PRESS RELEASE

for immediate distribution

Melcor Developments announces first quarter results, declares quarterly dividend of $0.10 per share

Edmonton, Alberta | May 11, 2021

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the first quarter ended March 31, 2021. Revenue was up 28% to $43.27 million compared to Q1-2020. Strong market demand for new homes led to 122 single-family lot sales in Canada compared to 56 last year, resulting in revenue growth of 120% over Q1-2020 for the Community Development division.

Investment properties owned gross leasable area (GLA) grew by 7% as a result of properties transferred from our Property Development division over the past 12 months. Revenue from our income-generating Investment Properties and REIT divisions grew 5% over Q1-2020; however, this is a result of one-time lease termination fees of $2.94 million in the quarter. Excluding these fees, income-generating revenue was down by 5% due to lower occupancy and weighted average base rents related to COVID-19 lease adjustments. We continue to both renew tenants and lease new space.

Net income in the quarter was significantly impacted by non-cash fair value losses of $21.64 million on REIT units related to unit price appreciation compared to December 31, 2020. Q1-2021 net loss was $14.03 million or $0.42 per share (basic) compared with a net income of $66.64 million or $2.00 per share (basic) in the same period of 2020.

These drastic swings in net income caused by non-cash gains and losses are the reason that management relies on Funds from Operations (FFO) as a better reflection of Melcor's true operating performance. FFO was up 72% to $10.17 million or $0.31 per share in the quarter. The FFO increase is a result of strong demand for new homes in Melcor-developed neighbourhoods contributing to Community Development division revenue growth.

Darin Rayburn, Melcor's President and Chief Executive Officer, commented on the quarter: "We are pleased with our results for the first quarter of 2021. The strong demand for new homes that materialized mid-year in 2020 continued through the quarter and resulted in near-record single-family lot sales for Q1-2021. To replenish inventory, we have an active development program this year and have approved 1,365 new lots for development.

Our ability to react quickly to changes in market demand keeps our inventory levels manageable. At the beginning of the pandemic in early 2020, we cautiously brought on a fewer number of lots at a time (60-100) by splitting larger phases in our communities. As the market began to ramp up later in the year, we adjusted again and are now confidently bringing on some of our largest phases to date.

We expect the US to be a significant contributor to our results this year and are in the process of developing the 511 lot third phase in Harmony (Aurora, CO), which is anticipated to be available for sale to builders this fall. The Kelowna market has also exceeded expectations so far this year, and all available inventory is currently committed.

While COVID-19 has had a modest impact on our business through the past year, our income-generating divisions have been the most sensitive to changes in consumer behaviour and work from home orders. We continue to work with our tenants to support them through this time. As of May 11, we have collected 98% of first quarter rent and 96% of April rent. Through the quarter, we received a total of $2.94 million in lease termination fees, one in the US from a large tenant that reduced their total office square footage, and one Canadian restaurant chain that terminated early in Leduc Common. Prospects for new lease deals in the returned spaces and other vacancies remain positive.

Gross margin appreciation is a result of growth in single-family lot sales in the quarter combined with the overall revenue mix, with income-generating divisions comprising 67% of total revenue at 60% gross margin.

We continue to plan and operate conservatively, as is our nature. Pre-sales threshold requirements remain in place on all new development. We didn't come this far just to come this far."

The Board today declared a quarterly dividend of $0.10 per share, payable on June 30, 2021 to shareholders of record on June 15, 2021. The dividend is an eligible dividend for Canadian tax purposes.

First Quarter Results

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

Revenue in Q1-2021 was up 28% over Q1-2020 as a result of stronger lot sales in Canada compared to the prior period. Lot sales, which can have a significant impact on quarterly results, are uneven by nature and it is difficult to predict when they will close. The strong market demand that began mid-2020 continues at a steady pace and contributed to the 120% increase in Community Development revenue, along with the sale of 8.53 acres of raw land in Leduc. No land sales occurred in Q1-2020.

The US community development model differs from Canadian markets, resulting in the majority of revenue occurring in a single quarter. Builders bulk buy lots from Melcor to finish and build homes to sell to homeowners. Sales to homeowners remained strong through the first quarter. Harmony is in the top ten master-planned communities in all of Colorado based on sales velocity. Demand for additional lots remains high and we have begun development of the third phase; however, this phase is not expected to be completed for sale to builders until fall 2021.

Investment properties owned gross leasable area (GLA) grew by 7% as a result of properties transferred from our Property Development division over the past 12 months. Revenue from our income-generating Investment Properties and REIT divisions grew 5% over Q1-2020; however, this is a result of one-time lease termination fees in the quarter. Excluding these fees, income-generating revenue was down by 5% due to lower occupancy and weighted average base rents related to COVID-19 lease adjustments. We continue to both renew tenants and lease new space.

FINANCIAL HIGHLIGHTS

- Revenue was up 28% in the quarter as a result of increased lots sales and a raw land sale during Q1-2021. Revenue from single-family lot sales was up 110% to $13.60 million in the quarter (Q1-2020: $6.43 million).
- Funds from operations (FFO) increased 72%. This increase is a result of the impact of fair value adjustments on REIT units, lower distributions on REIT units, and an increase in Community Development, Investment Property and REIT revenue earned than in the comparative period.
- Net loss of $14.03 million is a result of the non-cash fair value losses of $21.64 million on REIT units due to unit price appreciation compared to non-cash fair value gains of $68.63 in Q1-2020. The change in unit price has a counter-intuitive impact on net income as an increase in unit value decreases net income. These losses are driven by market forces outside of Melcor's control and are a key reason we focus on FFO as a better measure of our financial performance.

DIVISIONAL OPERATING HIGHLIGHTS

- Following successful inventory reduction programs in 2020, our **Community Development** division is focused on inventory replenishment in all regions. To date we have approved the development of 22 new phases in 15 communities representing 1,365 single-family lots (which include duplex and townhome lots). This includes the launch of a new community known as Cobblestone Creek in Airdrie, AB. Satellite communities, such as St. Albert, Spruce Grove, Airdrie and Cochrane continue to be hot markets and we are bringing on new phases with smaller product categories to meet current demand. We continue to move new communities and additional phases in existing neighbourhoods through the municipal approval process.

  Interest in Harmony (Aurora, CO) remained strong throughout the quarter as builders move through their inventory. Harmony is a top 10 new master-planned community in all of Colorado based on sales velocity. Our builder group is actively engaged on presales for Phase 3, which is currently under development. The community centre, including the pool, was completed in 2020. The facility remained closed in the prior year due to local COVID-19 restrictions, but is expected to open for the 2021 season.

  While interest in all areas remains high, the Kelowna market had an exceptionally strong start to the year. All lots in North Clifton are under contract, and we expect the recently registered Phase 7 at BlueSky to sell out this year as well.
- The **Property Development** team has a total of 72,804 sf (2 projects: Greenwich & Chestermere) currently under construction. A further 41,796 sf is complete and awaiting lease-up and transfer in 3 projects: The District, Woodbend Market, and Clearview Market.
- Total GLA under management has increased 2% from Q1-2020 via internal transfers from **Property Development** in the third and fourth quarters of 2020, partially offset by a disposal of an office property in Arizona in Q3-2020. Revenue in our income-producing divisions (**Investment Properties** and **REIT**) was up 5% over Q1-2020. These divisions are down slightly in occupancy and base rents because of challenging market conditions. See the COVID-19 section for rent collection information.

The investment property portfolio remained fairly stable in Q1-2021 with fair value gains of $0.98 million compared to fair value losses of $6.79 in Q1-2020.

- Our Melcor-managed golf courses (**Recreational Properties**) had an early spring start and opened April 1 in BC, and April 2 in Alberta. In response to regulations put in place by health officials, physical distancing measures remain in place at our clubhouses and pro shops, and dining service is limited to patio and take-and-go.

RETURNING VALUE

- We continue to return value to our shareholders and unitholders:
  - We paid a quarterly dividend of $0.10 per share on March 31, 2021.
  - On May 11, 2021 we declared a quarterly dividend of $0.10 per share, payable on June 30, 2021 to shareholders of record on June 15, 2021. The dividend is an eligible dividend for Canadian tax purposes.
  - The REIT paid distributions of $0.035 per trust unit in January, February and March for a quarterly payout ratio of 53% based on ACFO and 43% based on FFO. Distributions declared April 15, 2021 remained at $0.035 per trust unit.

SUBSEQUENT EVENTS - NCIB

- On April 1, 2021 Melcor commenced a normal course issuer bid ("NCIB"), which allows us to purchase up to 1,654,553 shares for cancellation, representing approximately 5% of Melcor's issued and outstanding trust units. The shares may be repurchased up to a maximum daily limit of 3,781. The price which Melcor will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2022.
- On April 1, 2021 the REIT commenced a normal course issuer bid ("REIT NCIB"), which allows the REIT to purchase up to 652,525 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,824. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement, on March 31, 2022.

