PRESS RELEASE

for immediate distribution

Melcor Developments announces results for 2020 and increases dividend by 25% to $0.10 per share

Edmonton, Alberta | March 17, 2021

Melcor Developments Ltd. (TSX: MRD), is issuing a correction to the 2020 results announced earlier this afternoon under the same headline. In the Return to Shareholders section of our earlier press release, we reported incorrect dates. The correct dates are a payable date of March 31, 2021 and a record date of March 25, 2021.

The corrected release follows:

Melcor Developments Ltd. (TSX: MRD), a real estate development and asset management company with operations across western Canada and in the United States, today reported results for the fourth quarter and year ended December 31, 2020. Revenue increased by 9% to $226.82 million in 2020 compared to $207.97 million in 2019. Funds from operations (FFO) per share was up 35% to $1.55 per share in 2020 compared to $1.15 per share in 2019. FFO adjusts for all non-cash earnings items and management believes it better reflects true operating performance.

Net income was down 70% to $11.46 million or $0.34 per share (basic) in 2020, compared to $37.74 million or $1.13 per share (basic) in 2019.

Darin Rayburn, Melcor's President and Chief Executive Officer, commented on the year: "On behalf of the Melcor team and our Board of Directors, it is my privilege to report on 2020.

To say that 2020 was a year unlike any other is beyond obvious. The COVID-19 pandemic had a significant impact on the world throughout much of the year. The business community shifted to working from home wherever possible, which along with homeschooling, contributed to a surprisingly strong market for new homes in the areas we operate, particularly in suburbs and bedroom communities across Alberta, and in Kelowna, BC and Denver, CO. While new home sales stalled in the early times of the pandemic, the heightened demand by mid-year helped us execute on our stated goal of reducing finished lot inventories by year end. We expect an active construction season for 2021 as demand continues and we replenish supply in a number of our existing developments and bring on a new community in Airdrie, AB.

Our investment properties, including the REIT, also faced significant COVID-19 impacts as many of our retail and personal service tenants were shut-down by provincial regulations for much of the year and our office tenants were required to work from home or maintain skeleton staff within buildings. We worked closely with our tenants throughout the year, helping them through the Canada Emergency Commercial Rent Assistance (CECRA) program, working on deferral plans and generally supporting tenants in any way we could. Our goal was to keep our balance sheet strong to put Melcor and the REIT in the best position to support our tenants and clients. A strategy we believe was for the benefit of all stakeholders, including our shareholders. Our Investment Properties and REIT divisions performed exceptionally well given the uncertainty introduced by COVID-19 and we were able to complete new leasing in the midst of the uncertainty. We remain cautious about the long-term impact on our tenants and anxiously await the complete re-opening of the economy when safe to do so.

Our property development team focused on completing projects in spite of new found challenges and their efforts resulted in the completion of 11 buildings (132,498 sf) in 2020. This new gross leasable area 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.

Our golf courses were also beneficiaries of COVID-19 as golfing was one of the safe activities that people were able to enjoy. 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. Our golf courses were also able to increase their margin from 27% to 43% as a result of improved operating efficiencies and reduced staffing.

The personal, communal, societal, economic and emotional impacts of COVID can not truly be measured or understood until we are far past the days of lockdowns, viruses and variants.

This year of pause and inner reflection also gave power to societal and cultural trends towards diversity, equality and inclusion for all and our world will be the better for it. Human spirit, especially in the face of adversity and challenge, is truly an amazing thing.

While it was a difficult year, our operations and administrative teams demonstrated they were definitely up for the challenge. Their resiliency, commitment and bravery in the face of unending change has been commendable.

No one could have predicted how 2020 would play out. When I reflect back on the year, my initial concerns surrounding the uncertainty ahead are now overshadowed by my immense pride at our Melcor teams' response throughout 2020.

On behalf of the Melcor Board of Directors and all Shareholders, I extend my extreme gratitude to the Melcor Developments team responsible for building even stronger relationships with clients, tenants, and partners, while keeping COVID cases virtually non existent in our numerous sites and proving that we could survive a year like 2020.

We are also grateful to our Shareholders for their continued support through this tumultuous year. We are committed to protecting and enhancing your investment for the long term.

While we don't fully understand the long-term implications of COVID-19, our team has demonstrated that we are ready for anything."

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

Selected 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 %

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.

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.

MD&A and Financial Statements

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

Annual General Meeting

Melcor's annual general meeting will be held May 20, 2021 at 11:00 AM MDT. Further details will be provided.

About Melcor Developments Ltd.

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

Melcor has been focused on real estate since 1923. The Company has built over 140 communities across western Canada and today manages 4.6 million sf in commercial real estate assets and 604 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

Forward Looking Statements

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

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

This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2020 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risk in our annual MD&A.

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

Contact Information:

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

Management's Discussion & Analysis

March 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".

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TABLE OF CONTENTS

Our Business	2
Strategy	3
Key Performance Drivers	7
Significant Event - COVID 19	12
2020 Highlights	15
Revenue & Margins	16
Funds from Operations	18
Divisional Results	19
Community Development	20
Property Development	23
Investment Properties	26
REIT	28
Recreational Properties	30
General & Administrative Expense	31
Income Tax Expense	32
Financing	32
Liquidity & Capital Resources	35
Share Data	37
Normal Course Issuer Bid	37
Off Balance Sheet Arrangements	37
Quarterly Results	38
Fourth Quarter	39
Outlook	41
Interest in Melcor REIT	41
Business Environment & Risks	42
Other Financial Information	46
Internal Control over Financial Reporting and Disclosure Controls	47
Non-standard Measures	48

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).

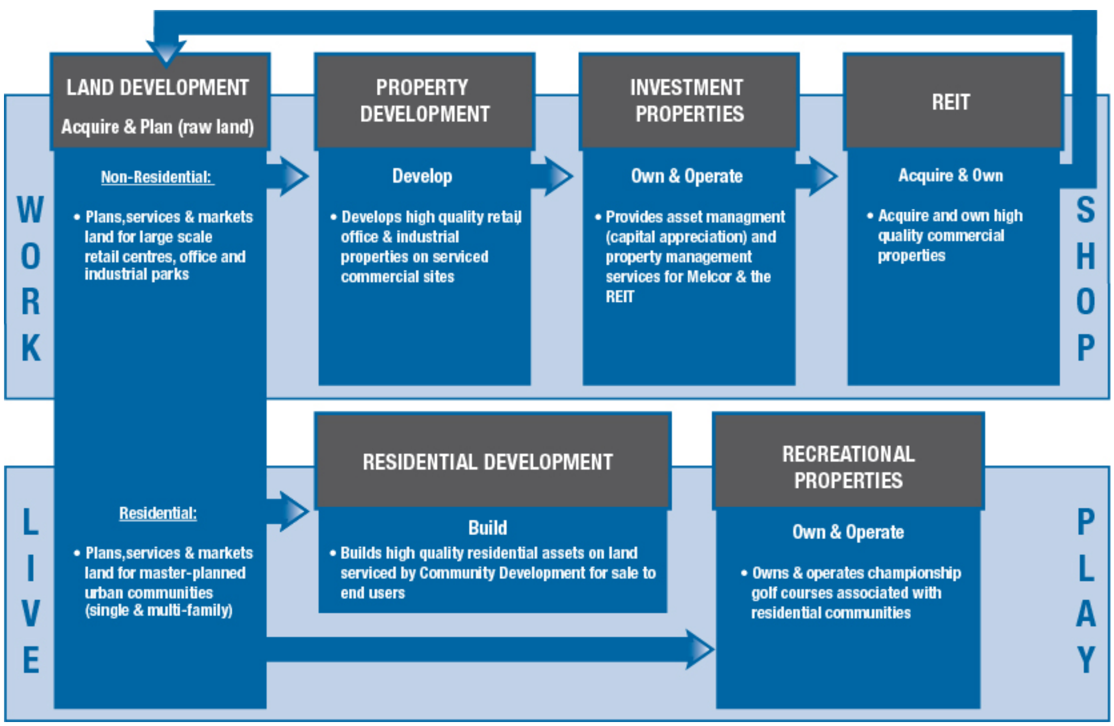
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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.

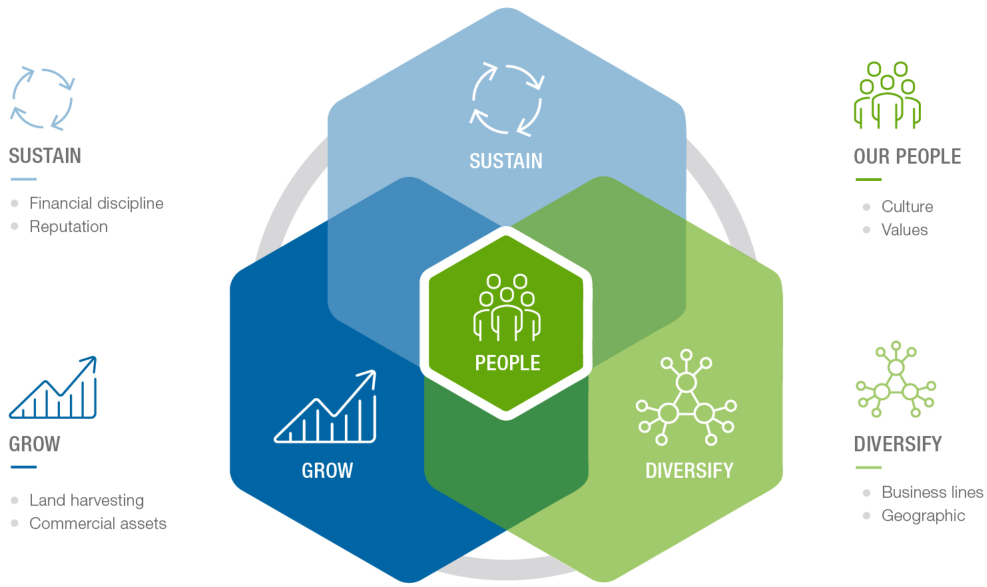
Asset Management: COVID Impacts Linger

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:

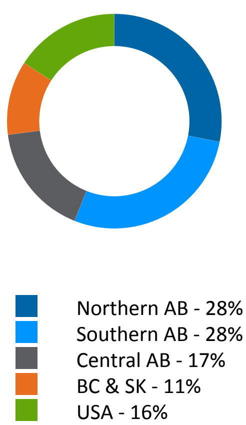
- The mix of land and property types held (residential, office, retail, industrial)
- The regional profile of our assets (Alberta, Saskatchewan, BC & western/southwestern US)
- The type of revenue each asset generates (including steady revenue from income-producing properties and revenue that fluctuates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



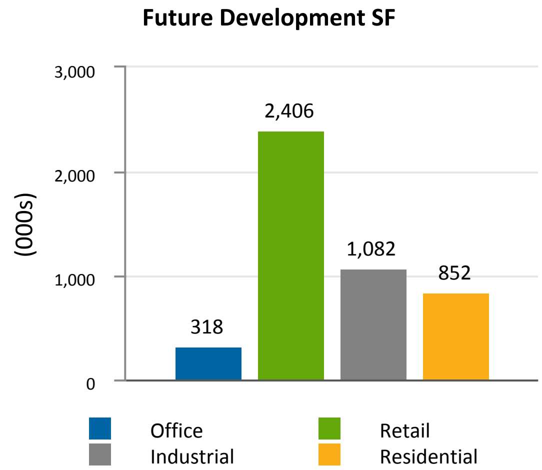
Inventory by Land Use

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.

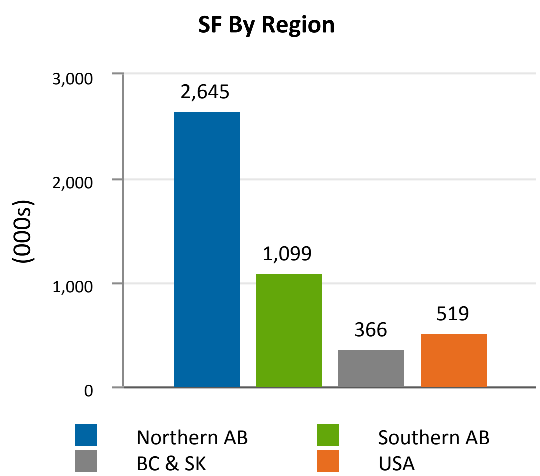
Melcor has been developing commercial properties since the 1970s and has built over 2.5 million sf. Our future development pipeline is 4.7 million sf based on current development plans.

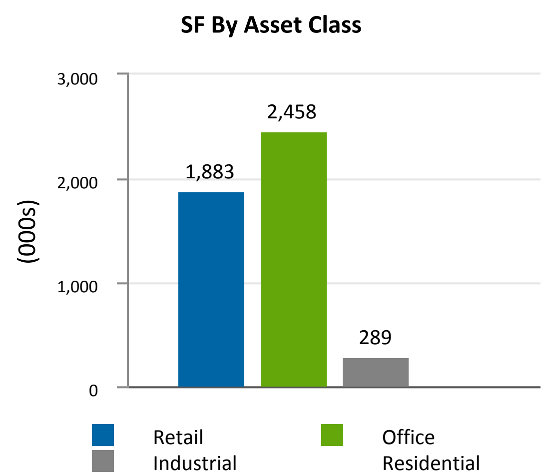
PROPERTY DEVELOPMENT



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.

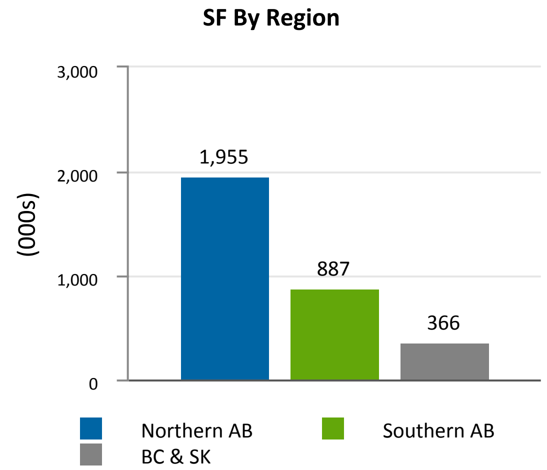
TOTAL GLA MANAGED

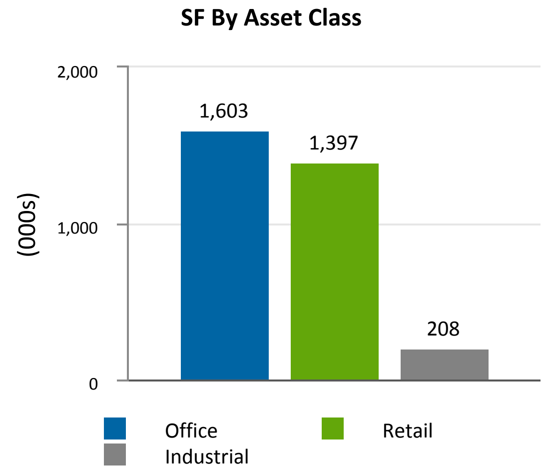




The REIT owns 3.21 million sf of income-producing assets that are managed by the Investment Properties division. The REIT is a vehicle for realizing the value created throughout the Melcor value chain as raw land is developed for commercial use (Community Development) and commercial properties are built (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

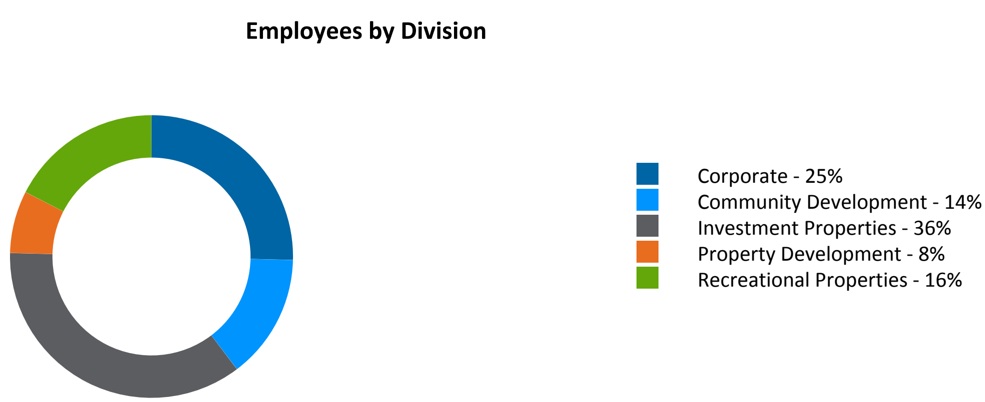




Key Performance Drivers

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.

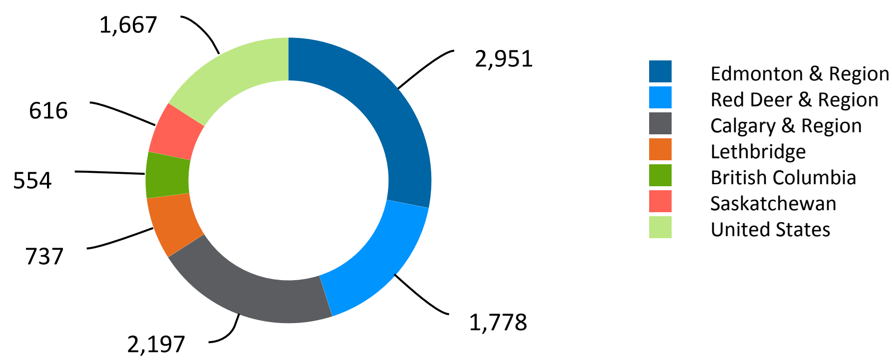
Our strong focus on clearing out older inventory held by Melcor and by our builders was quite successful in the year. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development.

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.

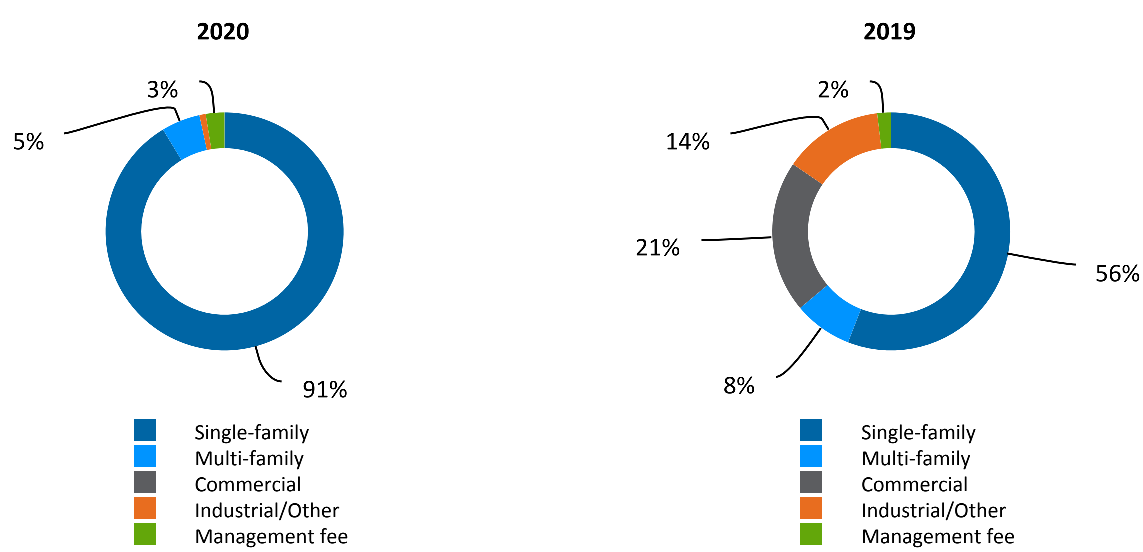
Sales Activity

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)

