PRESS RELEASE

for immediate distribution

Melcor Developments announces second quarter results, declares quarterly dividend of $0.12 per share

Edmonton, Alberta | August 5, 2021

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the second quarter and six months ended June 30, 2021. Year-to-date revenue was up 49% to $108.82 million compared to the first half of 2020. Strong market demand for new homes led to 299 single-family lot sales in Canada in the first half of the year compared to 106 last year, resulting in revenue growth of 196% for the **Community Development** division.

Investment Properties owned gross leasable area (GLA) grew by 8% as a result of properties transferred from our Property Development division over the past 12 months. Revenue in our income-producing divisions (**Investment Properties** and **REIT**) was down 2% over Q2-2020 and up 2% year-to-date. These divisions are down slightly in occupancy and base rents due to challenging market conditions; however, results in both divisions remain relatively stable. See the COVID-19 section for rent collection information.

Year-to-date net income was impacted by non-cash fair value losses of $26.96 million on REIT units related to unit price appreciation compared to December 31, 2020 resulting in a net loss of $5.02 million or $0.15 per share (basic) compared with a net income of $4.05 million or $0.12 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. Funds from operations (FFO) increased 76% to $16.33 million or $0.49 per share over Q2-2020 and 74% to $26.50 million or $0.80 per share year-to-date. This increase is a result of the impact of fair value adjustments on REIT units and investment properties, lower distributions on REIT units, and an increase in Community Development, Property Development and Recreational Properties revenue earned than in the comparative period.

Darin Rayburn, Melcor's President and Chief Executive Officer, commented on the quarter: "We are pleased with our results for the first half of 2021. The strong demand for new homes that materialized mid-year in 2020 continued through the quarter. To replenish inventory to meet builder and home buyer demand, we have an active development program underway this year.

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.

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 August 5, we have collected 98% of year-to-date rent and 92% of July rent. Revenue and occupancy have remained relatively stable in these divisions throughout the past year.

Echoing strong performance in other divisions, our Recreational Properties revenue and margin are also up significantly year-to-date as a result of early opening dates and favourable weather for the golf season thus far.

Gross margin is a result of the overall revenue mix, with Community Development contributing more revenue at a lower margin than our Investment Property and REIT divisions. Our income-generating divisions accounted for 53% of year-to-date revenues after intersegment eliminations compared with 78% of total revenue in the same period last year.

We continue to plan and operate conservatively, as is our nature. Pre-sales threshold requirements remain in place on all new development. We're pleased that the comeback has been stronger than the set back thus far."

The Board today declared a quarterly dividend of $0.12 per share, payable on September 30, 2021 to shareholders of record on September 15, 2021. The dividend is an eligible dividend for Canadian tax purposes.

Second Quarter Results

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

Revenue in Q2-2021 was up 68% over Q2-2020 and 49% year-to-date as a result of strong demand for new homes in Canada. 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. We typically see the most revenue from lot sales in the third and fourth quarters as that is when plans typically register; however, the strong market demand that began mid-2020 continues at a steady pace and contributed to the 196% increase in Community Development revenue year-to-date. Community Development also sold 22.69 acres of raw, commercial and industrial land for $4.68 million year-to-date. No land sales occurred in the comparable period.

The US community development model differs from Canadian markets, resulting in the majority of revenue occurring in a single quarter. Builders buy lots in bulk from Melcor to finish and build homes to sell to homeowners. Builders sales to homeowners remained strong through the second quarter. Demand for additional lots in our Harmony development in Colorado remains high and we are nearing completion of the third phase for sale to builders this fall.

Investment properties owned gross leasable area (GLA) grew by 8% 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 decreased 2% over Q2-2020 due to lower base rent and straight-line rent adjustments offset by other revenue, such as onetime lease termination fees. Excluding these fees, income-generating revenue was down by 13% 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 is up 68% in the quarter and 49% year-to-date as a result of increased lot and land sales. Revenue from single-family lot sales was up 179% to $47.50 million year-to-date (YTD-2020 - $17.06 million). Land sales contributed $4.13 million to revenue before eliminations in the second quarter compared to $nil sales in Q2-2020.
- Funds from operations (FFO) increased 76% over Q2-2020 and 74% year-to-date. This increase is a result of the impact of fair value adjustments on REIT units and investment properties, lower distributions on REIT units, and an increase in Community Development, Property Development and Recreational Properties revenue earned than in the comparative period.
- Net income of $9.01 million in Q2-2021 and the year-to-date loss of $5.02 million are a result of the dramatic swings in non-cash fair value adjustments on investment properties and REIT units and increased finance costs offset by increased revenue. The change in the REIT's 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 truer measure of our financial performance.

DIVISIONAL OPERATING HIGHLIGHTS

- The **Community Development** division is focused on replenishing inventory in all regions after successfully reducing inventory throughout 2020. To date we have approved the development of 25 new phases in 14 existing communities and 1 new community, representing 1,721 single-family lots (including duplex and townhome sites) and 3.33 acres for multi-family development. As outlined above, this includes the launch of a new community known as Cobblestone Creek in Airdrie, AB.

Sales activity remains healthy in all Canadian markets, including satellite communities such as St. Albert, Spruce Grove, Airdrie and Cochrane. Year-to-date, we sold 299 single-family lots compared to 106 in the first six months of 2020. We continue to move new communities and additional phases in existing neighbourhoods through the municipal approval process.