Selected Highlights

($000s except as noted)	Three-months		
	31-Mar-21	31-Mar-20	Change
Revenue	**43,270**	33,767	28.1 %
Gross margin (%) *	**52.2 %**	51.0 %	2.4 %
Net income (loss)	**(14,033)**	66,640	(121.1)%
Funds from operations (FFO) *	**10,174**	5,925	71.7 %
Per Share Data ($)			
Basic earnings (loss)	**(0.42)**	2.00	(121.0)%
Diluted earnings (loss)	**(0.42)**	2.00	(121.0)%
Funds from operations *	**0.31**	0.18	72.2 %

As at ($000s except as noted)	**31-Mar-21**	31-Dec-20	Change
Shareholders' equity	**1,058,069**	1,077,429	(1.8)%
Total assets	**1,996,659**	2,001,285	(0.2)%
Per Share Data ($)			
Book value *	**31.98**	32.56	(1.8)%

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three months ended March 31, 2021, which can be found on the company's website at www.Melcor.ca or on SEDAR (www.sedar.com).

About Melcor Developments Ltd.

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

Melcor has been focused on real estate since 1923. The company has built over 140 communities and commercial projects across Western Canada and today manages 4.63 million sf in commercial real estate assets and 604 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

Forward Looking Statements

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

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

This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2021 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

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

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

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Management's Discussion & Analysis

May 11, 2021

The following discussion of Melcor Developments' (Melcor's) financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the quarter ended March 31, 2021 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2020.

The financial statements underlying this MD&A, including 2020 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, i*ncluding IAS 34, Interim Financial Reporting*, unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Melcor's Board of Directors approved the content of this MD&A on May 11, 2021 on the recommendation of the Audit Committee.

Other Information

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

Non-standard Measures

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

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

Forward-looking Statements

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 MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2021 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. We also caution readers that the ongoing COVID-19 pandemic has resulted in both new and increased risk, creating significant uncertainty as to the outlook for Melcor. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risks in our annual MD&A and the updated risk disclosure contained in the Business Environment & Risks section contained in this MD&A.

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

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Our Business

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

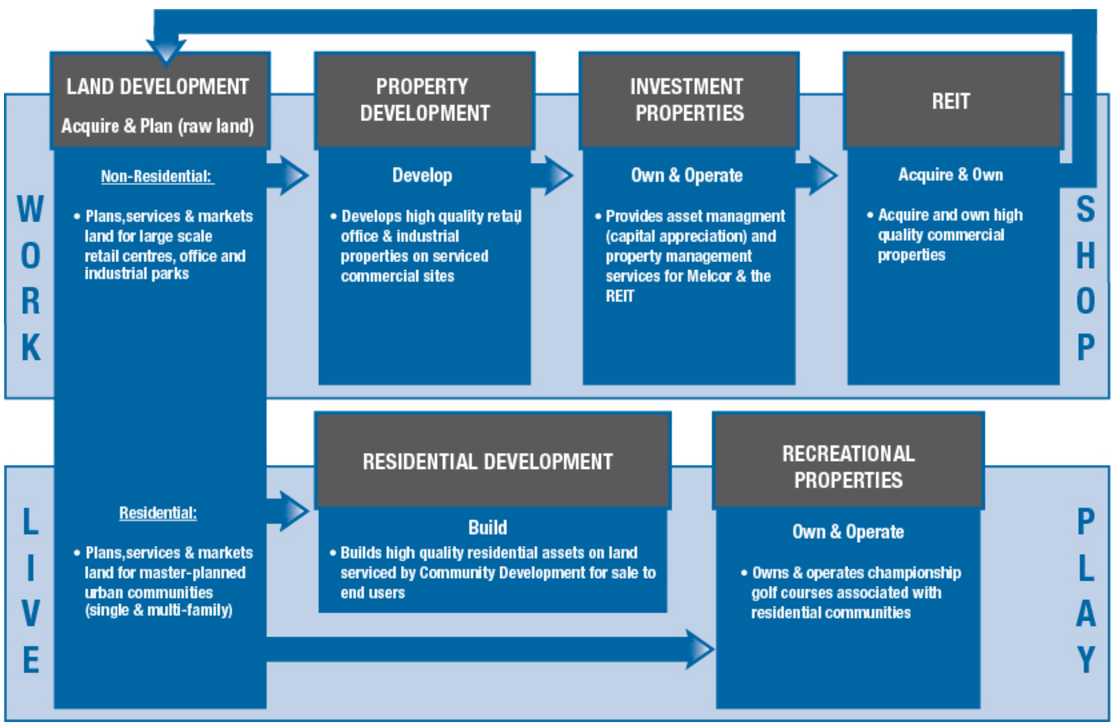
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

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

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

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



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

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

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

SIGNIFICANT EVENT - COVID-19

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 mandatory closure of all non-essential businesses from March until June 2020, has had and continues to have 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 and the third started April 2021. While vaccines continue to rollout, we remain watchful of the situation and continue to adhere to guidelines to stop the spread and keep our stakeholders safe.

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

Melcor continues to respond quickly as the situation evolves. We have implemented a variety of measures to provide safe and clean work environments and keep our employees, contractors, clients, tenants and visitors to our properties safe while doing our part to slow the spread. We use Alberta Health Services (AHS) guidelines as a baseline for the operations of all business units. In many cases, our precautions exceed the recommended actions. As per current provincial recommendations, our offices remain closed to all but a skeleton staff.

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

Operations Update

Both Melcor and the REIT continue to monitor cash to place our business in a position where we are able to support our builders, suppliers and tenants through these unprecedented times while also taking care of our ongoing financial obligations. Melcor remains dedicated to working with tenants on a case by case basis, making arrangements for lease amendments where appropriate, depending on the tenant's financial need and potential access to government relief programs. We are all in this together. We see ourselves as partners with our builders and tenants and our main objective is to help each other survive and thrive when the COVID-19 impact on the economy levels out.

To date, we have been pleased by the minimal impact that COVID-19 has had on our community development division. New home sales in Canada remained strong through Q1-2021, resulting in 122 single family lots being sold compared to 56 lots in Q1-2020. All other divisions achieved stable results.

In spite of the favourable results achieved in 2020 and Q1-2021 , we caution that it is not possible to accurately predict the extent and duration of the impact of COVID-19 on future results.

Collections Update

As a result of COVID-19 and the direct impact on many of our tenants, we have and continue to proactively engage with our tenants to provide temporary relief. As of March 31, we had collected 98% of first quarter rent (excluding amounts owing and receivables related to 2020 year end reconciliations), with $3.04 million in outstanding arrears, of which $0.36 million has been deferred and a further $0.82 million designated as bad debts where collectibility is doubtful. The majority of our tenants are working cooperatively with us in finding acceptable arrangements for repayment of arrears.

Melcor expects collection of deferred and uncollected amounts less those provided for as bad debts. To date 96% of April 2021 billed rent has been collected.

In the first quarter we recovered $0.10 million in bad debts (2020 - $0.10 million bad debts). We recognized $2.29 million in bad debts for the year ended December 31, 2020. This is unprecedented for Melcor; however, given continued uncertainty it is too early to predict the potential for future write-downs and caution readers that we expect our provision for bad debts to remain elevated in the near term.

The following table illustrates our outstanding billed receivables (excluding deferred amounts), deferred tenant receivables and allowances as at March 31, 2021 and December 31, 2020 by asset class. Accrued and other receivables of $5.18 million (2020 - $10.15 million) are not reflected in the figures illustrated below.

Tenant Receivables and Provisions ($000s)						
		March 31, 2021			December 31, 2020	
	Tenant Billed Receivables	**Deferred Tenant Receivables**	**Allowance for Doubtful Accounts**	Tenant Billed Receivables	Deferred Tenant Receivables	Allowance for Doubtful Accounts
Retail	**1,890**	**294**	**(565)**	1,953	424	(764)
Office	**739**	**66**	**(229)**	880	99	(409)
Industrial	**24**	**—**	**(25)**	64	—	(10)
Other	**30**	**—**	**—**	28	—	—
Total	**2,683**	**360**	**(819)**	2,925	523	(1,183)

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 through the pandemic and on to long-term success.

We continue working diligently with our tenants to support them through the COVID-19 pandemic. We believe that the strong relationships that we continually build with our tenants are a key factor in our strong rent collection throughout challenging periods.