Management's Responsibility for Financial Reporting

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

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

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

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

D. R

Naomi Stefura

Darin Rayburn
Chief Executive Officer

Naomi Stefura, CA
Chief Financial Officer

Edmonton, Alberta
March 17, 2021

Independent auditor's report

To the Shareholders of Melcor Developments Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Melcor Developments Ltd. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of income for the years ended December 31, 2020 and 2019;
- the consolidated statements of comprehensive income for the years ended December 31, 2020 and 2019;
- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of changes in equity for the years ended December 31, 2020 and 2019;
- the consolidated statements of cash flows for the years ended December 31, 2020 and 2019; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties *Refer to note 3 – Significant accounting policies, note 5 – Critical accounting estimates, note 10 – Investment properties and note 28 – Fair value measurement to the consolidated financial statements.* The Company measures its investment properties at fair value and as at December 31, 2020, these assets were valued at $1,081 million. The fair values of investment properties are determined by management based on the accepted valuation methods of direct income capitalization, discounted future cash flows or direct comparison. Under the direct income capitalization method, fair values are determined by dividing the stabilized net operating income of the property by a property specific capitalization rate. In applying the discounted future cash flows method, the forecasted future cash flows of each property are projected over ten years, a terminal value is applied and the cash flows are discounted using an appropriate discount rate. For the direct comparison method, fair values are determined by comparison to market transactions for similar assets. Management uses the direct income capitalization method or discounted future cash flows method for valuing investment properties. Properties under development are valued using the direct income capitalization method less costs to complete. Properties under development – undeveloped land are valued using the direct comparison method. Investment properties were valued by the	Our approach to addressing the matter involved the following procedures, among others: ● Tested the design and operating effectiveness of internal controls related to the valuation of investment properties, including management's review of the significant assumptions used in the direct income capitalization method, discounted future cash flows method and direct comparison method. ● For a sample of investment properties, tested how management determined the fair value based on the accepted valuation methods of direct income capitalization, discounted future cash flows and direct comparison, which included the following: *Where investment properties were valued by qualified independent external valuation professionals:* – Tested the underlying data used in the methods. – Evaluated whether stabilized net operating income and forecasted future cash flows, as appropriate, including assumptions related to future rental income and estimated direct operating costs, were reasonable considering the approved budget and the current and past performance of the property. – Evaluated whether costs to complete were reasonable considering the stage of completion of the property under

Key audit matter	How our audit addressed the key audit matter
Company's internal valuation team as at December 31, 2020 of which 85 investment properties with a fair value of $989 million were valued by qualified independent external valuation professionals. At least once every two years, the valuations are performed by qualified external valuation professionals. The significant assumptions into the accepted valuation methods include stabilized net operating income, capitalization rates, discount rates, terminal capitalization rates, market transactions for similar assets, costs to complete and forecasted future cash flows, which involve assumptions of future rental income, estimated market rental rates, vacancy rates and estimated direct operating costs. In determining the fair value of investment properties, significant judgment is required by management. We considered this a key audit matter due to significant judgments made by management when determining the fair values of the investment properties and a high degree of complexity in assessing audit evidence related to the significant assumptions made by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of real estate valuations.	development. – Professionals with specialized skill and knowledge in the field of real estate valuations assisted us in assessing the appropriateness of the methods and evaluating the reasonableness of the discount rates, capitalization rates, terminal capitalization rates, estimated market rental rates, vacancy rates and market transactions for similar assets. *Where investment properties were valued by the Company's internal valuation team:* – Evaluated the appropriateness of the methods used by management. – Tested the underlying data used in the methods. – Evaluated the reasonability of changes in stabilized net operating income compared to the prior year independent external valuation by considering the approved budget and the current performance of the property. – Evaluated the reasonability of changes in the capitalization rates compared to the prior year independent external valuation by considering available third party published economic data relevant to the property. – Evaluated the reasonableness of market transactions for similar assets by comparing to available third party published economic data relevant to the property. – Evaluated whether costs to complete were reasonable considering the stage of completion of the property under development.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
March 17, 2021

MELCOR DEVELOPMENTS LTD.

Consolidated Financial Statements

December 31, 2020

Consolidated Statements of Income

For the years ended December 31 ($000s)	2020	2019
Revenue (note 21)	**226,818**	207,971
Cost of sales (note 21)	**(128,599)**	(111,185)
Gross profit	**98,219**	96,786
General and administrative expense (note 21)	**(18,256)**	(22,563)
Fair value adjustment on investment properties (note 10, 21 and 28)	**(76,480)**	12,234
Adjustments related to REIT units (note 25)	**37,534**	(17,557)
Gain on sale of assets	**40**	83
Operating earnings	**41,057**	68,983
Interest income	**574**	1,335
Foreign exchange loss	**(369)**	(38)
Finance costs (note 20)	**(28,057)**	(27,790)
Net finance costs	**(27,852)**	(26,493)
Income before income taxes	**13,205**	42,490
Income tax expense (note 22)	**(1,741)**	(4,749)
Net income for the year	**11,464**	37,741
Earnings per share attributable to Melcor's shareholders (note 17):		
Basic earnings per share	**0.34**	1.13
Diluted earnings per share	**0.34**	1.13

See accompanying notes to the consolidated financial statements.

On behalf of Melcor's Board of Directors

Gordon J. Clanachan, FCA
Audit Committee Chair

Timothy C. Melton
Chairman

Consolidated Statements of Comprehensive Income

For the years ended December 31 ($000s)	2020	2019
Net income for the year	**11,464**	37,741
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences (note 18)	**(2,919)**	(7,607)
Comprehensive income	**8,545**	30,134

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Financial Position

($000s)	2020	2019
ASSETS		
Cash and cash equivalents	**29,201**	36,980
Restricted cash (note 3d)	**7,413**	—
Accounts receivable	**12,414**	9,783
Income taxes recoverable	**3,214**	7,058
Agreements receivable (note 8)	**73,336**	76,406
Land inventory (note 9)	**728,985**	754,331
Investment properties (note 10 and 28)	**1,081,077**	1,141,591
Property and equipment (note 11)	**13,135**	13,498
Other assets (note 12)	**52,510**	56,400
	2,001,285	2,096,047
LIABILITIES		
Accounts payable and accrued liabilities (note 13)	**36,096**	43,582
Income taxes payable	**1,518**	855
Provision for land development costs (note 14)	**49,770**	56,183
General debt (note 15)	**721,786**	751,353
Deferred income tax liabilities (note 22)	**51,652**	57,174
REIT units (note 25 and 28)	**63,034**	106,643
	923,856	1,015,790
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 16a)	**72,270**	72,556
Contributed surplus	**4,948**	4,083
Accumulated other comprehensive income (AOCI) (note 18)	**18,603**	21,522
Retained earnings	**981,608**	982,096
	1,077,429	1,080,257
	2,001,285	2,096,047

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

($000s)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2020	**72,556**	**4,083**	**21,522**	**982,096**	**1,080,257**
Net income for the year	**—**	**—**	**—**	**11,464**	**11,464**
Cumulative translation adjustment (note 18)	**—**	**—**	**(2,919)**	**—**	**(2,919)**
Transactions with equity holders					
Dividends	**—**	**—**	**—**	**(11,270)**	**(11,270)**
Share repurchase (note 16a)	**(294)**	**—**	**—**	**(682)**	**(976)**
Employee share based compensation					
Value of services recognized	**—**	**873**	**—**	**—**	**873**
Share issuance	**8**	**(8)**	**—**	**—**	**—**
Balance at December 31, 2020	**72,270**	**4,948**	**18,603**	**981,608**	**1,077,429**

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31 ($000s)	2020	2019
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	**11,464**	37,741
Non cash items:		
Amortization of tenant incentives (note 12)	**7,879**	7,867
Depreciation of property and equipment (note 11 and 21)	**1,407**	1,381
Stock based compensation expense (note 16g and 21)	**873**	717
Non cash financing costs (note 20)	**2,043**	3,442
Straight-line rent adjustment	**(793)**	(1,685)
Fair value adjustment on investment properties (note 10, 21 and 28)	**76,480**	(12,234)
Fair value adjustment on REIT units (note 25 and 28)	**(43,273)**	8,675
Gain on sale of assets	**(40)**	(83)
Deferred income taxes (note 22)	**(5,409)**	(9,241)
Cash provided by operating activities before changes in non-cash working capital	**50,631**	36,580
Agreements receivable	**3,070**	50,084
Development activities (note 3v)	**16,655**	(14,303)
Payment of tenant incentives and direct leasing costs	**(7,695)**	(10,161)
Change in restricted cash (note 3d)	**(7,413)**	—
Purchase of land inventory (note 9)	**—**	(12,496)
Operating assets and liabilities (note 3v)	**(2,128)**	(18,478)
	53,120	31,226
INVESTING ACTIVITIES		
Purchase of investment properties (note 10)	**—**	(68,552)
Additions to investment properties (note 10)	**(23,594)**	(20,271)
Net proceeds from disposal of investment properties (note 10)	**7,182**	9,070
Purchase of property and equipment (note 11)	**(1,056)**	(939)
Proceeds from disposal of assets	**54**	163
	(17,414)	(80,529)
FINANCING ACTIVITIES		
Net proceeds from issuing convertible debenture (note 15f)	**—**	44,275
Redemption of Debenture (note 15f)	**—**	(34,500)
Revolving credit facilities	**(23,404)**	46,786
Proceeds from general debt	**64,230**	114,554
Repayment of general debt	**(71,460)**	(92,692)
Repurchase of REIT units	**(336)**	(406)
Dividends paid	**(11,270)**	(16,633)
Common shares repurchased (note 16a)	**(976)**	(1,526)
	(43,216)	59,858
FOREIGN EXCHANGE LOSS ON CASH HELD IN A FOREIGN CURRENCY	**(269)**	(302)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**(7,779)**	10,253
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**36,980**	26,727
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**29,201**	36,980

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

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

Melcor Developments Ltd. ("Melcor" or "we") is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD". As at December 31, 2020 Melton Holdings Ltd. holds approximately 47.4% of the outstanding shares and pursuant to IAS 24, Related Party Disclosures, is the ultimate controlling shareholder of Melcor.