While interest in all areas remains high, the Kelowna market had an exceptionally strong first half of the year with 72 single-family lots sold. All lots in North Clifton and BlueSky phase 7 are sold or under contract.

Interest in Harmony (Aurora, CO) also remained strong throughout the quarter as builders move through their inventory.

- The **Property Development** team has a total of 92,705 sf in 4 projects (Greenwich, Chestermere Station, Jensen Lakes Crossing and Clearview Market) currently under construction. Property Development transferred a 6,517 sf building at The District to Investment Properties in Q2-2021. A further 42,046 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 3% via transfers from **Property Development** (136,240 sf), partially offset by the sale of a 24,154 sf office property in Arizona over the trailing 12 months. Revenue in our income-producing divisions (**Investment Properties** and **REIT**) was down 2% over Q2-2020. These divisions are down slightly in occupancy and base rents due to challenging market conditions; however, results in both divisions remain relatively stable. See the COVID-19 section for rent collection information.

  The investment property portfolio fair value increased in Q2-2021 with gains of $3.88 million compared to fair value losses of $61.89 in Q2-2020.

- Our **Recreational Properties** year-to-date revenue increased 68% to $4.63 million due to mild spring weather allowing earlier course opening dates and favourable weather throughout the season thus far.

RETURNING VALUE

- We continue to return value to our shareholders and unitholders:
  - We paid a quarterly dividend of $0.10 per share in March and June 2021.
  - On August 5, 2021 we declared a quarterly dividend of $0.12 per share, payable on September 30, 2021 to shareholders of record on September 15, 2021. The dividend is an eligible dividend for Canadian tax purposes.
  - The REIT paid monthly distributions of $0.035 per trust unit in the first half of the year for an ACFO payout ratio of 62% in the quarter and 57% year-to-date. Distributions declared July 15, 2021 remained at $0.035 per trust unit pending the board review of the reforecast budget for the remainder of the year. On July 27, 2021, the REIT declared a distribution of $0.04 per trust unit for the months of August and September, 2021, which is an increase of 14% to the monthly distribution. The August distribution is payable on September 15, 2021 to unitholders on record August 31, 2021. The September distribution is payable on October 15, 2021 to unitholders on record September 30, 2021.

SUBSEQUENT EVENTS - Asset Disposition

- On July 30, 2021 we sold a 10 unit brownstone in Arizona for gross proceeds of $7,312 (US$5,900). The price was settled in cash, excluding working capital adjustments.

Selected Highlights

($000s except as noted)	Three-months			Six months		
	30-Jun-21	30-Jun-20	Change	**30-Jun-21**	30-Jun-20	Change
Revenue	**65,547**	39,053	67.8 %	**108,817**	72,820	49.4 %
Gross margin (%) *	**45.8 %**	49.5 %	(7.5)%	**48.3 %**	50.2 %	(3.8)%
Net income (loss)	**9,014**	(62,590)	(114.4)%	**(5,019)**	4,050	(223.9)%
Funds from operations (FFO) *	**16,326**	9,276	76.0 %	**26,500**	15,201	74.3 %
Per Share Data ($)						
Basic earnings (loss)	**0.27**	(1.88)	(114.4)%	**(0.15)**	0.12	(225.0)%
Diluted earnings (loss)	**0.27**	(1.88)	(114.4)%	**(0.15)**	0.12	(225.0)%
Funds from operations *	**0.49**	0.28	75.0 %	**0.80**	0.46	73.9 %

As at ($000s except as noted)	**30-Jun-21**	31-Dec-20	Change
Shareholders' equity	**1,061,418**	1,077,429	(1.5)%
Total assets	**2,014,864**	2,001,285	0.7 %
Per Share Data ($)			
Book value *	**32.10**	32.56	(1.4)%

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three and six months ended June 30, 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 4.64 million sf in commercial real estate assets and 603 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

August 5, 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 June 30, 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 August 5, 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.

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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.

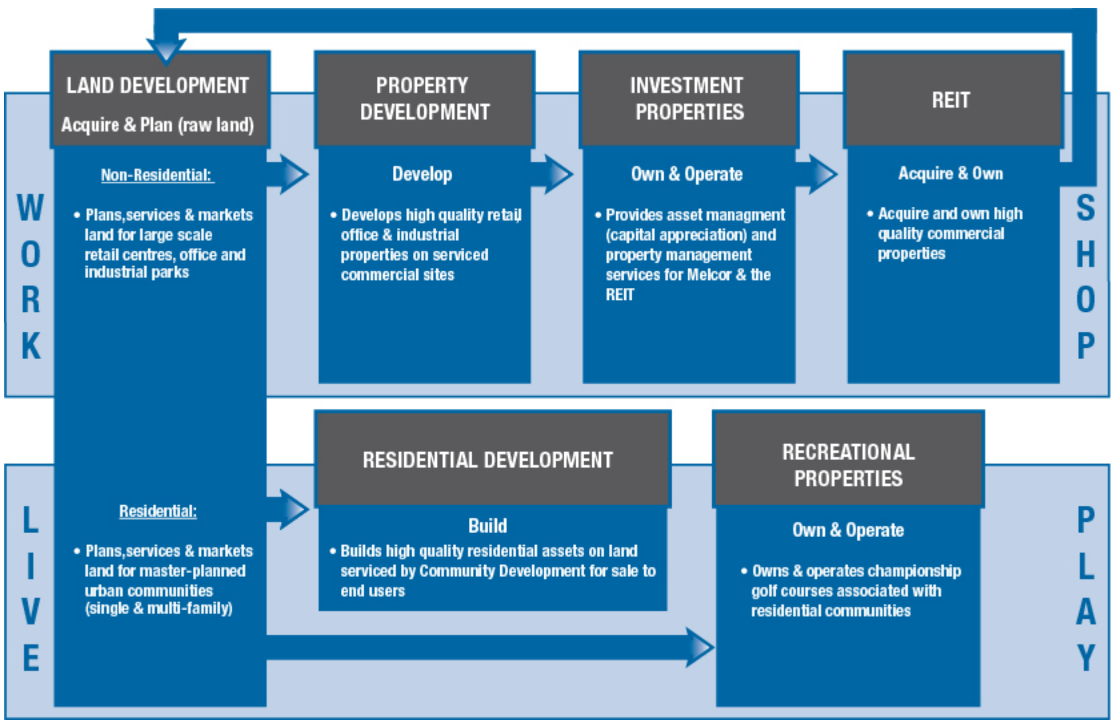
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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 $2.01 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

