IFRS

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

Subsequent Events

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

Joint Arrangement Activity

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

Joint arrangement activity at 100% ($000s)	2020	2019
Revenue	**161,800**	180,039
Earnings	**21,937**	51,365
Assets	**939,945**	1,015,191
Liabilities	**328,459**	364,569

*Joint arrangement activity at Melcor's ownership % ($000s) **	2020	2019
Revenue	**73,126**	73,436
Earnings	**13,303**	22,847
Assets	**427,745**	456,373
Liabilities	**146,766**	160,567

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

Internal Control over Financial Reporting and Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant and material information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely manner. Under the supervision of the CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Canada by National Instrument 52-109 as of December 31, 2020. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures related to Melcor and its subsidiaries and joint arrangements were effective.

Internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management designed these controls based on the criteria set out in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). The CEO and CFO have certified that the internal controls over financial reporting were properly designed and effective for the year ended December 31, 2020.

There has been no change to Melcor's disclosure controls and procedures or internal control over financial reporting during the year ended December 31, 2020, that materially affected, or is reasonably likely to materially affect, Melcor's internal control over financial reporting.

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

Non-standard Measures

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

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

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

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

Same asset NOI: this measure compares the NOI on assets that have been owned for the entire current and comparative year, excluding management fees earned on inter-divisional services and the effects of foreign currency translation.

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

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

Investment Properties

($000s)	Year Ended	
	2020	2019
Segment earnings *	**(30)**	20,070
Fair value adjustment on investment properties	**20,392**	809
General and administrative expenses	**2,141**	2,381
Interest income	**(18)**	(42)
Amortization of operating lease incentives	**1,754**	1,820
Straight-line rent adjustments	**(579)**	(1,606)
Divisional NOI	**23,660**	23,432

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

REIT

($000s)	Year Ended	
	2020	2019
Segment earnings *	**(22,387)**	38,014
Fair value adjustment on investment properties	**62,748**	1,622
General and administrative expenses	**3,043**	2,868
Interest income	**(72)**	(117)
Amortization of operating lease incentives	**3,779**	3,541
Straight-line rent adjustments	**(655)**	(628)
Divisional NOI	**46,456**	45,300

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

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

Consolidated

($000s)	Year Ended	
	2020	2019
Net income for the year	**11,464**	37,741
Amortization of operating lease incentives	**7,879**	7,867
Fair value adjustment on investment properties	**76,480**	(12,234)
Depreciation on property and equipment	**1,407**	1,381
Stock based compensation expense	**873**	717
Non-cash financing costs	**2,043**	3,442
Gain on sale of asset	**(40)**	(83)
Deferred income taxes	**(5,409)**	(9,241)
Fair value adjustment on REIT units	**(43,273)**	8,675
FFO	**51,424**	38,265

Investment Properties

($000s)	Year Ended	
	2020	2019
Divisional income for the year *	**(30)**	20,070
Fair value adjustment on investment properties	**20,392**	809
Amortization of operating lease incentives	**1,754**	1,820
Divisional FFO	**22,116**	22,699

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

REIT

($000s)	Year Ended	
	2020	2019
Divisional income for the year *	**(22,387)**	38,014
Fair value adjustment on investment properties	**62,748**	1,622
Amortization of operating lease incentives	**3,779**	3,541
Divisional FFO	**44,140**	43,177

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

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