As at March 17, 2021, Melcor, through an affiliate, holds an approximate 55.3% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

2. BASIS OF PRESENTATION

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

Our consolidated financial statements have been prepared in accordance with IFRS. These consolidated financial statements were authorized for issue by the Board of Directors on March 17, 2021.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of measurement

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

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

b. Basis of consolidation

These consolidated financial statements include:

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

   i Melcor Developments Arizona Inc.
   ii Melcor Lakeside Inc.
   iii Stanley Investments Inc.
   iv Melcor REIT Holdings GP Inc.
   v Melcor REIT Holdings Limited Partnership
   vi Melcor Homes Ltd.

II. The accounts of Melcor REIT Limited Partnership (the "Partnership") (55.3% owned by Melcor Developments Ltd as at December 31, 2020). The remaining 44.7% publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to notes 7 and 25 for details related to our interest in the REIT.

III. Investments in 30 joint arrangements (2019 – 30) with interests ranging from 7% to 67%. These arrangements are undivided interests in the assets, liabilities, revenue and expenses and we record our proportionate share in accordance with the agreements. Refer to note 23 for details on joint arrangements.

All intercompany transactions and balances are eliminated on consolidation.

c. Cash and cash equivalents

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

d. Restricted cash

Restricted cash can only be used for specific purposes. As at December 31, 2020 our restricted cash represents amounts required to be used for specific land development activities related to our Harmony land project in the US. These cash balances are either currently held in escrow for distribution related to these activities or have been set aside to be placed in escrow for distribution as stipulated by our amended loan agreement. As these restrictions are related to development activities, the cash movements are included under operating activities within the cash flow.

e. Land inventory

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

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

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

f. Investment properties

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

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

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

Melcor Developments Ltd. has an internal valuation team consisting of individuals who are knowledgeable and have experience in the fair value techniques applied in valuing investment property. At least once every two years, the valuations are performed by qualified external valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. Changes in fair value are recognized in the consolidated statements of income and comprehensive income in the period in which they arise.

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

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

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

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

g. Property and equipment

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

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

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

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

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

h. Other assets

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

i. Borrowing costs

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

j. Provision for land development costs

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

k. Provision for decommissioning obligations

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

l. Recognition of revenue

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

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

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

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

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

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

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

m. Recognition of government grants

Government grants are recognized as a receivable provided that there is reasonable assurance that the relevant conditions related to the grant have been met. The grant is recognized in profit and loss and is applied against the related expense.

n. Income taxes

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

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

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

The REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) (“Tax Act”) and as a real estate investment trust eligible for the ‘REIT Exception’, as defined in the rules applicable to Specified Investment Flow-Through (“SIFT”) trusts and partnerships in the Tax Act. We expect to allocate all of the REIT’s taxable income and to continue to qualify for the REIT Exception. As the REIT is a flow-through entity, we record current and deferred taxes on our 55.3% interest in the REIT.

o. Stock based compensation

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

p. Earnings per share

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

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

q. Foreign currency

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

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

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

r. Financial instruments

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

Financial assets

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

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

Financial liabilities

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

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

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

Financial guarantee contracts

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

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

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

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

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

s. Non-controlling interest in Melcor REIT

We hold an effective 55.3% interest in the REIT through ownership of all Class B LP Units. A non-controlling interest, REIT units, has been recognized on the statement of financial position to reflect the 44.7% interest held by the public through ownership of all trust units. The trust units are redeemable at the option of the holder and, therefore, are considered a puttable instrument in accordance with International Accounting Standard (“IAS”) 32, Financial Instruments – Presentation (“IAS 32”). Certain conditions under IAS 32 allow the REIT to present the trust units as equity; however, on consolidation we do not meet these conditions and therefore must present the non-controlling interest as a financial liability.

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

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

t. Financial derivatives

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

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

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

u. Operating segments

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

v. Statement of cash flows

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

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

4. ACCOUNTING STANDARD CHANGES

a. New and amended standards adopted

We have adopted the following new standard interpretation effective January 1, 2020.

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

Impact of adoption

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

b. New and amended standards adopted not yet adopted

IAS 37, Provisions, contingent liabilities and contingent assets amendments were made to IAS 37, Provisions, contingent liabilities and contingent assets in order to clarify (i) the meaning of "costs to fulfil a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IAS 37 is required to be applied for annual periods beginning on or after January 1, 2022. We are currently evaluating the impact of this standard on our financial statements.

IAS 1, Presentation of financial statements amendments were made to IAS 1, Presentation of financial statements in order to clarify how to classify debt and other liabilities as either current or non-current.

IAS 1 is required to be applied for annual periods beginning on or after January 1, 2023. We are currently evaluating the impact of this standard on our financial statements.

5. CRITICAL ACCOUNTING ESTIMATES

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

a. Valuation of agreements receivable

We review our agreements receivable on a regular basis to estimate the risk of default on outstanding balances. Factors such as the related builder’s reputation and financial status, the geographic location of the lot, and length of time the agreement receivable has been outstanding are all considered when estimating any impairment on agreements receivable. The economic uncertainty resulting from COVID-19 has also been considered by management in assessing any impairments to agreements receivable and will continue to be monitored. As a result of COVID-19, estimates could be subject to changes and such changes may be material. Refer to note 27a for further information related to credit risk associated with agreements receivable.

b. Valuation of investment properties

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

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

c. Determination of the provision for land development costs

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

d. Income taxes

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

6. SIGNIFICANT JUDGMENTS

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

a. Capitalization of borrowing costs

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

b. Transfer of land to investment property

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

c. Classification of tenant incentives

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

d. Investment properties

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

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

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 15

e. Compliance with REIT exemption under ITA

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

7. INTEREST IN MELCOR REIT

As at December 31, 2020 we hold a 55.3% (2019 - 55.1%) ownership interest in the REIT through ownership of all 16,125,147 Class B LP Units of the Partnership.

The publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to note 25 for summary financial information of the REIT at December 31, 2020. As of March 17, 2021 we hold a 55.3% ownership interest in the REIT.

8. AGREEMENTS RECEIVABLE

Agreements receivable are due in 2021, except for $23,765 due in 2022, $407 due in 2023 and $1,656 due in 2024 (2019 - balance due 2020, except $23,712 due in 2021, $747 due in 2022, $369 due in 2023, and $918 due in 2024). Subsequent to the interest adjustment date, which provides an interest relief period to qualifying registered builders, these receivables earn interest at prime plus two percent (4.45% at December 31, 2020) and are collateralized by the specific real estate sold.

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

At December 31, 2020, promotional programs of $2,234 (2019 - $2,385) were offered to promote home sales activities in our communities and encourage agreements receivable collections. This amount was determined based on management's best estimate and is subject to measurement uncertainty introduced by the impact of the uncertain economic environment. As a result, revisions to this estimate may be required in future periods. Refer to note 27a for further discussion surrounding credit risk.

9. LAND INVENTORY

As at December 31	**2020**	**2019**
Raw land held	**395,785**	399,456
Land under development	**161,647**	146,743
Developed land	**171,553**	208,132
	728,985	754,331

A breakdown of our land purchases are as follows:

	2020	**2019**
Land purchases - acres	—	471 acres
Land cost	—	28,608
Vendor financing	—	16,112
Net cash to close	—	12,496

During the year, there were no land inventories reclassified to investment properties.

In 2019, certain land inventories were reclassified to investment properties, and fair value gains of $4,022 recognized in the consolidated financial statements. For the purposes of segment reporting, this was disclosed as revenue of $25,037 and cost of sales of $21,015 for the Community Development division.

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

The weighted average interest rate used for capitalization of borrowing costs to land under development is 3.33% for the year ended December 31, 2020 (2019 – 4.04%). Borrowing costs capitalized to land inventory during the year were $4,749 (2019 - $4,835).

Land inventory expensed to cost of sales during the year was $80,269 (2019 - $63,068).

Land is recorded at the lower of cost and net realizable value. Due to the uncertainty of the economic environment as a result of COVID-19, the net realizable value of land could be subject to significant changes and such changes could be material. As at December 31, 2020 management does not consider there to be a negative impact on the current carrying value of land, but will continue monitoring the net realizable value of land during these uncertain times. The net realizable value exceeds the carrying cost of all land inventories at December 31, 2020 and 2019, such that no provision for impairment is required.