Lock-downs and business interruptions related to the COVID-19 global pandemic over the past 17 months has had and continues to have a material impact on some of our tenants. It also impacted the normal home buying process in Q2-2020 as we were in the first lock-down for most of the quarter. 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 focus on responding quickly as the situation fluctuates, implementing various 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.

Our Investment Properties and REIT segments are most impacted by COVID-19. We will continue to work with tenants on a case by case basis to implement lease amendments where appropriate, depending on the tenant's financial need and potential access to government relief programs. These arrangements demonstrate our continued solidarity and partnership with our tenants to provide them with the best opportunity to endure the pandemic and be successful in the long-term. We are all in this together. We see ourselves as partners with our tenants and our main objective is to help each other survive and thrive.

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. Under 'Stage 3 of the Open for Summer Plan', business closures and capacity restrictions have been lifted provincially; however, the majority of our staff who are able to work from home are continuing to do so through the summer. We anticipate all staff returning to the office in September.

We continue to actively monitor 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.

Although COVID-19 slowed home sales in its earliest days, the market for new homes has been robust since Q2-2020. We attribute this strength to the drop in mortgage rates in 2020, and many homeowners and renters realizing that their home wasn't ideal for their situation during lock-downs while both working and schooling from home. New home sales in Canada remained strong through the first half of 2021, resulting in 299 single-family lots being sold year-to-date compared to 106 lots in the same period of 2020. All golf courses have also benefited through COVID-19 as they are a relatively safe outdoor recreational option when travel and other forms of entertainment were closed, coupled with a mild winter leading to early openings and favourable weather during the golf season thus far. All other divisions achieved stable results.

In spite of the favourable results achieved in 2020 and through the first half of 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 continue to provide temporary relief on an as-needed basis to our tenants. As of June 30, we had collected 98% of second quarter rent (July 2021, 92% - July collections were impacted by the transition to new third party managers for our Calgary area properties) and 99% of first quarter rent (excluding amounts owing and receivables related to 2020 year end reconciliations). $1.98 million in outstanding arrears, of which $0.25 million has been deferred and a further $0.78 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.

In the second quarter we recognized a net $0.06 million in bad debts. We recognized $2.29 million in bad debts for the year ended December 31, 2020. The 2020 bad debts expense was unprecedented for Melcor. With current government programs aimed at supporting businesses through the COVID-19 pandemic, including Canada Emergency Rent Subsidy (CERS) and Canada Emergency Wage Subsidy (CEWS) potentially expiring in September, 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 June 30, 2021 and December 31, 2020 by asset class. Accrued and other receivables of $4.39 million (December 31, 2020 - $10.15 million) are not reflected in the figures illustrated below.

Tenant Receivables and Provisions ($000s)						
			June 30, 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	**1,254**	**195**	**(624)**	1,953	424	(764)
Office	**431**	**50**	**(121)**	880	99	(409)
Industrial	**21**	**—**	**(30)**	64	—	(10)
Other	**33**	**—**	**—**	28	—	—
Total	**1,739**	**245**	**(775)**	2,925	523	(1,183)

In addition to deferral arrangements Melcor has entered into lease amendments with certain tenants to provide short-term rent relief. These arrangements underscore our continued partnerships with our tenants in strategic efforts to increase tenant retention for the long-term.

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

Second Quarter Highlights

($000s except as noted)	**Three months ended**			**Six months ended**		
	30-Jun-21	30-Jun-20	Change	**30-Jun-21**	30-Jun-20	Change
Revenue	**65,547**	39,053	67.8 %	**108,817**	72,820	49.4 %
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- We continue to return value to our shareholders and unitholders:
  - We paid a quarterly dividend of $0.10 per share in March and June 2021.
  - On August 5, 2021 we declared a quarterly dividend of $0.12 per share, payable on September 30, 2021 to shareholders of record on September 15, 2021. The dividend is an eligible dividend for Canadian tax purposes.
  - The REIT paid monthly distributions of $0.035 per trust unit in the first half of the year for an ACFO payout ratio of 62% in the quarter and 57% year-to-date. Distributions declared July 15, 2021 remained at $0.035 per trust unit pending the board review of the reforecast budget for the remainder of the year. On July 27, 2021, the REIT

declared a distribution of $0.04 per trust unit for the months of August and September, 2021, which is an increase of 14% to the monthly distribution. The August distribution is payable on September 15, 2021 to unitholders on record August 31, 2021. The September distribution is payable on October 15, 2021 to unitholders on record September 30, 2021.