First Quarter Highlights

($000s except as noted)	**Three months ended**		
	31-Mar-21	31-Mar-20	Change
Revenue	**43,270**	33,767	28.1 %
Gross margin (%) *	**52.2 %**	51.0 %	2.4 %
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REVENUE & MARGINS

Revenue was up 28% to $43.27 million compared to Q1-2020. Community Development revenue was up by 120% to $14.88 million in the quarter due to a significant increase in lot sales in the Edmonton and Calgary regions compared to Q1-2020. Revenue from single-family lot sales in Canada was up 110% to $13.60 million. We also sold 8.53 acres of raw land to a government body in Leduc, AB for $0.55 million (Q1-2020: $nil). Community Development division revenue is highly dependent on the demand for new homes in the regions where we hold land, the timing of raw, commercial and multi-family land sales, and the timing of registration on single-family lots.

With the higher contribution to revenue from Community Development, our income-generating divisions (Investment Properties and the REIT) accounted for 66% of total revenues after intersegment eliminations compared with 79% of total revenues in Q1-2020. Q1-2021 revenue from our income-generating divisions was $30.52 million at 60% gross margin compared to $28.94 million at 58% gross margin in Q1-2020.

Gross margin increased 2% compared to Q1-2020 due to improved margin in our Community Development, Investment Properties and REIT divisions. Community Development's gross margin increased 9% to 40% in Q1-2021, driven by increased estate sales and by the land sale, which typically carry a higher margin. Gross margin in the Community Development division can vary widely based on the mix of product type sold in any period. REIT and Investment Properties margin is stable by nature and remains strong. These divisions continue to grow via transfers from Property Development, which further stabilizes overall gross margin.

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

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

Funds From Operations (FFO)

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

Below is a reconciliation of net (loss) income to FFO:

($000s)	Three months ended	
	31-Mar-21	31-Mar-20
Net (loss) income for the period	**(14,033)**	66,640
Amortization of operating lease incentives	**2,011**	2,094
Fair value adjustment on investment properties	**(976)**	6,794
Depreciation on property and equipment	**178**	201
Stock based compensation expense	**266**	254
Non-cash finance costs	**1,274**	(771)
Gain on sale of asset	**(4)**	—
Deferred income taxes	**(184)**	(660)
Fair value adjustment on REIT units	**21,642**	(68,627)
FFO	**10,174**	5,925
FFO per share	**0.31**	0.18

FFO was up 72% or $4.25 million compared with Q1-2020. Gross profit increased 31% in the quarter largely driven by a 28% increase in segment revenue over Q1-2020 from higher land sales activity in the quarter and a termination fee in of $1.94 million (US$1.53 million) received in our US IP division. The impact of fair value adjustment on REIT units and lower distributions on REIT units also contributed to the increase in FFO in Q1-2021 over Q1-2020.

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

Divisional Results

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

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

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

The following table summarize the results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three-months March 31		Three-months March 31		Three-months March 31		Three-months March 31		Three-months March 31	
($000s except as noted)	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Revenue	**14,877**	6,768	**32**	93	**11,029**	9,643	**19,486**	19,292	**84**	156
Portion of total revenue	**33 %**	19 %	**— %**	— %	**24 %**	27 %	**43 %**	54 %	**— %**	— %
Cost of sales	**(8,879)**	(4,702)		—	**(4,213)**	(3,882)	**(7,894)**	(8,144)	**(414)**	(512)
Gross profit	**5,998**	2,066	**32**	93	**6,816**	5,761	**11,592**	11,148	**(330)**	(356)
Gross margin %	**40 %**	31 %	**100 %**	100 %	**62 %**	60 %	**59 %**	58 %	**(393)%**	(228)%
Portion of total profit	**25 %**	11 %	**— %**	— %	**28 %**	31 %	**48 %**	60 %	**(1)%**	(2)%
General and administrative expense	**(1,563)**	(1,705)	**(466)**	(528)	**(617)**	(582)	**(803)**	(804)	**(334)**	(341)
Fair value adjustment on investment properties	**—**	—	**72**	582	**466**	(1,965)	**(401)**	(6,187)	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**4**	—
Interest income	**140**	117		12	**1**	15	**7**	27	**—**	—
Segment earnings (loss)	**4,575**	478	**(362)**	159	**6,666**	3,229	**10,395**	4,184	**(660)**	(697)

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

Community Development

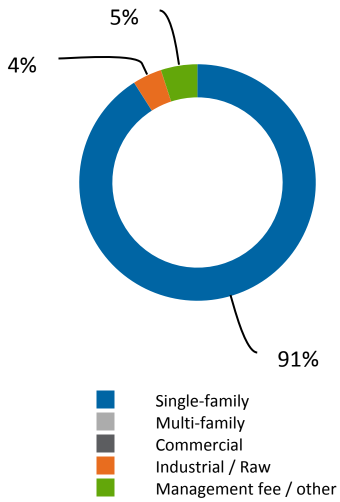
Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning,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

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

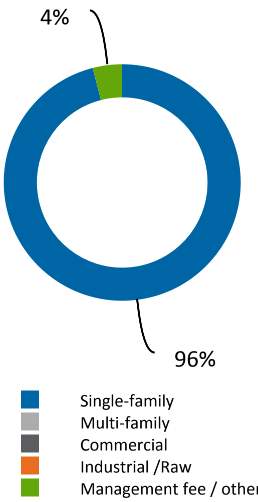
Our focus is to grow market share and income levels by ensuring that we have an appropriate land mix and the right inventory in high demand areas in growing regions. We proactively manage our agreement receivables by maintaining an exclusive builder clientele and working closely with those builders.

REVENUE BY TYPE

Three months ended March 31, 2021



Three months ended March 31, 2020



Revenue and income can fluctuate significantly from period to period due to the timing of plan registrations, the cyclical nature of real estate markets and the mix of land sold. Community Development division revenue is highly dependent on the demand for new homes in the regions where we hold land as well as the timing of single-family lot registrations, and the timing of raw, commercial, industrial and multi-family land sales.

Consolidated	Three months ended	
	31-Mar-21	31-Mar-20
Canada Sales data: (including joint ventures at 100%)		
Single family sales (number of lots)	**122**	56
Gross average revenue per single-family lot ($)	**179,036**	183,300
Land sales to government bodies - raw, other (acres)	**8.53**	—
Gross average revenue per other land acre ($)	**65,453**	—
Divisional results: (including joint ventures at Melcor's interest)		
Revenue ($000s)	**14,877**	6,768
Earnings ($000s)	**4,575**	478

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

We have approved to bring on 22 new phases in 15 communities in 2021 to replenish inventory and capitalize on strong demand for residential product in our markets. Increased estate sales and the land sale in the quarter had a positive impact and contributed to the increase in gross margin to 40% compared to 31% in 2020.

The average selling price on single-family lots in Canada decreased 2% over Q1-2020 as a result of the combination of product type and selling region. Single-family lot sales covered a broad spectrum of price points in Q1-2021, from lower-priced townhomes and duplexes to higher-priced lake-view estate lots.

Revenue in Q1-2021 included 8.53 acres of raw land sales to government bodies, which generated revenue of $0.55 million. No comparable sales were made in Q1-2020.

No sales were made in the US in Q1-2021. Harmony contains larger phases (300+ lots/phase vs. less than 100 lots/phase in Canada) and production builders bulk buy lots as a phase becomes available. Harmony continues to perform well and we have started development of 511 lots in phase 3 to support current sales velocity. This phase introduces duplex and fee simple townhomes (no condo fees) to attract buyers and different price points. We are actively engaged with builders on presales and continue to advance planning on future phases in the community.

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.

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

Regional Sales Analysis

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

Regional Sales Analysis	**Three months ended March 31, 2021**			Three months ended March 31, 2020		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	**88**	—	**8.53**	36	—	—
Red Deer	**7**	—	—	8	—	—
Calgary Region	**15**	—	—	2	—	—
Lethbridge	**1**	—	—	2	—	—
Kelowna	**11**	—	—	8	—	—
United States	—	—	—	—	—	—
	122	—	**8.53**	56	—	—

Single-family lot sales may vary significantly quarter over quarter as plan registrations typically occur in the latter half of the year. Lot sales were up in our Canadian regions in Q1-2021, with Edmonton continuing to be one of our strongest markets for single-family lot sales. Sales have been strong in our popular communities of Rosenthal and Rosewood at Secord in west Edmonton, Cavanagh and Jagare Ridge in south Edmonton, as well as various phases in satellite communities, such as Spruce Grove and St. Albert. Jagare Ridge phase 11B registered in the quarter and accounts for 8 lot sales (17 total lots in the phase).