10. INVESTMENT PROPERTIES

Investment properties consists of the following:

As at December 31	**2020**	**2019**
Investment properties	**1,016,312**	1,063,026
Properties under development	**64,765**	78,565
Total	**1,081,077**	1,141,591

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

			2020
	Investment properties	**Properties under development**	**Total**
Balance - beginning of year	**1,063,026**	**78,565**	**1,141,591**
Additions			
Direct leasing costs	**779**	**387**	**1,166**
Property improvements	**2,902**	**—**	**2,902**
Property development	**—**	**20,229**	**20,229**
Capitalized borrowing costs	**—**	**463**	**463**
Disposals	**(6,600)**	**—**	**(6,600)**
Transfers	**38,537**	**(38,537)**	**—**
Fair value adjustment on investment properties	**(80,138)**	**3,658**	**(76,480)**
Foreign currency translation (included in OCI)	**(2,194)**	**—**	**(2,194)**
Balance - end of year	**1,016,312**	**64,765**	**1,081,077**

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 17

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

Disposals:

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

Also during the year, we disposed of four residential units in Arizona for a sales price of $1,113 (US$838) (net of transaction costs). The sale price was settled through cash.

Acquisitions and disposals in the comparative year:

- On March 12, 2019, we disposed of one residential unit in Arizona for a sales price of $314 (US$235) (net of transaction costs). The sale price was settled through cash.
- On April 24, 2019 the REIT purchased a retail investment property in Calgary, Alberta from a third party for a purchase price of $12,480 (including transaction costs).
- On August 1, 2019 Melcor acquired land for property development in Calgary, Alberta at a purchase price of $1,050.
- On November 12, 2019 the REIT purchased a 283,235 sf regional shopping centre in Grande Prairie, Alberta ("Grande Prairie Acquisition") for $55,022 (including transaction costs). These acquisitions were accounted for as asset purchases in accordance with our policy.
- On December 31, 2019 we disposed of an office property in Denver, CO for a sales price of $8,756 (US$6,321) (net of transaction costs and including tenant incentives of $510 (US$393) and straight line rent of $171 (US$132). The sale price was settled through cash.

In accordance with our policy, as detailed in note 3f, we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized NOI, while development activity on properties under development and leasing activity drive fair value adjustments on properties under development. Due to the uncertainty of the economic environment as a result of COVID-19, fair value estimates could be subject to significant changes and such changes could be material. Supplemental information on fair value measurement, including valuation techniques and significant assumptions, is included in note 28.

Properties transferred from property under development to commercial properties during the year totaled $38,537 (2019 - $39,464). Properties transferred is net of tenant incentives of $1,630 (2019 - $2,863).

Presented separately from investment properties is $32,973 (2019 - $35,788) in tenant incentives and $14,180 (2019 - $13,387) in straight-line rent adjustments (included in note 12). The fair value of investment properties has been reduced by these amounts.

The weighted average interest rate used for capitalization of borrowing costs to investment properties under development is 2.87% for the year ended December 31, 2020 (2019 – 4.38%).

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

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

	2020	2019
Within one year	67,958	68,281
Later than one year but not later than 2 years	62,457	62,707
Later than 2 years but not later than 3 years	53,513	55,423
later than 3 years but not later than 4 years	44,378	47,225
Later than 4 years but not later than 5 years	34,895	37,870
Later than 5 years	120,327	133,351
Total	383,528	404,857

11. PROPERTY AND EQUIPMENT

	Golf course assets					
	Land	Buildings	Equipment	Greens and tees	Corporate	Total
January 1, 2020						
Cost	1,293	8,175	8,996	6,659	6,713	31,836
Accumulated depreciation	—	(3,259)	(6,638)	(3,571)	(4,870)	(18,338)
Opening net book value	1,293	4,916	2,358	3,088	1,843	13,498
Additions	—	—	276	—	780	1,056
Disposals	—	—	(12)	—	—	(12)
Depreciation	—	(193)	(554)	(189)	(471)	(1,407)
Net Book Value - December 31, 2020	1,293	4,723	2,068	2,899	2,152	13,135

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

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 19

12. OTHER ASSETS

	2020	2019
Tenant incentives	**32,973**	35,788
Deposits and prepaids	**4,910**	6,750
Straight-line rent adjustments	**14,180**	13,387
Inventory	**447**	475
	52,510	56,400

During the year we provided tenant incentives of $5,443 (2019 - $9,922) and recorded $7,879 (2019 - $7,867) of amortization expense. In accordance with IFRS 16 - Leases, amortization of tenant incentives are recorded on a straight-line basis over the term of the lease against rental revenue. We also disposed of a property which included $379(US$289) in tenant incentives and $203($US$155) in straight-line rent adjustments (note 10).

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020	2019
Trade accounts payable	**11,820**	17,611
Distribution payable	**391**	739
Other payables	**22,179**	23,591
Provision for decommissioning obligation	**1,706**	1,641
	36,096	43,582

As described in note 3s distributions on trust units are recognized in the period in which they are approved and are recorded as an expense. As at December 31, 2020, distribution payable pertains to the December 2020 monthly distribution which was subsequently paid on January 15, 2021 (2019 - December 2019 monthly distribution paid on January 15, 2020).

Decommissioning obligation relates to one of our commercial properties held by the REIT. The total decommissioning obligation is estimated based on the future obligation and timing of these expenditures to be incurred. We estimate the net present value of the obligation based on an undiscounted total future provision of $2,014 (December 31, 2019 - $2,014). At December 31, 2020, a discount rate of 4.00% (December 31, 2019 - 4.00%) and an inflation rate of 2.00% (December 31, 2019 - 2.00%) were used to calculate the net present value of the obligation. Due to uncertainty surrounding the nature and timing of this obligation, amounts are subject to change.

14. PROVISION FOR LAND DEVELOPMENT

	2020	2019
Balance - beginning of year	**56,183**	77,658
New development projects	**50,675**	74,708
Changes to estimates	**(4,303)**	(3,709)
Costs incurred	**(52,785)**	(92,474)
Balance - end of year	**49,770**	56,183

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

15. GENERAL DEBT

General debt consists of the following:

		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
General debt		**721,786**	751,353

a. Melcor - revolving credit facilities

We have available credit facilities with approved loan limits of $188,550 (2019 - $196,133) with a syndicate of major chartered banks. The portion of these loan limits that pertain solely to Melcor is $120,000 (2019 - $120,000) with the remaining balance pertaining to specific joint arrangements.

The amount of the total credit facilities currently used is $59,925 (2019 - $70,451). We have pledged agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral for our credit facilities. The carrying value of assets pledged as collateral is $241,150 (2019 - $257,885).

The facilities mature on July 31, 2022, renewable one year in advance of expiry.

Depending on the form under which the credit facilities are accessed, rates of interest will vary between prime plus 0.75% to prime plus 1.25% or banker's acceptance rate plus a 3.00% stamping fee resulting in interest rates ranging from 3.20% to 3.70% at December 31, 2020 (2019 - 4.70% to 5.20%). The agreements also bear a standby fee of 0.50% for the unused portions of the facilities. The weighted average effective interest rate on borrowings, based on year end balances, is 3.67% (December 31, 2019 - 5.17%).

b. REIT - revolving credit facility

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

As at December 31, 2020, the carrying value of pledged properties was $61,804 (December 31, 2019 - $67,502).

As at December 31, 2020 we had $9,986 (December 31, 2019 - $22,864) drawn from the facility (net of unamortized transaction fees and unamortized discount on bakers acceptance); and posted letters of credit of $nil (December 31, 2019 - $150) The weighted average effective interest rate on borrowings as at December 31, 2020 was 3.70% (2019 - 4.28%).

c. Project specific financing

	2020	2019
Project specific debt on land, with interest rates between 3.45% and 9.48% (2019 - 4.95% to 9.48%)	**20,390**	30,107
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
	66,248	68,436

As at December 31, 2020 $13,338 (2019 - $19,087) of debt was payable in US dollars (2020 - US $10,476 and 2019 - US $14,696). The debt matures from 2021 to 2022.

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 21

Land inventory and agreements receivable with a December 31, 2020 carrying value of $81,878 (2019 - $86,323) have been pledged as collateral on project specific debt on land. The debts are due on demand by the lenders. The weighted average interest rate on the above debts, based on year end balances, is 3.89% (2019 - 5.43%). Specific investment properties under development with a December 31, 2020 carrying value of $109,638 (2019 - $105,462), have been pledged as collateral on project specific debt on investment properties under development.

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

	2020	2019
Balance - beginning of year	**68,436**	62,639
Cash movements		
Loan repayments	**(21,676)**	(4,058)
New project financing	**19,540**	10,801
Non-cash movements		
Foreign currency translation included in OCI	**(52)**	(946)
Balance - end of year	**66,248**	68,436

d. Secured vendor take back debt on land inventory

	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

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

Land inventory with a December 31, 2020 carrying value of $77,586 (2019 - $108,142), has been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 4.33% (2019 – 4.34%).

During the year ended December 31, 2020, Melcor entered into amending vendor take back agreements with various lenders in order to obtain temporary relief as a result of COVID-19. As of December 31, 2020, amending agreements entered into related to seven vendor take back debt agreements with an outstanding principal balance of $23,402. The terms of the agreements vary by lender, Melcor has accounted for these agreements as debt modifications, with the impact of these modifications being insignificant.