REVENUE & MARGINS

Revenue was up 68% to $65.55 million compared to Q2-2020 and 49% to $108.82 million year-to-date. Year-to-date Community Development revenue increased 196% to $52.39 million due to strong lot sales in all Canadian regions compared to the first half of 2020. Revenue from single-family lot sales in Canada was up 179% to $47.50 million. We also sold 22.69 acres of commercial, industrial and raw land for $4.68 million year to date. 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 53% of year-to-date revenues after intersegment eliminations compared with 78% of total revenue in the same period of 2020. Year-to-date 2021 revenue from our income-generating divisions was $57.62 million at 59% gross margin compared to $56.72 million at 61% gross margin in 2020.

Gross margin decreased to 7% compared to Q2-2020 and by 4% year-to-date due to a change in sales mix between the divisions as a result of increased contribution from the Community Development Division, which yields lower margins than our Investment Property and REIT divisions. Community Development's gross margin increased by 11% to 35% in Q2-2021, driven by increased lot sales and land sales, 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. Recreational Properties gross margin also increased by 8% to 57% in Q2-2021 due to earlier course opening dates in 2021 compared with COVID-delayed course opening dates in 2020. 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 cyclically 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		Six months ended	
	30-Jun-21	30-Jun-20	**30-Jun-21**	30-Jun-20
Net (loss) income for the period	**9,014**	(62,590)	**(5,019)**	4,050
Amortization of operating lease incentives	**1,809**	1,951	**3,820**	4,045
Fair value adjustment on investment properties	**(3,881)**	61,889	**(4,857)**	68,683
Depreciation on property and equipment	**420**	468	**598**	669
Stock based compensation expense	**242**	182	**508**	436
Non-cash finance costs	**3,008**	1,794	**4,282**	1,023
Gain on sale of asset	**(58)**	(36)	**(62)**	(36)
Deferred income taxes	**459**	(4,989)	**275**	(5,649)
Fair value adjustment on REIT units	**5,313**	10,607	**26,955**	(58,020)
FFO	**16,326**	9,276	**26,500**	15,201
FFO per share	**0.49**	0.28	**0.80**	0.46

FFO was up 76% or $7.05 million in the quarter and 74% or $11.30 million year-to-date. Gross profit increased 55% in the quarter and 44% year-to-date due to the greater contribution of Community Development and Recreational Properties division to overall revenue and gross profit in both the quarter and year-to-date periods. Golf courses contributed an additional $1.4 million to gross profit year-to-date due to earlier opening dates and favourable weather conditions, leading to more rounds played. These positive impacts to gross profit were marginally offset by higher taxes on increased revenue and by higher G&A expense related to business activity in all divisions and the reversal of many COVID-19 cost constraint measures that were in place in the comparative period of 2020.

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

Divisional Results

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

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

Our Corporate division carries out support functions including accounting, treasury, information technology, administration, legal, 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 June 30		Three-months June 30		Three-months June 30		Three-months June 30		Three-months June 30	
($000s except as noted)	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Revenue	**37,514**	10,949	**3,239**	105	**9,129**	9,687	**17,977**	18,097	**4,549**	2,604
Portion of total revenue %	52 %	26 %	**4 %**	— %	**13 %**	23 %	**25 %**	44 %	**6 %**	6 %
Cost of sales	**(24,251)**	(8,360)	**(3,200)**	—	**(3,856)**	(3,760)	**(7,189)**	(7,008)	**(1,934)**	(1,338)
Gross margin	**13,263**	2,589	**39**	105	**5,273**	5,927	**10,788**	11,089	**2,615**	1,266
Gross margin %	**35 %**	24 %	**1 %**	100 %	**58 %**	61 %	**60 %**	61 %	**57 %**	49 %
Portion of total margin	**41 %**	12 %	**— %**	1 %	**16 %**	28 %	**34 %**	53 %	**8 %**	6 %
General and administrative expense	**(1,688)**	(1,320)	**(447)**	(402)	**(545)**	(725)	**(696)**	(726)	**(842)**	(624)
Fair value adjustment on investment properties	**—**	—	**(1,211)**	26	**3,405**	(11,642)	**531**	(51,109)	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**58**	36
Interest income	**123**	122	**—**	1	**—**	2	**6**	20	**—**	—
Segment Earnings (Loss)	**11,698**	1,391	**(1,619)**	(270)	**8,133**	(6,438)	**10,629**	(40,726)	**1,831**	678