We are excited about a change to the St. Albert land use bylaws that occurred in late 2020 that allows for a popular new product type: front-back duplexes as well as zero-lot-line homes. This will allow Melcor to offer a wider variety of product at varying price-points in our growing lake community of Jensen Lakes. We have begun filling the lake and are making progress on a maintenance building for the beach site. Residents are eager to begin using the lake this summer.

Subsequent to the quarter, all inventory in Kelowna at both North Clifton Estates and BlueSky has been sold and/or committed. We plan to bring on an additional phase at BlueSky to meet demand.

Inventory

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

Developed Inventory	**Three months ended March 31, 2021**			Three months ended March 31, 2020		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	**652**	**59.00**	**126.09**	1,023	59.00	126.09
Purchases	—	—	—	—	—	—
New developments	**17**	—	—	—	—	—
Internal sales	—	—	—	—	—	—
Sales	**(122)**	—	—	(56)	—	—
	547	**59.00**	**126.09**	967	59.00	126.09

We strategically monitor inventory levels and bring on appropriately sized new phases where market demand dictates.

Raw land inventory

To support future growth, we acquire land in strategic growth corridors and maintain an inventory of land for future development in our primary markets. During the quarter, no new land was purchased.

We continue to monitor our land holdings and manage our cash position in order to capitalize on land acquisition opportunities as they arise. Melcor remains committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development. We plan to bring on the first phase of a new community - Cobblestone Creek in Airdrie, AB - in 2021.

Property Development

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

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

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

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

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

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

Division Highlights

($000s and at JV%, except as noted)	Three months ended	
	31-Mar-21	31-Mar-20
Management fees revenue	**32**	93
Fair value gains on investment properties	**72**	582

We are actively developing new buildings in Greenwich, our mixed-use community in Calgary and a CRU in Chestermere Station in Chestermere, AB. New development activity and continuing work in these projects resulted in fair value gains of $0.07 million during the quarter compared to a gain of $0.58 million in Q1-2020. Management examines each project on a case by case basis and we continue to develop where we remain confident in our lessees prospects.

The Property Development division currently has 114,600 sf under active development or completed and awaiting lease-up, and an additional 19,901 sf expected to start development this year.

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

Regional Highlights

($000s and at JV%, except as noted)	Three months ended	
Fair value adjustments by region	**31-Mar-21**	31-Mar-20
Northern Alberta	**—**	—
Southern Alberta	**72**	582
	72	582

Northern Alberta: No fair value gains were recorded in the quarter in our Northern Alberta region. Development continues at neighbourhood shopping centres in Northern Alberta with 18,931 sf completed and awaiting lease-up and a further 19,901 sf expected to begin this spring.

Southern Alberta: Year to date fair value gains of $0.07 million relate to our properties under development. The Calgary Farmers' Market West building (60,600 sf) in Greenwich is expected to be completed and transfer to Investment Properties this year.

Future development opportunities

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

The following tables illustrate our current and future project expectations:

Current Projects

Project	Location	Type	Total SF[1]	Developed and transferred to IP or Sold[2]	SF Under Development or developed and awaiting lease up
The Village at Blackmud Creek	South Edmonton	*Regional business park*	550,000	198,905	—
Telford Industrial	Leduc	*Industrial Park*	500,000	143,118	—
West Henday Promenade	West Edmonton	*Regional mixed use centre*	515,300	116,300	—
Kingsview Market	Airdrie	*Regional shopping centre*	331,000	200,601	—
Kingsview Commercial	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	8,148
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	1,285,000	563,768	22,865
Campsite Industrial	Spruce Grove	*Industrial Park*	170,000	13,700	—
The Shoppes at Jagare Ridge	South Edmonton	*Neighbourhood shopping centre*	105,000	105,000	—
Jensen Lakes Crossing	St. Albert	*Neighbourhood shopping centre*	150,000	95,713	—
Woodbend Market	Leduc	*Neighbourhood shopping centre*	140,000	3,000	10,783
Greenwich	West Calgary	*Regional mixed use centre*	325,000	—	60,600

[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.

We commenced construction on one CRU in Chestermere during Q1-2021. We have a total of 72,804 sf currently under construction and a further 41,796 sf complete and awaiting lease-up and/or transfer.

Expected Future Projects

Project	Location	Type	Total SF[1]	Ownership Interest	Expected Start (year)
Secord	Edmonton	*Neighbourhood shopping centre*	75,000	60%	2022
Laredo	Red Deer	*Neighbourhood shopping centre*	10,000	100%	2023
Keystone Common	North Calgary	*Regional power centre*	350,000	100%	2023
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	100%	2023
Mattson	Edmonton	*Neighbourhood shopping centre*	75,000	50%	2024+
Rollyview	Leduc	*Neighbourhood shopping centre*	75,000	100%	2024+
Rosenthal	Edmonton	*Neighbourhood mixed use centre*	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.

Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality office, retail, industrial and residential properties, which are located across western Canada and the US, including the properties owned by the REIT. Currently our Investment Properties division manages 4.63 million sf of income-producing commercial GLA and residential units.

Our commercial property portfolio is primarily comprised of properties developed and transferred from our Property Development division in Alberta or acquired from third parties throughout our portfolio. Our goal is to improve the operating efficiency of each property for stable and growing cash flows, making them attractive assets for the REIT to purchase under its Right of First Offer (ROFO) option. In our management capacity, we are committed to efficient property management for optimized operating costs, occupancy and rental rates, providing the REIT and our joint venture partners with best in class management services. We focus on client retention through continuous customer contact and ongoing service evaluations. While we continue to see pockets of opportunity we anticipate the effects of the pandemic to negatively impact the commercial leasing market in the future. We also enhance our portfolio by upgrading the appearance, functionality and desirability of our properties, thereby increasing their rental potential. We have continued with our essential capital expenditures while deferring non-essential projects to minimize activity at our properties and improve near term liquidity.

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

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

Operating results

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

($000s and at JV%, except as noted)	Three months ended	
	31-Mar-21	31-Mar-20
Commercial properties GLA under management (sf, total)	**4,634,115**	4,524,422
Properties owned and managed (sf)	**997,572**	931,064
Properties managed (sf)	**3,636,543**	3,593,358
Residential units managed	**604**	607
Revenue (total)	**11,029**	9,643
Canadian properties	**4,163**	3,720
US properties	**5,205**	4,254
Management fees	**1,555**	1,399
Parking lots and other assets	**106**	270
Net operating income (NOI) *	**7,116**	6,146
Funds from operations *	**6,715**	5,631
Funds from operations per share *	**0.20**	0.17

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

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

Canadian properties

Our Canadian property portfolio continues to grow as properties are developed and transferred from Property Developments. The Property Development division has 114,600 sf of GLA under active construction or completed and awaiting lease up. The majority of transfers to Investment Properties typically occur in the latter part of the year due to construction timing; no transfers were made in the first quarter. Over the past twelve months, Property Development has transferred eleven buildings representing 132,498 sf to owned and managed GLA. Revenue from transferred assets, as well as the properties awaiting lease-up, was $0.60 million in Q1-2021 (Q1-2020 - $0.16 million).

Occupancy on Canadian properties was stable over year end at 80% at March 31, 2021. Commercial weighted average base rents (WABR) was $25.87, up $0.38 compared to year end and down $4.57 compared with Q1-2020. Occupancy and WABR were both impacted by transfers from Property Developments during the latter half of 2020, where tenants are on free-rent periods, and lower rates on new leasing and pandemic related lease restructures.

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

($000s and at JV%, except as noted)	Three months ended	
	31-Mar-21	31-Mar-20
Same asset NOI*	**2,319**	2,553
Properties transferred from PD	**98**	85
NOI*	**2,417**	2,638
Amortization of operating lease incentives	**(173)**	(149)
Straight-line rent adjustment	**557**	(28)
Gross profit	**2,801**	2,461

** See non-standard measures for definition.*

Gross profit was up $0.34 million or 14% compared to Q1-2020, while NOI was down $0.22 million or 8% in the quarter compared to prior year. Properties transferred from the Property Development division over the past 12 months, as well as those currently under development added $0.10 million in NOI in the first quarter of 2021 (Q1-2020 - $0.09 million). On a same asset basis, NOI was down 9% or $0.23 million in the quarter due to lower in-place rents and higher non-recoverable costs.

US properties

Revenue on US properties was $5.21 million compared to $4.25 million in Q1-2020. Occupancy was 77% at March 31, 2021, down 6% from year end, due to tenant rollover in our US properties, including 19,000 sf surrendered as a partial termination with a termination fee of $1.94 million (US$1.53 million) in the quarter. This equates to $0.41 million in base rent annually.