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

2021	**16,822**
2022	**6,077**
2023	**5,717**
2024	**—**
2025	**—**
Thereafter	**—**
	28,616

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

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

	2020	2019
Balance - beginning of year	39,005	40,842
Cash movements		
Scheduled amortization on debt	(10,389)	(17,660)
Non-cash movements		
New secured vendor take back debt	—	16,112
Amortization of non-cash interest	—	(289)
Balance - end of year	28,616	39,005

e. Debt on investment properties and golf course assets

Debt on investment properties and golf course assets	2020	2019
Mortgage with interest only payments at floating interest rate of prime plus 1%	440	—
Variable rate mortgages amortized over 10 to 30 years at variable interest rates of 2.85% - 5.55% (2019 - 2.85% to 5.55%)	61,454	58,443
Mortgages amortized over 15 to 25 years at fixed interest rates of 2.54% - 5.35% (2019 - 2.54% to 5.35%)	429,960	428,416
	491,854	486,859
Fair value adjustment for interest rate swaps	1,376	62
Unamortized deferred financing fees	(2,429)	(2,508)
	490,801	484,413
Interest rate ranges	(2.54% -5.55%)	(2.54% -5.55%)

As at December 31, 2020 $64,326 (2019 - $67,339) of debt was payable in US dollars (2020 - US $50,523 and 2019 - US $51,847). The debts mature from 2021 to 2030.

Specific investment properties and golf courses with a carrying value of $798,500 (2019 - $869,788) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 3.39% (2019 – 3.48%).

During the year ended December 31, 2020, Melcor entered into mortgage amending agreements with various lenders in order to obtain temporary relief as a result of COVID-19. As of December 31, 2020, mortgage amending agreements entered into related to twenty-eight mortgages with an outstanding principal balance of $268,821. The terms of the agreements vary by lender and mortgage, providing Melcor with relief of scheduled principal and interest payments and repayable over the remaining term of the mortgage. No changes were made as to the maturity date, interest rate, amortization period or security provided. Melcor has accounted for these agreements as debt modifications, with the impact of these modifications being insignificant.

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

2021	82,061
2022	41,136
2023	80,871
2024	68,033
2025	51,225
Thereafter	168,528
	491,854

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

	2020	2019
Balance - beginning of year	**484,413**	454,342
Cash movements		
Principal repayments:		
Scheduled amortization on mortgages	**(13,841)**	(15,178)
Mortgage repayments	**(25,554)**	(55,803)
New mortgages	**44,690**	103,753
Non-cash movements		
Deferred interest	**971**	—
Deferred financing fees capitalized	**(503)**	(637)
Amortization of deferred financing fees	**538**	444
Change in derivative fair value swap	**1,351**	865
Foreign currency translation included in OCI	**(1,264)**	(3,373)
Balance - end of year	**490,801**	**484,413**

f. REIT - convertible debentures

On October 29, 2019, the REIT issued a 5.10% extendible convertible unsecured subordinated debentures (the "2019 Debentures") to the public for gross proceeds of $46,000, including $6,000 issued pursuant to the exercise of an over-allotment option. Underwriter costs related to the issuance were $1,725 for net proceeds of $44,275. Additional transaction costs on the issuance were $548.

The principal amount outstanding and the carrying value for the REIT's convertible debentures are as follows:

($000s) except amounts stated in units					December 31, 2020		December 31, 2019
Convertible Debentures	**Date Issued**	**Maturity Date**	**Conversion rate in units***	**Interest Rate**	**Outstanding Principal**	**Carrying Value**	Carrying Value
2017 Debentures	Dec 21, 2017	Dec 31, 2022	86.9565	5.25 %	**23,000**	**22,007**	21,561
2019 Debentures	Oct 29, 2019	Dec 31, 2024	112.3596	5.10 %	**46,000**	**42,332**	41,543
					69,000	**64,339**	63,104

*The conversion rate is the number of trust units per one thousand principal amount of convertible debentures.

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

A reconciliation of the convertible debentures is as follows:

($000s)	Host Instruments	Conversion Features	Total
Balance at December 31, 2018	**55,017**	**187**	**55,204**
Convertible debenture issued	43,686	2,314	46,000
Transaction costs	(2,273)	—	(2,273)
Fair value adjustment on conversion features	—	579	579
Amortization of discount and transaction costs	918	—	918
Accretion on convertible debenture	256	—	256
2014 Debenture redeemed	(34,500)	—	(34,500)
Balance at December 31, 2019	**63,104**	**3,080**	**66,184**
Fair value adjustment on conversion features	—	(1,209)	**(1,209)**
Amortization of discount and transaction costs	682	—	**682**
Accretion on convertible debenture	553	—	**553**
Balance at December 31, 2020	**64,339**	**1,871**	**66,210**

During the year ended December 31, 2020, we recognized $3,554 of interest expense related to the convertible debentures which is included in finance costs (note 20) (2019 - $3,455).

At December 31, 2020 we remeasured the conversion features to fair value resulting in fair value gain of $1,209 for the year (2019 - fair value loss of $579). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 28.

16. SHARE CAPITAL

a. Common Shares

		2020
	Number of Shares Issued (# of shares)	**Amount ($000s)**
Common shares, beginning of the year	**33,225,265**	**72,556**
Issued on exercise or exchange of options *	**612**	**8**
Shares purchased for cancellation	**(134,816)**	**(294)**
Common shares, end of the year	**33,091,061**	**72,270**

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

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

Authorized:

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

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 25

We announced a Normal Course Issuer Bid (NCIB) on March 28, 2019 which expired March 31, 2020. Under the bid, we were allowed to purchase 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.

During the year, there were 134,816 common shares purchased for cancellation by Melcor pursuant to the above NCIBs at a cost of $976 (2019 - $1,526). As at December 31, 2020, 1,526,217 additional common shares may be repurchased by Melcor under the current NCIB.

b. Stock-Based Compensation Plans

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

On February 23, 2007 Melcor’s Board of Directors approved a stock-based compensation plan (the “2007 Plan”). Under the 2007 Plan, Melcor may grant options to full-time, salaried employees and designated contractors after one year of service. The 2007 Plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. At the discretion of the board, the options vest over a period of three years and expire no longer than seven (7) years from the date of issuance. The 2007 Plan was approved by Melcor’s shareholders at the Shareholders Annual Meeting in April 2007. Melcor has 1,789,000 shares reserved for issuance under the 2007 Plan (2019 – 1,792,000).

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

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

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

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

2007 Plan	2020	2019
Stock options available, beginning of the year	791,600	751,353
Stock options granted	—	(173,500)
Stock options expired / canceled	187,500	213,747
Stock options available, end of the year	979,100	791,600

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

	2020	
	Number of Options	Average Exercise Price
Stock options outstanding, beginning of the year	**997,400**	**13.59**
Stock options expired / canceled	**(187,500)**	**14.07**
Stock options outstanding, end of the year	**809,900**	**13.48**

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

During 2020 there were no options exercised. The 2019 weighted average share price at the date of exercise was $13.11.

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

	2020	2019
Units available, beginning of the year	**1,354,578**	1,431,922
Units granted to employees	**(178,150)**	(78,800)
Units issued under dividend reinvestment plan	**(7,615)**	(3,273)
Units expired / canceled	**15,662**	4,729
Units available, end of the year	**1,184,475**	1,354,578

	2020	
	Number of Options	Weighted Average Fair Value
Units outstanding, beginning of the year	**145,422**	**12.69**
Units granted to employees	**178,150**	**7.48**
Units exercised	**(612)**	**13.01**
Units issued under dividend reinvestment	**7,615**	**11.52**
Units expired / canceled	**(15,662)**	**12.75**
Units outstanding, end of the year	**314,913**	**9.71**

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

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 27

e. Stock Options Outstanding and Exercisable Under the 2007 Plan

			2020
Stock option expiry date	Outstanding Stock Options (#)	Exercise Price Per Share ($)	Stock Options Exercisable
December 13, 2021	197,100	13.21	197,100
December 12, 2022	230,800	14.94	230,800
December 12, 2023	208,500	13.01	138,000
December 11, 2024	173,500	12.42	57,833
	809,900		623,733

f. Restricted Share Units Outstanding and Redeemable

			2020
Restricted share unit expiry date	Outstanding Restricted Share Units (#)	Exercise Price Per Unit ($)	Restricted Share Units Vested
December 31, 2021	59,234	13.01	—
December 31, 2022	75,827	12.42	—
December 31, 2023	179,852	7.48	—
	314,913		—

g. Stock Based Compensation Expense

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

i) 2007 Option Plan

	2020	2019
Expected volatility	— %	19.00 %
Risk-free interest rate	— %	1.61 %
Annual dividend rate	— %	3.22 %
Expected life of options in years	—	3.94

There were no stock options granted during the year. Current year vesting of options resulted in a $357 (2019 - $419) charge to stock based compensation expense and corresponding credit to contributed surplus.

ii) RSU Plan

The weighted average fair value of RSUs granted during the year was $7.48 (2019 - $12.42) per RSU. Current year compensation expense related to the RSU plan resulted in a $516 (2019- $298) charge to stock based compensation expense and corresponding credit to contributed surplus.

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

17. PER SHARE AMOUNTS

(# of shares)	**2020**	**2019**
Basic weighted average common shares outstanding during the year	**33,261,922**	33,324,702
Dilutive effect of options and restricted share units	**14,741**	13,062
Diluted weighted average common shares	**33,276,663**	33,337,764

For the year ended December 31, 2020, there were 809,900 stock options excluded from the calculation of diluted earnings per share (2019 - 823,900) as their impact would be anti-dilutive.

Diluted earnings per share was calculated based on the following:

	2020	**2019**
Profit attributable to shareholders	**11,464**	37,741
Profit for computation of diluted earnings per share	**11,464**	37,741

18. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2020	**2019**
Balance, beginning of the year	**21,522**	29,129
Other comprehensive loss net of tax	**(2,919)**	(7,607)
Balance, end of the year	**18,603**	21,522

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

19. COMMITMENTS AND CONTINGENCIES

In the normal course of operations, we issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. As at December 31, 2020 we had $25,304 (December 31, 2019 - $26,886) in letters of credit outstanding and recorded a net liability of $49,770 (December 31, 2019 - $56,183) in provision for land development costs in respect of these development agreements.