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Six months June 30		Six months June 30		Six months June 30		Six months June 30		Six months June 30	
($000s except as noted)	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Revenue	**52,391**	17,717	**3,271**	198	**20,158**	19,330	**37,463**	37,389	**4,633**	2,760
Portion of total revenue %	**44 %**	23 %	**3 %**	— %	**17 %**	25 %	**32 %**	48 %	**4 %**	4 %
Cost of sales	**(33,130)**	(13,062)	**(3,200)**	—	**(8,069)**	(7,642)	**(15,083)**	(15,152)	**(2,348)**	(1,850)
Gross profit	**19,261**	4,655	**71**	198	**12,089**	11,688	**22,380**	22,237	**2,285**	910
Gross margin %	**37 %**	26 %	**2 %**	100 %	**60 %**	60 %	**60 %**	59 %	**49 %**	33 %
Portion of total margin %	**34 %**	11 %	**— %**	— %	**22 %**	31 %	**40 %**	56 %	**4 %**	2 %
General and administrative expense	**(3,251)**	(3,025)	**(913)**	(930)	**(1,162)**	(1,307)	**(1,499)**	(1,530)	**(1,176)**	(965)
Fair value adjustment on investment properties	**—**	—	**(1,139)**	608	**3,871**	(13,607)	**130**	(57,296)	**—**	—
Gain (loss) on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**62**	36
Interest income	**263**	239	**—**	13	**1**	17	**13**	47	**—**	—
Segment earnings (loss)	**16,273**	1,869	**(1,981)**	(111)	**14,799**	(3,209)	**21,024**	(36,542)	**1,171**	(19)

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

Community Development

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

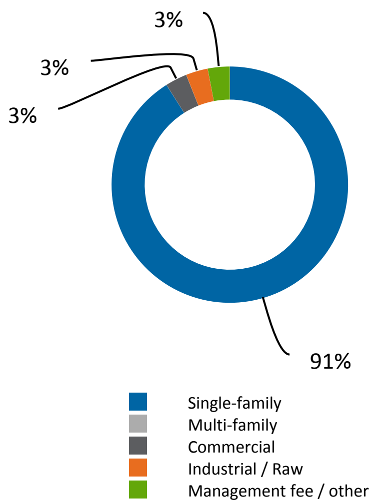
Master-planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and multi-family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

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

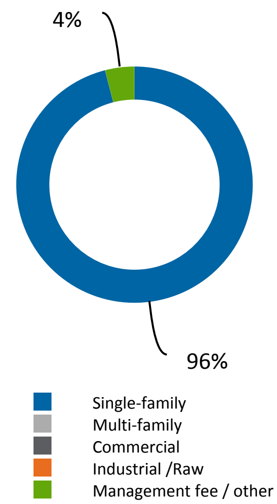
Sales Activity

REVENUE BY TYPE

Six months ended June 30, 2021



Six months ended June 30, 2020



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Community Development division revenue is cyclical in nature and 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. Because of this, community development revenue and income can fluctuate significantly from period to period.

Consolidated	Three months ended		Six months ended	
	30-Jun-21	30-Jun-20	**30-Jun-21**	30-Jun-20
Canada Sales data: (including joint ventures at 100%)				
Single-family sales (number of lots)	**177**	50	**299**	106
Gross average revenue per single-family lot ($)	**248,482**	119,800	**220,147**	153,000
Commercial sales (acres)	**4.95**	—	**4.95**	—
Gross average revenue per commercial land acre ($)	**573,080**	—	**573,080**	—
Industrial sales (acres)	**1.29**	—	**1.29**	—
Gross average revenue per industrial land acre ($)	**325,581**	—	**325,581**	—
Land sales to government bodies - raw, other (acres)	**6.35**	—	**14.88**	—
Gross average revenue per other land acre ($)	**127,290**	—	**92,133**	—
Other land sales - raw, other (acres)	**1.57**	—	**1.57**	—
Gross average revenue per other land acre ($)	**31,357**	—	**31,357**	—
US Sales data:				
Single family sales (number of lots)	**—**	33	**—**	33
Gross average revenue per single-family lot ($)	**—**	149,800	**—**	149,800
Divisional results: (including joint ventures at Melcor's interest)				
Revenue ($000s)	**37,514**	10,949	**52,391**	17,717
Earnings ($000s)	**11,698**	1,391	**16,273**	1,869

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

Strong demand for residential product in Canada continued through the second quarter of 2021, with 177 single-family lots sold compared to 50 in Q2-2020. Year-to-date, we sold 299 single-family lots compared to 106 in the same period of 2020. The second quarter of 2020 was largely impacted by COVID-19 as most of our communities were in lock-down through the period.

Land sales, including commercial, industrial, raw and those sold to government bodies contributed $4.13 million to revenue in the quarter and $4.68 million year-to-date while no land sales were present in the comparable periods of 2020. In Q2-2021, we sold:

- 4.95 commercial acres for $2.84 million to Property Development
- 1.29 industrial acres for $0.42 million
- 6.35 acres of raw land to government bodies for $0.82 million
- 1.57 acres of raw land for $0.05 million

Land sales, coupled with strong estate lot sales in the quarter and year-to-date contributed to improved gross margin of 35% (Q2-2020 - 24%) and 44% (YTD-2020 - 23%) respectively. All lots in Phase 1 of North Clifton Estates (Kelowna) were sold and/or committed in the first half of the year, and BlueSky at Black Mountain (Kelowna) Phase 7 registered and sold and/or committed all lots in Q2-2021. We also had strong sales in our Edmonton estate community of Jagare Ridge in the first half of the year.

With low single-family lot inventory coming into 2021 combined with strong demand, we have an active construction program for the year and are currently planning to bring on 25 new phases in 14 existing communities and 1 new community.

The average selling price on our single-family lots in Canada increased 107% over Q2-2020 as a result of the combination of product type and selling region. Single-family lot sales covered a wide mix of product categories at various price points in Q2-2021, from starter townhomes and duplexes to lake-view estate lots.