Weighted average base rent (WABR) for Q1-2021 was $20.14 per sf compared to $20.66 in Q1-2020 and $20.91 at year end. WABR on our US commercial properties decreased slightly in 2021 due to lower rates on new leasing and pandemic related lease restructures. Residential occupancy was stable at 98%.

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

($000s and at JV%, except as noted)	Three months ended	
	31-Mar-21	31-Mar-20
Same asset NOI *	**2,912**	1,629
Third party disposals	**—**	63
NOI	**2,912**	1,692
Foreign currency translation	**775**	583
Amortization of operating lease incentives	**(253)**	(289)
Straight-line rent adjustment	**(342)**	24
Gross profit	**3,092**	2,010

** See non-standard measures for definition.*

Gross profit and NOI were up $1.08 million and $1.22 million respectively due to a $1.94 million (US$1.53 million) lease termination payment received in Q1-2021 from a large tenant at Melcor Glendale, excluding this same-asset NOI was down due to lower occupancy.

Management fees & other

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the manager. Management fees were up 11% over 2020 due to higher leasing and management fees earned from the REIT.

During the first quarter of 2021, we recognized $0.11 million in revenues on our parking stalls and other assets, down 61% from Q1-2020 revenue of $0.27 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 continuing to work from home if possible during 2021.

Funds from Operations

Funds from operations (FFO) increased 19% or $1.08 million over Q1-2020 as a result of increased segment revenue, specifically US income due to a termination fee in of $1.94 million (US$1.53 million), lower USD foreign exchange rate for the current period, and lower property margin.

REIT

The REIT owned 39 income-producing office, retail and industrial properties, comprising 3,212,581 square feet of gross leasable area (GLA) at March 31, 2021. The REIT's portfolio has a diversified tenant profile - with a mix of national, regional and local tenants - operating in a variety of industries.

As at May 11, 2021 we have a controlling 55.3% interest in the REIT through ownership of all Class B LP Units (March 31, 2021 - 55.3%, December 31, 2020 - 55.3%). As we have concluded that Melcor retains control of the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities.

Operating results

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

($000s except as noted)	Three months ended	
	31-Mar-21	31-Mar-20
Gross leasable area (GLA) (sf)	**3,212,581**	3,208,463
Occupancy % (weighted by GLA)	**87.2 %**	88.1 %
Fair value of portfolio	**716,712**	770,177
Rental revenue	**19,486**	19,292
Net operating income (NOI) *	**12,627**	11,964
Same asset NOI * *(see calculation following)*	**12,627**	11,964
Fair value adjustment on investment properties	**(401)**	(6,187)
Funds from operations *	**11,711**	11,438
Funds from operations per share *	**0.35**	0.34

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

Rental revenue was stable over Q1-2020 with higher other revenue offsetting lower recovery revenue and reduced straight-line rent adjustments. Rental revenue was up in the quarter due to the early termination of a national restaurant chain in Leduc Common resulting in $1.00 million in lease break fees. The tenant previously occupied 6,384 sf, contributing 0.4% towards 2020 base rent and had 11 years remaining on a 20 year lease.

Year to date, we signed 95,169 sf of new and renewed leasing (including holdovers) and maintained steady occupancy at 87.2%. In 2021, 114 leases (excluding month to month tenants) representing 293,663 sf or 9.2% of our portfolio are up for renewal. We have retained 72.4% of expiring leases (57,335 sf) as at March 31, 2021 in spite of the COVID-19 pandemic and challenging market conditions in many of our operating regions. A further 129,795 sf of future 2021 renewals have been committed. While we continue to see pockets of opportunity, we anticipate the effects of the pandemic to continue to negatively impact the commercial leasing market. Other terminations include both early lease terminations and termination of month to month tenancies.

Property taxes and utilities were down 2% in the quarter. Property taxes declined across the portfolio as a result of lower assessments.

Mild weather in Q1-2021 across western Canada resulted in lower snow removal costs and contributed to the 4% reduction in operating expenses. We recognized a net $0.04 million recovery in previously provided bad debts (2020 - $0.06 million expense). As a result of the COVID-19 pandemic, our bad debt allowance was significantly elevated in 2020 and with continued uncertainty, we expect our provisions for bad debts to remain elevated in the near term.The following is a reconciliation of same asset NOI to net rental income:

($000s except as noted)	Three months ended	
	31-Mar-21	31-Mar-20
Same asset NOI *	**12,627**	11,964
NOI before adjustments	**12,627**	11,964
Amortization of operating lease incentives	**(915)**	(1.067)
Straight-line rent adjustment	**(120)**	251
Net rental income	**11,592**	11,148

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

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

NOI and same-asset NOI are identical in Q1-2021 as no transactions have been completed within the trailing 12 months. NOI was up 6% over Q1-2020 due to lease termination fees received, offset by lower occupancy and reduced recovery ratio. Sequentially, NOI was up 4% compared to Q4-2020 due to lease termination fees received. Q4-2020 NOI was atypically high due to bad debts recovery and other cost recoveries contributing to lower direct operating costs in the fourth quarter.

Funds from operations

Funds from operations (FFO) were up 2% in the first quarter at $11.71 million compared with $11.44 million in Q1-2020.

Recreational Properties

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

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

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

The Recreational Properties division earned revenue of $0.08 million year to date, a decrease of 46% over Q1-2020. The majority of this revenue is pro shop sales whereas revenue in the prior period included revenue from events and food and beverage.

The golf courses were closed during the first quarter. The mild winter and good spring weather enabled our managed courses to open at the beginning of April in accordance with provincial health regulations. Health regulations limit contact allowed and thus our clubhouses, including the pro shops, are operating at lower capacity in order to protect all patrons. Indoor dining restrictions remain in place as of May 11, 2021, so food and beverage operations are limited to take-out service and the 10th tee drive-through window.

As a relatively safe recreational and social activity, golf enjoyed renewed popularity in 2020 and we expect this trend to continue in 2021. We are pleased to be able to service our communities and work within the regulations provided to maintain a safe environment.

	Ownership interest	Season opened 2021	Season opened 2020
Managed by Melcor:			
Lewis Estates (Edmonton)	60%	**April 2**	May 7
The Links (Spruce Grove)	100%	**April 2**	May 7
Black Mountain (Kelowna)	100%	**April 1**	May 1
Managed by a Third Party:			
Jagare Ridge (Edmonton)	50%	**April 14**	May 5

General & Administrative Expense

General and administrative expenses (G&A) was stable over Q1-2020 as a result of careful monitoring of expenses across all divisions. As a percentage of revenue, G&A was 11% in Q1-2021 compared to 15% in Q1-2020 as a result of increased revenue. Management continues to prudently monitor and manage controllable expenses.

Income Tax Expense

The statutory tax rate is 23% for the three months ended March 31, 2021 (2020 - 25%). The most significant adjustment impacting the 2021 effective tax rate was the fair value adjustment on REIT units, which is not subject to tax. Other items that impacted the effective tax rate include permanent differences related to revaluation adjustments on investment properties, distributions to REIT unitholders and the non-taxable portion of REIT income.

Liquidity & Capital Resources

The following table represents selected information as at March 31, 2021, compared with December 31, 2020.

As at ($000s except as noted)	**31-Mar-21**	31-Dec-20
Cash & cash equivalents	**41,312**	29,201
Restricted cash	**5,929**	7,413
Accounts receivable	**7,407**	12,414
Agreements receivable	**63,502**	73,336
Revolving credit facilities	**73,453**	69,911
Accounts payable and accrued liabilities	**33,710**	36,096
Total assets	**1,996,659**	2,001,285
Total liabilities	**938,590**	923,856
Debt to equity ratio*	**0.89**	0.86

**See non-standard measures for definition.*

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

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

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

We believe that internally generated cash flows, supplemented by borrowings through our credit facility and mortgage financings, where required, will be sufficient to cover our normal operating and capital expenditures. We regularly review our credit facility limits and manage our capital requirements accordingly.Melcor continues to focus on cash management to place our business in a position where we are able to support our builders, suppliers and tenants through COVID-19.

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

Financing & 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 management. Total liquidity (cash and line availability) was $109.08 million as at March 31, 2021 (December 31, 2020 - $95.94 million).

As at March 31, 2021, our total general debt outstanding was $720.76 million compared to $721.79 million on December 31, 2020.

A summary of our debt is as follows:

As at ($000s)	**31-Mar-21**	31-Dec-20
Melcor - revolving credit facilities	**66,956**	59,925
REIT - revolving credit facility	**6,497**	9,986
Project specific financing	**64,098**	66,248
Secured vendor take back debt on land inventory	**26,736**	28,616
Debt on investment properties and golf course assets	**487,506**	490,801
REIT - convertible debentures	**68,965**	66,210
General debt	**720,758**	721,786

We are subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to total capital ratio of 125%, a minimum debt service coverage ratio of 3.00, and a minimum net book value of shareholder's equity of $300.00 million. As at March 31, 2021 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT's $35.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of $140.00 million. As at March 31, 2021 and throughout the period, we were in compliance with our financial covenants.