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

We enter into joint arrangements and, in doing so, may take on risk beyond our proportionate interest in the joint arrangement. These situations generally arise where preferred financing terms can be arranged on the condition that the strength of our company's covenant will backstop that of the other joint arrangement participant(s) who also provide similar guarantees. We will have to perform on our guarantee only if a joint arrangement participant was in default of their guarantee. At December 31, 2020 we had guaranteed $2,092 (December 31, 2019 - $8,871) in credit facilities in excess of the amount recognized as a liability. We also guaranteed $10,504 (December 31, 2019 - $11,764) in excess of our share of letters of credit posted with the municipalities.

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

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

We also enter into lease agreements with tenants which specify tenant incentive payments upon completion of the related tenant improvements. Incentive payments of approximately $2,929 (2019 - $1,400) may be required from lease agreements entered during the year.

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 29

20. FINANCE COSTS

	2020	2019
Interest on Melcor - revolving credit facilities	**4,883**	3,448
Interest on REIT - revolving credit facility	**1,039**	833
Interest on REIT convertible debenture	**3,554**	3,455
Interest on general debt	**20,547**	20,411
Financing costs and bank charges	**984**	1,184
Non cash financing costs	**2,043**	3,442
	33,050	32,773
Less: capitalized interest	**(4,993)**	(4,983)
	28,057	27,790

Cumulative interest capitalized on land inventory at the end of the year is $48,958 (2019 - $45,663). Finance costs paid during the year was $31,958 (2019 - $29,703).

21. REVENUE AND EXPENSE BY NATURE

a. Revenue:

The components of revenue are as follows:

Revenue from contracts with customers

	2020	2019
Sale of land	**112,408**	95,896
Operating cost recoveries	**18,550**	19,160
Golf course revenue	**6,926**	7,601
Total	**137,884**	122,657

Other Revenue

	2020	2019
Lease revenue	**66,237**	64,216
Variable lease revenue	**18,466**	17,559
Management fees	**4,231**	3,539
Total	**88,934**	85,314

Total revenue	**226,818**	**207,971**

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

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

2020	Community Development	Investment Property	Recreational Properties	REIT	Total
Timing of Revenue Recognition					
At a point in time	**112,408**	**—**	**5,939**	**—**	**118,347**
Over time	**—**	**5,520**	**987**	**13,030**	**19,537**
Revenue from contracts with customers	**112,408**	**5,520**	**6,926**	**13,030**	**137,884**

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

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

During the year ended December 31, 2020, the government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses. The program provides forgivable loans to qualifying commercial property owners to cover up to 50% of six monthly rent payments that are payable by eligible small business tenants, requiring the landlord to forgive at least 25% of rent covered by the application, with the tenant paying the balance. Participation in this program by Melcor has resulted in net rental payments forgiven of $862 recorded in cost of sales as of December 31, 2020.

b. Cost of sales:

The components of cost of sales are as follows:

	2020	2019
Cost of land sold	**80,269**	63,068
Investment property direct operating expenses	**44,708**	42,350
Direct golf course expenses	**4,100**	4,794
Government Grant	**(1,414)**	—
Golf course asset depreciation	**936**	973
Total	**128,599**	111,185

c. General and administrative expenses:

The components of general and administrative expenses are as follows:

	2020	2019
Employee salary and benefits		
Salaries, wages and retirement allowance	**9,558**	11,412
Government grant	**(1,095)**	—
Employee benefits	**892**	973
Stock based compensation	**873**	717
Corporate asset depreciation	**471**	408
Marketing	**551**	1,356
Other	**7,006**	7,697
Total	**18,256**	22,563

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 31

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

	2020	2019
Salaries, wages and retirement allowance	**2,591**	3,142
Employee benefits	**39**	46
Stock based compensation	**668**	265
Total	**3,298**	3,453

d. Fair value adjustment on investment properties

The components of the fair value adjustment are as follows:

	2020	2019
Land transferred to investment properties	**—**	4,022
Property under development	**3,658**	7,225
Commercial and residential properties	**(80,138)**	987
Total	**(76,480)**	12,234

22. INCOME TAX

Components of tax expense:

	2020	2019
Current tax expense		
Current year	**7,536**	14,566
Adjustment to prior years	**(386)**	(576)
	7,150	13,990
Deferred tax expense		
Origination and reversal of temporary differences	**(4,124)**	(1,252)
Change in tax rates	**(1,285)**	(7,989)
	(5,409)	(9,241)
Total tax expense	**1,741**	4,749

Reconciliation of effective tax rate:

	2020	2019
Income before taxes	**13,205**	42,490
Statutory rate	**24.0 %**	26.5 %
	3,169	11,260
Taxable (non-taxable) portion of capital gains, fair value adjustments and recovery on REIT transfer	**4,324**	(1,051)
Non-deductible (non-taxable) portion of REIT loss (income)	**4,323**	(2,422)
Impact of different tax rates in US subsidiary	**92**	39
Non-deductible expenses	**1,502**	2,614
(Non-taxable) non-deductible fair value adjustments on REIT units	**(10,384)**	2,298
Change in tax rates	**(1,285)**	(7,989)
Total tax expense	**1,741**	4,749

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

Movement in deferred tax balances during the year:

	December 31, 2020			
	Opening	Recognized in profit or loss	Recognized in OCI	**Closing**
Investment property and capital assets	**54,374**	**(3,790)**	**(95)**	**50,489**
Reserves for tax purposes	**6,314**	**(1,256)**	**—**	**5,058**
Capitalized interest	**(3,329)**	**(340)**	**(18)**	**(3,687)**
Provision for decommissioning obligation	**(212)**	**(97)**	**—**	**(309)**
Convertible debenture	**62**	**92**	**—**	**154**
Tax losses carried forward	**(35)**	**(18)**	**—**	**(53)**
Deferred tax liability	**57,174**	**(5,409)**	**(113)**	**51,652**

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

No deferred tax liability has been recognized in respect of the net unrealized foreign currency exchange gain in accumulated other comprehensive income. Income tax paid during the year was $9,950 (2019 - $28,726).

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 33

23. JOINT ARRANGEMENTS

The table below discloses our proportionate share of the assets, liabilities, revenue, and earnings of 30 arrangements (2019 – 30) that are recorded in these financial statements as follows:

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

The following summarizes financial information about our share of assets, liabilities, revenue and earnings of our interest in joint arrangements that are recorded in our accounts for the year ended December 31, 2020.

	2020	2019
Assets	**427,745**	456,373
Liabilities	**146,766**	160,567
Revenue	**73,126**	73,436
Net Earnings	**13,303**	22,847

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

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

24. SEGMENTED INFORMATION

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

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

Community Development

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

Property Development

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

Investment Property

This division owns 24 leasable commercial, retail and residential properties (2019 – 23 properties) and other rental income producing assets such as parking lots and land leases.

REIT

This division owns 39 leasable commercial and retail properties (2019 – 39 properties) and other rental income producing assets such as residential property, parking lots and land leases.

Recreation Property

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

US Operations

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

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

External Revenue:

(in Canadian dollars)	2020	2019
United States	50,816	29,804
Canada	176,002	178,167
Total	226,818	207,971

Total Assets:

As at December 31 (in Canadian dollars)	2020	2019
United States	243,283	256,144
Canada	1,758,002	1,839,903
Total	2,001,285	2,096,047

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 35

Our divisions reported the following results:

2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 21)	115,087	40,186	38,004	74,572	7,703	—	275,552	(48,734)	**226,818**
Cost of sales (note 21)	(80,269)	(39,817)	(15,519)	(31,240)	(4,388)	—	(171,233)	42,634	**(128,599)**
Gross profit	34,818	369	22,485	43,332	3,315	—	104,319	(6,100)	**98,219**
General and administrative expense (note 21)	(5,822)	(1,766)	(2,141)	(3,043)	(1,862)	(6,720)	(21,354)	3,098	**(18,256)**
Fair value adjustment on investment properties (note 10, 21 and 28)	—	3,658	(20,392)	(62,748)	—	—	(79,482)	3,002	**(76,480)**
Gain on sale of assets	—	—	—	—	40	—	40	—	**40**
Interest income	444	13	18	72	—	27	574	—	**574**
Segment Earnings (loss)	*29,440*	*2,274*	*(30)*	*(22,387)*	*1,493*	*(6,693)*	*4,097*	—	***4,097***
Foreign exchange loss									**(369)**
Finance costs (note 20)									**(28,057)**
Adjustments related to REIT units (note 25)									**37,534**
Income before income taxes									**13,205**
Income tax expense (note 22)									**(1,741)**
Net income for the year									**11,464**

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

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

25. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, as detailed in notes 3s and 28, we account for the 44.7% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at December 31, 2020 the REIT units had a fair value of $63,034 (2019 - $106,643). We recorded adjustments related to REIT units for the year of $37,534 (2019 - $17,557). Melcor notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity markets. As the valuation of the REIT units is dependent on the trading price of the REIT's trust units, the impact on the fair value cannot be estimated at this time and such impact could be material.

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

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

	2020	**2019**
Fair value adjustment on REIT units	**43,273**	(8,675)
Distributions to REIT unitholders	**(5,739)**	(8,882)
Adjustments related to REIT units	**37,534**	(17,557)

The following tables summarize the financial information relating to Melcor's subsidiary, the REIT, that has material non-controlling interest (NCI), before intra-group eliminations (presented at 100%).