No sales were made in the US in the first half of 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. We began underground development on the 511 lots in phase 3 to support current sales velocity early in Q2-2021. This phase introduces duplex and fee simple townhomes (no condo fees) to attract buyers at different price points. We are actively engaged with builders on presales and continue to advance planning on future phases in the community. Subsequent to the quarter, we sold 79 acres of land as paper lots in Goodyear, AZ, generating $13.57 million (US$10.99 million) in revenue.

We are actively marketing and working on final approvals for all of our land assets in the US. We intend to sell many of 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 June 30, 2021**			Three months ended June 30, 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	**71**	**—**	**1.29**	35	—	—
Red Deer	**34**	**—**	**9.77**	2	—	—
Calgary Region	**5**	**—**	**1.50**	1	—	—
Lethbridge	**6**	**—**	**—**	8	—	—
Kelowna	**61**	**—**	**1.57**	4	—	—
United States	**—**	**—**	**—**	33	—	—
	177	**—**	**14.13**	83	—	—

Regional Sales Analysis	**Six months ended June 30, 2021**			Six months ended June 30, 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	**159**	**—**	**9.85**	71	—	—
Red Deer	**41**	**—**	**9.77**	10	—	—
Calgary Region	**20**	**—**	**1.50**	3	—	—
Lethbridge	**7**	**—**	**—**	10	—	—
Kelowna	**72**	**—**	**1.57**	12	—	—
United States	**—**	**—**	**—**	33	—	—
	299	**—**	**22.69**	139	—	—

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 both in the quarter and year-to-date. We are pleased with the performance of our Kelowna communities of North Clifton and BlueSky, which have both sold out and/or committed all lots at the end of Q2-2021 after several years of disappointing sales. BlueSky phase 7 (Kelowna) and Jagare Ridge phase 11B (Edmonton) both registered in the first half of the year and have had 40 and 11 single-family lot sales respectively to date.

Sales remain 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.

In the second quarter we sold 4.95 acres of commercial land to our Property Development division for $2.84 million. This land is planned for development of a gas station and other retail tenants in projects in both the Red Deer and Calgary regions. No land was sold to Property Development in Q2-2020.

Inventory

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

Developed Inventory	**Six months ended June 30, 2021**			Six months ended June 30, 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	**58**	**—**	**3.45**	—	—	—
Internal sales	**—**	**—**	**(4.95)**	—	—	—
Sales	**(299)**	**—**	**(1.29)**	(139)	—	—
	411	**59.00**	**123.30**	884	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 we purchased 17.1 acres in Buckeye, Arizona, for $3.04 million (US $2.45 million). No new land was purchased in the comparative period.

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		Six months ended	
	30-Jun-21	30-Jun-20	**30-Jun-21**	30-Jun-20
Total revenue	**3,239**	105	**3,271**	198
Revenue from property transfers	**3,200**	—	**3,200**	—
Management fees revenue	**39**	105	**71**	198
Margin (%) on property transfers	**13 %**	— %	**13 %**	— %
Square footage transferred (sf, at 100%)	**6,517**	—	**6,517**	—
Number of buildings transferred	**1**	—	**1**	—
Fair value (losses) gains on investment properties	**(1,211)**	26	**(1,139)**	608

Our Property Development division is actively constructing new buildings and Commercial Retail Units (CRUs) in a number of projects, including Greenwich and The District in Calgary, Woodbend in Leduc, and Chestermere Station in Chestermere.

New development activity in these projects resulted in fair value losses of $1.21 million during the quarter and $1.14 million year-to-date. Management examines each project on a case by case basis and we continue to develop where we remain confident in our lessees prospects.

One building, the 6,517 sf CRU B at The District (Calgary), transferred to Investment Properties in the quarter for total revenue of $3.20 million. The margin on the property transferred was lower than target due to lower valuations since the COVID-19 pandemic began.

The Property Development division currently has 134,751 sf under active development or completed and awaiting lease-up, including an additional 19,901 sf commenced in Q2-2021.

Regional Highlights

($000s and at JV%, except as noted)	Three months ended		Six months ended	
Fair value adjustments by region	**30-Jun-21**	30-Jun-20	**30-Jun-21**	30-Jun-20
Northern Alberta	**52**	—	**52**	—
Southern Alberta	**(1,263)**	26	**(1,191)**	608
	(1,211)	26	**(1,139)**	608

Northern Alberta: Nominal 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 in new construction begun in Q2-2021.

Southern Alberta: Year-to-date fair value loss of $1.19 million primarily relates to ongoing development at the District Phase 3. The Calgary Farmers' Market West building (54,000 sf) in Greenwich is expected to be completed and transferred to Investment Properties this year.

Future development opportunities

We continually review our land inventory to identify parcels 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	17,949
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	1,285,000	570,285	23,115
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	10,100
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 two CRUs in Clearview Market Square (Red Deer) and one CRU in Jensen Lakes Crossing (St. Albert) in Q2-2021. We have a total of 92,705 sf currently under construction and a further 42,046 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 properties owned by the REIT. Currently our Investment Properties division manages 4.64 million sf of income-producing commercial GLA and 603 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		Six months ended	
	30-Jun-21	30-Jun-20	**30-Jun-21**	30-Jun-20
Commercial properties GLA under management (sf, total)	**4,644,137**	4,524,236	**4,644,137**	4,524,236
Properties owned and managed (sf)	**1,004,089**	931,064	**1,004,089**	931,064
Properties managed (sf)	**3,640,048**	3,593,172	**3,640,048**	3,593,172
Residential units managed	**603**	607	**603**	607
Revenue (total)	**9,129**	9,687	**20,158**	19,330
Canadian properties	**4,224**	3,572	**8,387**	7,292
US properties	**3,367**	4,451	**8,572**	8,705
Management fees	**1,425**	1,510	**2,980**	2,909
Parking lots and other assets	**113**	154	**219**	424
Net operating income (NOI) *	**5,273**	6,272	**12,389**	12,418
Funds from operations *	**5,021**	5,660	**11,736**	11,291
Funds from operations per share *	**0.15**	0.17	**0.35**	0.34