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

Sources & Uses of Cash

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

($000s)	**Three months ended**	
	31-Mar-21	**31-Mar-20**
Cash flow from operating activities	**21,219**	5,750
Cash flow used in investing activities	**(4,292)**	(8,643)
Cash flow from (used in) financing activities	**(4,761)**	(8,322)

During Q1-2021, cash flow from operating activities was $21.22 million, a increase of $15.47 million over Q1-2020. Collections on agreements receivable during the quarter were up at $9.83 million compared to $6.97 million in Q1-2020. We also incurred $2.24 million in tenant incentives and direct leasing costs in the quarter compared to $2.43 million in Q1-2020. We did not purchase land in the quarter or the comparative period. Operating assets and liabilities tend to fluctuate quarter over quarter depending on the timing of payments due and receivable, which resulted in cash inflows of $1.22 million in Q1-2021 compared to cash inflows of $2.94 million in Q1-2020.

Cash flow used in investing activities was $4.29 million in Q1-2021 compared with $8.64 million during Q1-2020. We continue to develop commercial properties and invest in our portfolio, resulting in $4.28 million of cash outflow in the quarter compared to $8.18 million in Q1-2020. Investments in properties under development (Property Development division) contributed $3.94 million to the cash outflow (Q1-2020 - $7.61 million).

Cash flow used in financing activities was $4.76 million during the quarter compared to $8.32 million in Q1-2020. Repayments on the credit facility were $0.65 million in Q1-2020 compared with draws of $3.54 million in Q1-2021. Draws on the credit facility were offset by net repayments on our general debt of $4.71 million compared with $3.97 million in Q1-2020. Proceeds from general debt in the current quarter of $28.77 million relate to one new mortgage and two mortgage refinancings.

In the quarter, we paid a $0.10 per share dividend for a total of $3.31 million paid year to date. This compares to Q1-2020 payments of $0.10 per share for a total of $3.32 million. The total paid out was reduced in the current quarter as a results of shares repurchased and cancelled under our NCIB.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at March 31, 2021 there were 33,086,061 common shares issued and outstanding, 809,900 options, and 315,312 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

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

There are no material changes to the above titled sections at March 31, 2021 in comparison to the December 31, 2020 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

Normal Course Issuer Bid

We have had active Normal Course Issuer Bids (NCIB) in place over the past year as follows:

Melcor Developments

NCIB Effective Date	April 1, 2020	April 1, 2021
NCIB Expiration Date	March 31, 2021	March 31, 2022
Maximum Shares	1,661,033	1,654,553
Daily Purchase Restriction	1,000	3,781
Purchased and Cancelled: To Date	115,616	18,824
Repurchase Total Cost	$ 778,364	$ 231,215
Average Per Share	$6.73	$12.28
Purchased and Cancelled: Q1-2021	5,000	N/A
Repurchase Total Cost	$ 55,579	N/A
Average Per Share	$11.12	N/A
Settled/Purchased Subsequent to the Quarter	2,000	18,824
Repurchase Total Cost	$ 22,743	$ 231,215
Average Per Share	$11.37	$12.28

Melcor REIT

NCIB Effective Date	April 1, 2020	April 1, 2021
NCIB Expiration Date	March 31, 2021	March 31, 2022
Maximum Units	655,792	652,525
Daily Purchase Restriction	3,207	3,824
Purchased and Cancelled: To Date	98,003	40,792
Repurchase Total Cost	$ 436,439	$ 263,296
Average Per Unit	$4.45	6.45
Purchased and Cancelled: Q1-2021	38,477	N/A
Repurchase Total Cost	$ 227,852	N/A
Average Per Unit	$5.92	N/A
Settled/Purchased Subsequent to the Quarter	6,414	40,792
Repurchase Total Cost	$ 40,906	$ 263,296
Average Per Unit	$6.38	$6.45

Both Melcor and the REIT entered into automatic share purchase plan agreements with a broker to allow for the purchase of shares or trust units under the NCIB's at times we would ordinarily not be active in the market due to regulatory restrictions or self-imposed blackout periods.

As a result of COVID-19, the REIT suspended purchases under the NCIB program and cancelled its automatic share purchase agreement on May 15, 2020. The NCIB program was reinitiated on March 8, 2021 when our regularly scheduled trading blackout was lifted following the issuance of our year-end results.

Quarterly Results

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

	Three Months Ended							
($000s)	31-Mar-21	31-Dec-20	30-Sept-20	30-June-20	31-Mar-20	31-Dec-19	30-Sept-19	30-June-19
Revenue	**43,270**	80,947	73,051	39,053	33,767	78,056	53,946	41,085
Net income (loss)	**(14,033)**	(112)	7,526	(62,590)	66,640	16,946	16,068	3,137
FFO	**10,174**	21,908	14,315	9,276	5,925	13,917	10,696	7,975
Per Share								
Basic earnings (loss)	**(0.42)**	(0.01)	0.23	(1.88)	2.00	0.51	0.48	0.09
Diluted earnings (loss)	**(0.42)**	(0.01)	0.23	(1.88)	2.00	0.51	0.48	0.09
FFO	**0.31**	0.66	0.43	0.28	0.18	0.42	0.32	0.24
FFO Diluted	**0.30**	0.66	0.43	0.28	0.18	0.42	0.32	0.21
Book value *	**31.98**	32.56	32.83	32.76	34.88	32.51	32.20	31.76

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

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

Subsequent Events

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

Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Melcor initiated a crisis management plan in response to the COVID-19 pandemic in March 2020. To support physical distancing, Melcor's employee base began to work from home wherever practical. The remote work arrangements did not have an impact on the design of our internal controls. We will continue to monitor and mitigate the risks associated with changes to our control environment in response to COVID 19.

Non-standard Measures

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

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

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

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

period.

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

Investment Properties

($000s)	Three months ended	
	March 31, 2021	March 31, 2020
Segment Earnings	**6,666**	3,229
Fair value adjustment on investment properties	**(466)**	1,965
General and administrative expenses	**617**	582
Interest income	**(1)**	(15)
Amortization of operating lease incentives	**515**	437
Straight-line rent adjustment	**(215)**	(52)
Divisional NOI	**7,116**	6,146

REIT

($000s)	Three months ended	
	March 31, 2021	March 31, 2020
Segment Earnings (Loss)	**10,395**	4,184
Fair value adjustment on investment properties	**401**	6,187
General and administrative expenses	**803**	804
Interest income	**(7)**	(27)
Amortization of operating lease incentives	**915**	1,067
Straight-line rent adjustment	**120**	(251)
Divisional NOI	**12,627**	11,964

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

Consolidated

($000s)	Three months ended	
	March 31, 2021	March 31, 2020
Net (loss) income for the period	**(14,033)**	66,640
Amortization of operating lease incentives	**2,011**	2,094
Fair value adjustment on investment properties	**(976)**	6,794
Depreciation on property and equipment	**178**	201
Stock based compensation expense	**266**	254
Non-cash finance costs	**1,274**	(771)
Gain on sale of asset	**(4)**	—
Deferred income taxes	**(184)**	(660)
Fair value adjustment on REIT units	**21,642**	(68,627)
FFO	**10,174**	5,925

Investment Properties

($000s)	Three months ended	
	March 31, 2021	March 31, 2020
Segment Earnings	**6,666**	3,229
Fair value adjustment on investment properties	**(466)**	1,965
Amortization of operating lease incentives	**515**	437
Divisional FFO	**6,715**	5,631

REIT

($000s)	Three months ended	
	March 31, 2021	March 31, 2020
Segment Earnings (Loss)	**10,395**	4,184
Fair value adjustment on investment properties	**401**	6,187
Amortization of operating lease incentives	**915**	1,067
Divisional FFO	**11,711**	11,438

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

MELCOR

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of (Loss) Income

Unaudited ($000s)	For the three months ended **March 31, 2021**	March 31, 2020
Revenue (note 7)	**43,270**	33,767
Cost of sales	**(20,672)**	(16,545)
Gross profit	**22,598**	17,222
General and administrative expense	**(4,892)**	(4,963)
Fair value adjustment on investment properties (note 5 and 11)	**976**	(6,794)
Adjustments related to REIT units (note 10)	**(23,011)**	66,411
Gain on sale of assets	**4**	—
Operating (loss) earnings	**(4,325)**	71,876
Interest income	**156**	178
Finance costs	**(7,588)**	(5,106)
Net finance costs	**(7,432)**	(4,928)
(Loss) income before income taxes	**(11,757)**	66,948
Income tax expense	**(2,276)**	(308)
Net (loss) income for the period	**(14,033)**	66,640
(Loss) income per share:		
Basic (loss) income per share	**(0.42)**	2.00
Diluted (loss) income per share	**(0.42)**	2.00