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 37

	2020	2019
Assets	724,658	783,534
Liabilities	458,367	463,879
Net assets	266,291	319,655
Cost of NCI	103,959	103,959
Fair value of NCI	63,034	106,643

	2020	2019
Revenue	74,572	71,159
Net income (loss) and comprehensive income (loss)	5,763	(488)
Cash flows from operating activities	13,786	9,309
Cash flows used in investing activities	(573)	(70,692)
Cash flows from financing activities, before distributions to REIT unitholders	(5,662)	70,964
Cash flows used in financing activities - cash distributions to REIT unitholders	(6,087)	(8,882)
Net increase in cash and cash equivalents	1,464	699

26. MANAGEMENT OF CAPITAL RESOURCES

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

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

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

We are subject to financial covenants on our $120,000 (2019 - $120,000) Melcor revolving credit facility. The covenants include a maximum debt to total capital ratio of 1.25, a minimum interest coverage ratio of 2.00, and a minimum net book value of shareholders' equity of $300,000. As at December 31, 2020, and throughout the period, we were in compliance with our financial covenants.

In addition, we are subject to financial covenants on our $35,000 REIT revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debentures), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of $140,000. As at December 31, 2020, and throughout the period, the REIT was in compliance with its financial covenants.

We also have financial covenants on certain mortgages for investment properties. At December 31, 2020, and throughout the period, we were in compliance with our financial covenants on our mortgages. We prepare financial forecasts to monitor the changes in our debt and capital levels and our ability to meet our financial covenants.

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

27. RISK MANAGEMENT

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

a. Credit Risk

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

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

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

Accounts receivables are significantly low risk due to their individual immaterial balances, the nature of the party they are due from (including joint venture participants under management by Melcor), and the overall lack of historical write offs. During the current year, in light of COVID-19, management notes that there is risk associated with the receivables pertaining to tenant rent included with accounts receivables. As a result of the risks associated with COVID-19 the effect on the ability of tenants to settle their receivables as well as government assistance programs put in place, Melcor has adjusted the expected credit loss on this specific group of receivables. At this time, based on the current economic outlook and the expected time-line impact of COVID-19, management has assessed and recorded the current expected credit loss at $1,182.

Agreements receivable are collateralized by specific real estate sold. Agreements receivable relate primarily to land sales in Alberta and, accordingly, collection risk is related to the economic conditions of that region. We manage credit risk by selling to certain qualified registered builders. Concentration risk is low as we sell to a large builder base, and no receivables are concentrated to one specific builder and Melcor maintains an approved builder list containing those builders which have a long standing track record, good volumes, positive perception in the industry, and strong history of repayment. At December 31, 2020, 88% of agreements receivable are due from approved builders (2019 – 95%).

	Current	0-6 months past due	Greater than 6 months past due	Total
As at December 31, 2020				
Expected loss rate	**0.06 %**	**0.18 %**	**0.18 %**	
Agreements receivable	**71,158**	**2,225**	**—**	**73,383**
Loss allowance	**43**	**4**	**—**	**47**

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

Total loans included in agreements receivable that would have otherwise been past due at December 31, 2020, but whose terms have been renegotiated is $7,412 (2019 - $11,899). In order to address current market conditions, we have provided extensions on our standard terms to relieve liquidity pressure on builders. At December 31, 2020, we have identified $2,378 (2019 - $3,311) in agreements receivable which are in arrears. Due to the uncertain economic conditions surrounding COVID-19, Melcor recognizes that our counterparties' credit risk could be negatively impacted. We keep in constant contact with our builders and work with them on extensions, we do not consider any balances to be at risk of not being collected. At this time, the impact to our risk for agreements receivable and expected credit loss rate for our agreements receivables is not considered material. Melcor will continue to monitor change to the economic environment during these uncertain times and as such estimates could be subject to changes and such changes may be material.

b. Liquidity Risk

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

To mitigate the risk associated with the refinancing of maturing debt, we stagger the maturity dates of our mortgage portfolio over a number of years. Further, to mitigate the risk associated with the economic uncertainty caused by COVID-19, Melcor entered into several amending agreements during the year to obtain relief periods in which payments of interest and principal were suspended temporarily. These relief periods did not change the terms of the mortgages and therefore the maturity dates will continue to be staggered in order to mitigate the risk associated with refinancing of matured debt.

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

c. Market Risk

We are subject to interest rate cash flow risk as our operating credit facilities and certain of our general debt bear interest at rates that vary in accordance with prime borrowing rates in Canada. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately $2,021 (2019 - $2,273) based upon applicable year end debt balances. We are not subject to other significant market risks pertaining to our financial instruments.

28. FAIR VALUE MEASUREMENT

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

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

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

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

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

	December 31, 2020					December 31, 2019	
($000s)	**Fair Value hierarchy**	**Fair Value**	**Amortized Cost**	**Total Carrying Value**	**Total Fair Value**	Total Carrying Value	Total Fair Value
Non-financial assets							
Investment properties	**Level 3**	**1,081,077**	**—**	**1,081,077**	**1,081,077**	1,141,591	1,141,591
Financial liabilities							
General debt, excluding derivative financial liability	**Level 3**	**—**	**654,200**	**654,200**	**656,510**	685,107	697,920
REIT - Convertible debenture	**Level 2**	**—**	**64,339**	**64,339**	**56,779**	63,104	67,990
Derivative financial liabilities							
Interest rate swaps	**Level 3**	**1,376**	**—**	**1,376**	**1,376**	62	62
Conversion features on convertible debentures	**Level 3**	**1,871**	**—**	**1,871**	**1,871**	3,080	3,080
REIT units	**Level 1**	**63,034**	**—**	**63,034**	**63,034**	106,643	106,643

The table above analyzes assets and liabilities carried at fair value in the consolidated statement of financial position, by the levels in the fair value hierarchy. The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to the valuation technique, which are defined as follows:

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

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

Investment properties

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

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

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

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

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

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

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 41

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

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

Investment properties were valued by Melcor's internal valuation team as at December 31, 2020 of which 85 legal phases included in investment properties (of 93 legal phases valued) with a fair value of $988,623 were valued by qualified independent external valuation professionals during the year which resulted in fair value losses of $76,480 recorded as fair value adjustment on investment properties in the statements of income and comprehensive income (2019 - investment properties were valued by Melcor Development Ltd.'s internal valuation team of which 44 legal phases included in investment properties (of 90 legal phases valued) with a fair value of $593,212 were valued by qualified independent external valuation professionals during the year which resulted in fair value gains of $12,234).

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

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

Weighted average stabilized net operating income for investment properties is $1,476 (2019 - $1,647). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties			**Properties under Development**		
December 31, 2020	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.25%**	**10.00%**	**6.85%**	**6.00%**	**6.25%**	**6.14%**
Terminal capitalization rate	**5.75%**	**9.00%**	**6.85%**	**6.00%**	**6.50%**	**6.30%**
Discount rate	**6.25%**	**9.75%**	**7.90%**	**7.00%**	**7.50%**	**7.27%**

	Investment Properties			Properties under Development		
December 31, 2019	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	10.50%	6.74%	5.50%	6.00%	5.78%
Terminal capitalization rate	5.75%	9.00%	6.83%	5.75%	6.25%	6.03%
Discount rate	6.50%	9.50%	7.70%	6.50%	7.00%	6.84%

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by $62,874 (2019 - $63,850). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by $72,771 (2019 - $74,077). Due to the uncertainty of the economic environment as a result of COVID-19, these estimates could be subject to significant changes and such changes could be material.

General Debt, excluding derivative financial liabilities

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

The fair value of project specific financing, secured vendor take back debt on land inventory and debt on investment properties and golf course assets have been calculated by discounting the expected cash flows of each loan using a discount rate specific to each individual loan. The discount rate is determined using the bond yield for similar instruments of similar maturity adjusted for each individual project's specific credit risk. In determining the adjustment for credit risk, we consider current market conditions and other indicators of credit worthiness.

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as Level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At December 31, 2020 the fair value of the REIT units was $63,034 (2019 - $106,643). During the year a fair value gain of $43,273 (2019 - loss $8,675) was recognized in the statement of income and comprehensive income, and was included in adjustments related to REIT units. Melcor notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity markets. As the valuation of the REIT units is dependent on the trading price of the REIT's trust units, the impact on the fair value cannot be estimated at this time and such impact could be material.

Derivative financial liabilities

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

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at December 31, 2020 the fair value of interest rate swap contracts was $1,376 (2019 - $62).

The conversion features on the convertible debentures was valued by qualified independent external valuation professionals at December 31, 2020. This resulted in a fair value adjustment of $1,209 (2019 - fair value adjustment of $579) being recognized in income. The significant unobservable inputs used in the fair value measurement of the conversion features on the REIT convertible debentures as at December 31, 2020 are as follows:

- Volatility - expected volatility as at December 31, 2020 was derived from the historical prices of the REIT's trust units. Volatility was 41.63% (2019 - 19.68%).
- Credit spread - the credit spread of the convertible debentures was imputed from the traded price of the convertible debentures as at December 31, 2020. The credit spread used was 11.34% (2019 - 4.01%).

Melcor notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity and debt markets. As the valuation of the conversion feature on the REIT convertible debentures is dependent on the historical price of the REIT's trust units and the trading price of the convertible debenture, the impact on the valuation of the conversion feature on the REIT convertible debentures cannot be estimated at this time and such impact could be material.

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 43

29. SUBSEQUENT EVENTS

Distributions on REIT trust units:

On January 14, 2021 we declared a distribution of $0.035 per unit for the months of January, February and March 2021. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
January 2021	January 29, 2021	February 16, 2021	$0.035 per unit
February 2021	February 26, 2021	March 15, 2021	$0.035 per unit
March 2021	March 31, 2021	April 15, 2021	$0.035 per unit

Dividend declared:

On March 17, 2021, our board of directors declared a quarterly dividend of $0.10 per share payable on March 31, 2021 to shareholders of record on March 25, 2021.