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

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 134,751 sf of GLA under active construction or completed and awaiting lease up. In Q2-2021 we transferred one 6,517 sf building from The District in north Calgary to Investment Properties. The majority of transfers to Investment Properties typically occur in the latter part of the year due to construction timing. Over the past twelve months, Property Development has transferred eleven buildings representing 136,240 sf to owned and managed GLA. Revenue from transferred assets, as well as the properties awaiting lease-up, through the first half of the year was $1.26 million (2020 - $0.36 million).

Occupancy on Canadian properties was up over year end at 81% at June 30, 2021 (December 31, 2020 - 79%). Commercial weighted average base rents (WABR) was $26.28, up $0.41 compared to year end and down $3.73 compared with Q2-2020. 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		Six months ended	
	30-Jun-21	30-Jun-20	**30-Jun-21**	30-Jun-20
Same asset NOI*	**2,367**	2,397	**4,686**	4,950
Properties transferred from PD	**217**	58	**315**	143
NOI*	**2,584**	2,455	**5,001**	5,093
Amortization of operating lease incentives	**(142)**	(136)	**(315)**	(285)
Straight-line rent adjustment	**310**	77	**867**	49
Gross profit	**2,752**	2,396	**5,553**	4,857

** See non-standard measures for definition.*

Gross profit was up $0.70 million or 14% over 2020, while NOI was flat. Properties transferred from the Property Development division over the past 12 months, as well as those currently under development added $0.32 million in NOI in the first half of 2021 (2020 - $0.14 million). On a same asset basis, NOI was down 5% or $0.26 million year-to-date due to lower in-place rents and higher non-recoverable costs.

US properties

Revenue on US properties was $3.37 million compared to $4.45 million in Q2-2020. Occupancy was 76% at June 30, 2021, down 9% from year end, due to tenant rollover at certain properties, including 19,000 sf surrendered as a partial termination with a termination fee of $1.94 million (US$1.53 million) in the first quarter. This equates to $0.41 million in base rent annually. The decline in revenue was also due to the sale of Perimeter Parkway in Q3-2020, which contributed $0.26 million year to date in 2020. Subsequent to quarter end, we sold our 10 residential units at Turney Brownstones in Phoenix, Arizona for $7.31 million (US$5.90 million). The property contributed revenues of $0.15 million to date in 2021 (2020 - $0.15 million).

Q2-2021 Weighted average base rent (WABR) was $21.09 per sf compared to $21.07 in Q2-2020 and $20.91 at year end. 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		Six months ended	
	30-Jun-21	30-Jun-20	**30-Jun-21**	30-Jun-20
Same asset NOI *	**1,319**	1,563	**4,210**	3,257
Third party disposals	**44**	123	**65**	197
NOI	**1,363**	1,686	**4,275**	3,454
Foreign currency translation	**286**	680	**1,061**	1,263
Amortization of operating lease incentives	**(240)**	(319)	**(493)**	(608)
Straight-line rent adjustment	**(17)**	91	**(359)**	115
Gross profit	**1,392**	2,138	**4,484**	4,224

** See non-standard measures for definition.*

Year-to-date, gross profit and NOI were up $0.26 million and $0.82 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 2% over 2020 due to higher leasing and management fees earned from the REIT and joint venture partners.

During the first half of 2021, we recognized $0.22 million in revenues on our parking stalls and other assets, down 133% from 2020 revenue of $0.42 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 throughout 2021.

Funds from Operations

Funds from operations (FFO) increased 4% or $0.45 million over 2020 as a result of increased segment revenue due to a termination fee of $1.94 million (US$1.53 million) in Q1-2021 on a US office property, offset by lower USD foreign exchange rate for the current period, and lower property margin due to a combination of lower occupancy and WABR but consistent expenses.

REIT

The REIT owns 39 income-producing office, retail and industrial properties, comprising 3.22 million square feet of gross leasable area (GLA) at June 30, 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 August 5, 2021 we have a controlling 55.4% interest in the REIT through ownership of all Class B LP Units (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		Six months ended	
	30-Jun-21	30-Jun-20	**30-Jun-21**	30-Jun-20
Gross leasable area (GLA) (sf)	**3,216,086**	3,208,277	**3,216,086**	3,208,277
Occupancy % (weighted by GLA)	**87.4 %**	88.0 %	**87.4 %**	88.0 %
Fair value of portfolio	**719,132**	720,255	**719,132**	720,255
Rental revenue	**17,977**	18,097	**37,463**	37,389
Net operating income (NOI) *	**11,866**	11,739	**24,253**	23,703
Same asset NOI * *(see calculation following)*	**11,582**	11,739	**24,209**	23,703
Fair value adjustment on investment properties	**531**	(51,109)	**130**	(57,296)
Funds from operations *	**11,034**	11,293	**22,745**	22,731
Funds from operations per share *	**0.33**	0.34	**0.68**	0.68

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

Rental revenue was stable in the quarter and year-to-date. Year-to-date, higher other revenue offset lower rent revenue (base rent and straight-line rent adjustments). Other revenue was up year-to-date due to the early termination of a national restaurant chain in Leduc Common during the first quarter 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 160,712 sf of new and renewed leasing (including holdovers) and maintained steady occupancy at 87.4%. 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 77.1% of expiring leases (107,069 sf) as at June 30, 2021 and a further 95,000 sf of future 2021 renewals have been committed. We continue to see pockets of opportunity; however, we acknowledge that the lingering effects of the pandemic on commercial leasing are difficult to predict. Other terminations include both early lease terminations and termination of month-to-month tenancies.