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive (Loss) Income

Unaudited ($000s)	For the three months ended **March 31, 2021**	March 31, 2020
Net (loss) income for the period	**(14,033)**	66,640
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences	**(2,228)**	14,550
Comprehensive (loss) income	**(16,261)**	81,190

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	**March 31, 2021**	December 31, 2020
ASSETS		
Cash and cash equivalents	**41,312**	29,201
Restricted cash	**5,929**	7,413
Accounts receivable	**7,407**	12,414
Income taxes recoverable	**1,988**	3,214
Agreements receivable	**63,502**	73,336
Land inventory (note 4)	**725,206**	728,985
Investment properties (note 5 and 11)	**1,085,290**	1,081,077
Property and equipment	**12,976**	13,135
Other assets	**53,049**	52,510
	1,996,659	2,001,285
LIABILITIES		
Accounts payable and accrued liabilities	**33,710**	36,096
Income taxes payable	**—**	1,518
Provision for land development costs	**48,206**	49,770
General debt (note 6)	**720,758**	721,786
Deferred income tax liabilities	**51,468**	51,652
REIT units (note 10 and 11)	**84,448**	63,034
	938,590	923,856
SHAREHOLDERS' EQUITY		
Share capital (note 8)	**72,259**	72,270
Contributed surplus	**5,214**	4,948
Accumulated other comprehensive income (AOCI)	**16,375**	18,603
Retained earnings	**964,221**	981,608
	1,058,069	1,077,429
	1,996,659	2,001,285

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited ($000's)	Equity attributable to Melcor's shareholders: Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
Balance at January 1, 2021	**72,270**	**4,948**	**18,603**	**981,608**	**1,077,429**
Net loss for the period	—	—	—	(14,033)	(14,033)
Cumulative translation adjustment	—	—	(2,228)	—	(2,228)
Transactions with equity holders					
Dividends	—	—	—	(3,309)	(3,309)
Share repurchase (note 8)	(11)	—	—	(45)	(56)
Employee share options					
Value of services recognized	—	266	—	—	266
Balance at March 31, 2021	**72,259**	**5,214**	**16,375**	**964,221**	**1,058,069**

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

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

Unaudited ($000's)	For the three months ended **March 31, 2021**	March 31, 2020
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net (loss) income for the period	**(14,033)**	66,640
Non cash items:		
Amortization of tenant incentives	**2,011**	2,094
Depreciation of property and equipment	**178**	201
Stock based compensation expense	**266**	254
Non-cash finance costs	**1,274**	(771)
Straight-line rent adjustment	**22**	(354)
Fair value adjustment on investment properties (note 5 and 11)	**(976)**	6,794
Fair value adjustment on REIT units (note 10 and 11)	**21,642**	(68,627)
Gain on sale of assets	**(4)**	—
Deferred income taxes	**(184)**	(660)
	10,196	5,571
Agreements receivable	**9,834**	6,969
Development activities	**816**	(7,302)
Payment of tenant lease incentives and direct leasing costs	**(2,235)**	(2,427)
Change in restricted cash	**1,393**	—
Operating assets and liabilities	**1,215**	2,939
	21,219	5,750
INVESTING ACTIVITIES		
Additions to investment properties (note 5)	**(4,277)**	(8,176)
Net proceeds from disposal of investment properties (note 5)	**—**	257
Purchase of property and equipment	**(19)**	(724)
Proceeds on disposal of property and equipment	**4**	—
	(4,292)	(8,643)
FINANCING ACTIVITIES		
Revolving credit facilities	**3,542**	(649)
Proceeds from general debt	**28,769**	4,098
Repayment of general debt	**(33,479)**	(8,071)
Repurchase of REIT units	**(228)**	(128)
Dividends paid	**(3,309)**	(3,321)
Common shares repurchased (note 8)	**(56)**	(251)
	(4,761)	(8,322)
FOREIGN EXCHANGE (LOSS) GAIN ON CASH HELD IN A FOREIGN CURRENCY	**(55)**	631
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**12,111**	(10,584)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**29,201**	36,980
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**41,312**	26,396
Total income taxes paid	**2,750**	3,553
Total interest paid	**7,191**	8,628

See accompanying notes to these condensed interim consolidated financial statements.

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

1. DESCRIPTION OF THE BUSINESS

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

Melcor Developments Ltd. (“Melcor” or “we”) is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States (“US”). Our shares are traded on the Toronto Stock Exchange under the symbol “MRD”. As at March 31, 2021 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 May 11, 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".

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

2. BASIS OF PRESENTATION

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

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 11, 2021.

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

SIGNIFICANT ACCOUNTING POLICIES AND NEW STANDARDS ADOPTED

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those of the previous financial year. There are no new or amended standards adopted during the current quarter.

4. LAND INVENTORY

	March 31, 2021	December 31, 2020
Raw land held	**395,399**	395,785
Land under development	**166,699**	161,647
Developed land	**163,108**	171,553
	725,206	728,985

Land is recorded at the lower of cost and net realizable value. Due to the uncertainty of the economic environment as a result of the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", the net realizable value of land could be subject to significant changes and such changes could be material. As at March 31, 2021 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.

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

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	March 31, 2021	December 31, 2020
Investment properties	**1,016,409**	1,016,312
Properties under development	**68,881**	64,765
Total	**1,085,290**	1,081,077

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

			Three months ended March 31, 2021
	Investment Properties	**Properties under Development**	**Total**
Balance - beginning of period	1,016,312	64,765	**1,081,077**
Additions			
Direct leasing costs	242	105	**347**
Property improvements	338	—	**338**
Development costs	—	3,843	**3,843**
Capitalized borrowing costs	—	96	**96**
Disposals	—	—	**—**
Transfers	—	—	**—**
Fair value adjustment on investment properties	904	72	**976**
Foreign currency translation (included in OCI)	(1,387)	—	**(1,387)**
Balance - end of period	**1,016,409**	**68,881**	**1,085,290**

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

In accordance with our policy we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 11.

During the comparative three month period ended March 31, 2020, we disposed of one residential unit in Arizona for a cash sales price of $257 (US$191) (net of transaction costs).

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

6. GENERAL DEBT

	March 31, 2021	December 31, 2020
Melcor - revolving credit facilities	66,956	59,925
REIT - revolving credit facility	6,497	9,986
Project specific financing	64,098	66,248
Secured vendor take back debt on land inventory	26,736	28,616
Debt on investment properties and golf course assets	487,506	490,801
REIT - convertible debentures	68,965	66,210
General debt	720,758	721,786

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

	March 31, 2021	December 31, 2020
Balance - beginning of period	66,248	68,436
Cash movements		
Loan repayments	(2,598)	(21,676)
New project financing	608	19,540
Non-cash movements		
Foreign currency translation included in OCI	(160)	(52)
Balance - end of period	64,098	66,248

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

	March 31, 2021	December 31, 2020
Balance - beginning of period	28,616	39,005
Cash movements		
Principal repayments		
Scheduled amortization on debt	(1,880)	(10,389)
Balance - end of period	26,736	28,616

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

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

	March 31, 2021	December 31, 2020
Balance - beginning of period	**490,801**	484,413
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(4,277)**	(13,841)
Mortgage repayments	**(24,707)**	(25,554)
New mortgages	**28,161**	44,690
Non-cash movements		
Deferred interest payments	**(150)**	971
Deferred financing fees capitalized	**(159)**	(503)
Amortization of deferred financing fees	**274**	538
Change in derivative fair value swap	**(1,646)**	1,351
Foreign currency translation included in OCI	**(791)**	(1,264)
Balance - end of period	**487,506**	490,801

7. REVENUE

Total Revenues	**For the three months ended**	
	March 31, 2021	March 31, 2020
Revenue from contracts	**19,025**	11,556
Revenue from other sources	**24,245**	22,211
	43,270	33,767

Timing of contract revenue recognition	**For the three months ended**	
	March 31, 2021	March 31, 2020
At a point in time	**14,383**	6,645
Over time	**4,642**	4,911
	19,025	11,556

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

8. SHARE CAPITAL

Issued and outstanding common shares at March 31, 2021 are 33,086,061 (December 31, 2020 – 33,091,061). During the three months ended March 31, 2021, there were no options exercised (Q1-2020 – nil).

During the three months ended March 31, 2021 there were 5,000 common shares purchased for cancellation by Melcor pursuant to the Normal Course Issuer Bid (NCIB) at a cost of $56 (December 31, 2020 - 134,816 common shares purchased at a cost of $976). Share capital was reduced by $11 and retained earnings reduced by $45. The NCIB commenced April 1, 2020 and ended March 31, 2021. Refer to note 13 for information pertaining to the NCIB that commenced after the quarter end.

9. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues

For the three months ended	**March 31, 2021**	March 31, 2020
United States	**5,453**	4,308
Canada	**37,817**	29,459
Total	**43,270**	33,767

Total Assets

As at	**March 31, 2021**	December 31, 2020
United States	**249,025**	243,283
Canada	**1,747,634**	1,758,002
Total	**1,996,659**	2,001,285

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

9. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

For the three months ended March 31, 2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	14,877	32	11,029	19,486	84	—	**45,508**	(2,238)	**43,270**
Cost of sales	(8,879)	—	(4,213)	(7,894)	(414)	—	**(21,400)**	728	**(20,672)**
Gross profit	5,998	32	6,816	11,592	(330)	—	**24,108**	(1,510)	**22,598**
General and administrative expense	(1,563)	(466)	(617)	(803)	(334)	(1,780)	**(5,563)**	671	**(4,892)**
Fair value adjustment on investment properties	—	72	466	(401)	—	—	**137**	839	**976**
Gain on sale of assets	—	—	—	—	4	—	**4**	—	**4**
Interest income	140	—	1	7	—	8	**156**	—	**156**
Segment earnings (loss)	4,575	(362)	6,666	10,395	(660)	(1,772)	**18,842**	—	**18,842**
Finance costs									**(7,588)**
Adjustments related to REIT units									**(23,011)**
Loss before tax									**(11,757)**
Income tax expense									**(2,276)**
Net loss for the period									**(14,033)**

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

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

10. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 44.7% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at March 31, 2021 the REIT units had a fair value of $84,448. We recorded adjustments related to REIT units for the three months ended March 31, 2021 of $23,011 (Q1-2020 - $66,411). 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 April 1, 2020 the REIT commenced a normal course issuer bid ("REIT NCIB") which allows the REIT to purchase up to 655,792 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,207. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The REIT NCIB ended one year from commencement, on March 31, 2021. Refer to note 13 for information pertaining to the REIT NCIB that commenced after the quarter end.

During the three-month period, there were 38,477 (2020 - 23,264) units purchased for cancellation by the REIT pursuant to the REIT NCIB at a cost of $228 (2020 - $128), which is recorded as reduction in the balance of REIT units on the consolidated statement of financial position.

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

	March 31, 2021	March 31, 2020
Fair value adjustment on REIT units (note 11)	**(21,642)**	68,627
Distributions to REIT unitholders	**(1,369)**	(2,216)
Adjustments related to REIT units	**(23,011)**	66,411

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

As at	**March 31, 2021**	December 31, 2020
Assets	**726,053**	724,658
Liabilities	**459,030**	458,367
Net assets	**267,023**	266,291
Cost of NCI	**103,959**	103,959
Fair value of NCI	**84,448**	63,034

	March 31, 2021	March 31, 2020
Rental revenue	**19,486**	19,292
Net income (loss) and comprehensive income (loss)	**(24,439)**	83,912
Cash flows from operating activities	**5,793**	3,453
Cash flows used in investing activities	**(179)**	(115)
Cash flows used in financing activities, before distributions to REIT unitholders	**(3,591)**	(1,510)
Cash flows used in financing activities - cash distributions to REIT unitholders	**(1,304)**	(2,216)
Net increase (decrease) in cash and cash equivalents	**719**	(388)

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

11. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

					March 31, 2021	December 31, 2020	
	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**	**1,085,290**	**—**	**1,085,290**	**1,085,290**	1,081,077	1,081,077
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	**Level 3**	**—**	**652,074**	**652,074**	**643,896**	654,200	656,510
Convertible debentures	**Level 2**	**—**	**64,661**	**64,661**	**66,418**	64,339	56,779
Derivative financial liability							
Interest rate swaps	**Level 3**	**(281)**	**—**	**(281)**	**(281)**	1,376	1,376
Conversion feature on convertible debentures	**Level 3**	**4,304**	**—**	**4,304**	**4,304**	1,871	1,871
REIT units	**Level 1**	**84,448**	**—**	**84,448**	**84,448**	63,034	63,034

Investment properties

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

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

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

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

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

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

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

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

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

Investment properties are valued by Melcor's internal valuation team each quarter, and supported by valuations completed by external valuation professionals. During the quarter ended March 31, 2021 one investment property (of 93 legal phases) with a fair value of $17,700 was valued by external valuation professionals (year ended December 31, 2020 - 85 investment properties (of 93 legal phases) with a fair value of $988,623). Valuations performed during the period resulted in net fair value gains of $976 (December 31, 2020 - net fair value losses of $76,480).

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

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

Weighted average annual stabilized net operating income for investment properties as at March 31, 2021 is $1,474 (December 31, 2020 - $1,476) per property. Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

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

March 31, 2021	Investment Properties			Properties under Development		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.25%	10.00%	6.84%	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%

December 31, 2020	Investment Properties			Properties under Development		
	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%

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by $63,004 (December 31, 2020 - $62,874). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by $72,936 (December 31, 2020 - $72,771). Due to the uncertainty of the economic environment as a result of COVID-19, these estimates could be subject to significant changes and such changes could be material.

General debt, excluding derivative financial liabilities

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

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

Derivative financial liabilities

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

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at March 31, 2021, the fair value of interest rate swap contracts was $281 asset (December 31, 2020 - $1,376 liability).

The significant unobservable inputs used in the fair value measurement of the conversion features on the REIT convertible debentures are volatility and credit spread. As at March 31, 2021 the fair value of the conversion feature on our convertible debenture was $4,304 (December 31, 2020 - $1,871). Melcor notes that it is 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 our 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 conversation feature on REIT convertible debentures cannot be estimated at this time and such impact could be material.

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At March 31, 2021 the fair value of the REIT units was $84,448, resulting in a fair value loss during the three months ended of $21,642 (Q1-2020 - gain of $68,627) in the statement of income and comprehensive income for the period ended ended March 31, 2021 (note 10). 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.

12. RISK MANAGEMENT

As a result of COVID-19, Melcor's exposure to risks as a result of holding financial instruments could be impacted. The impact on these risks is as follows:

a. *Credit Risk*

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

Accounts Receivables have historically been significantly low risk due to their individual immaterial balances, the nature of the party they are due from (including joint venture participants under management by Melcor), and overall lack of historical write offs. Commencing in the first quarter of 2020, in light of COVID-19, management notes that there is risk associated with the receivables pertaining to tenant rent included with accounts receivables. As a result of the risks associated COVID-19 and its effect on the ability of tenants to settle their receivables, as well as government assistance programs put in place, Melcor has adjusted the expected credit losses on this specific group of receivables. At this time, based on management's best estimate of the current economic outlook, management has assessed and recorded the current expected credit loss at $1,048.

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

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

b. *Liquidity Risk*

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

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 $2,114 (December 31, 2020 - $2,021). We are not subject to other significant market risks pertaining to our financial instruments.

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

13. EVENTS AFTER THE REPORTING PERIOD

Normal Course Issuer Bid

On April 1, 2021 Melcor commenced a normal course issuer bid ("NCIB"), which allows Melcor to purchase up to 1,654,553 shares for cancellation, representing approximately 5% of the issued and outstanding shares. The shares may be repurchased up to a maximum daily limit of 3,781. The price, which Melcor will pay for shares repurchased under the plan, will be the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2022.

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

As of May 11, 2021, there were 18,824 common share units repurchased for cancellation by Melcor pursuant to the NCIB at a cost of $231.

REIT Normal Course Issuer Bid

On April 1, 2021 the REIT commenced a normal course issuer bid ("REIT NCIB") which allows the REIT to purchase up to 652,525 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to maximum daily limit of 3,824. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The REIT NCIB ends one year from commencement, on March 31, 2022.

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

As of May 11, 2021 there were 40,792 trust units purchased for cancellation by the REIT pursuant to the NCIB at a cost of $263.

Distributions on REIT trust units

On April 15, 2021 the REIT declared a distribution of $0.035 per unit for the months of April, May and June 2021 The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
April 2021	April 30, 2021	May 17, 2021	$0.035 per unit
May 2021	May 31, 2021	June 15, 2021	$0.035 per unit
June 2021	June 30, 2021	July 15, 2021	$0.035 per unit

Dividends declared

On May 11, 2021 our board of directors declared a dividend of $0.10 per share payable on June 30, 2021 to shareholders of record on June 15, 2021.