Property taxes and utilities were up 2% in the quarter and flat year to date. Property taxes declined across the portfolio as a result of lower assessments. This was offset by higher utility costs related to air conditioning during abnormal heatwaves across western Canada in Q2-2021.

Operating expenses were up 3% in the quarter following a decline in the first quarter. Higher costs were primarily due to abnormally low expenses in the comparative quarter following cost constraint measures undertaken at the onset of the COVID-19 pandemic. Higher recoverable costs were offset by lower non-recoverable costs, notably bad debts expense. During the three and six-months ended June 30, 2021 we recognized $0.15 million and $0.11 million in bad debts expense (2020 - $0.69 million and $0.75 million bad debts expense). As a result of the COVID-19 pandemic, our bad debt allowance was significantly elevated in 2020. We are uncertain of the impact that the cessation of government support programs (CERS and CEWS subsidies) will have on our ability to collect rent in the future.

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

($000s except as noted)	Three months ended		Six months ended	
	30-Jun-21	30-Jun-20	**30-Jun-21**	30-Jun-20
Same asset NOI *	**11,582**	11,739	**24,209**	23,703
NOI before adjustments	**11,582**	11,739	**24,209**	23,703
Amortization of operating lease incentives	**(936)**	(910)	**(1,851)**	(1,977)
Straight-line rent adjustment	**142**	260	**22**	511
Net rental income	**10,788**	**11,089**	**22,380**	**22,237**

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

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

NOI and same-asset NOI are identical in Q2-2021 as no transactions have been completed within the trailing 12 months. NOI was flat in the quarter and up 2% year-to-date due to lease termination fees received, offset by lower occupancy and reduced recovery ratio. NOI was down 8% sequentially due to lease termination fees received in Q1-2021. Excluding the abnormal lease termination fee NOI was flat Q1-2021 to Q2-2021 and down 2% year-to-date.

Funds from operations

Funds from operations (FFO) were down 2% in the second quarter at $11.03 million compared with $11.29 million in Q2-2020.

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.

Revenue in the Recreational Properties division increased by 75% to $4.55 million in Q2-2021 and by 68% to $4.63 million year-to-date due to earlier course opening dates and favourable weather.

The mild winter and good spring weather enabled our managed courses to open at the beginning of April in accordance with provincial health regulations. Indoor dining restrictions have now lifted, and as a result we expect to see increased food and beverage operations over the next quarter as they are no longer 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 that has continued into 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	Rounds of Golf	Season opened 2020	Rounds of Golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	**April 2**	**15,267**	May 7	9,824
The Links (Spruce Grove)	100%	**April 2**	**14,737**	May 7	9,360
Black Mountain (Kelowna)	100%	**April 1**	**17,453**	May 1	10,356
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	**April 14**	**12,031**	May 5	8,676

General & Administrative Expense

General and administrative expenses (G&A) were up 15% over Q2-2020 and 6% year-to-date as a result of increased activity across across the Community Development, Recreational Properties and Corporate Divisions. As a percentage of revenue, G&A was 8% in the quarter (Q2-2020 - 11%) and 9% year-to-date (YTD-2020 - 13%) 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 and six months ended June 30, 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 June 30, 2021, compared with December 31, 2020.

As at ($000s except as noted)	**30-Jun-21**	31-Dec-20
Cash & cash equivalents	**45,548**	29,201
Restricted cash	**4,988**	7,413
Accounts receivable	**5,594**	12,414
Agreements receivable	**69,345**	73,336
Revolving credit facilities	**84,717**	69,911
Accounts payable and accrued liabilities	**43,134**	36,096
Total assets	**2,014,864**	2,001,285
Total liabilities	**953,446**	923,856
Debt to equity ratio*	**0.90**	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 the unpredictability of 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 since March 2020. 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 $123.19 million as at June 30, 2021 (December 31, 2020 - $95.94 million).

As at June 30, 2021, our total general debt outstanding was $726.30 million compared to $721.79 million on December 31, 2020.

A summary of our debt is as follows:

As at ($000s)	30-Jun-21	31-Dec-20
Melcor - revolving credit facilities	**81,328**	59,925
REIT - revolving credit facility	**3,389**	9,986
Project specific financing	**61,274**	66,248
Secured vendor take back debt on land inventory	**19,540**	28,616
Debt on investment properties and golf course assets	**489,528**	490,801
REIT - convertible debentures	**71,242**	66,210
General debt	**726,301**	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 June 30, 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 June 30, 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		Six months ended	
	30-Jun-21	30-Jun-20	30-Jun-21	30-Jun-20
Cash flow from operating activities	**14,481**	14,607	**35,700**	20,357
Cash flow used in investing activities	**(10,501)**	(5,435)	**(14,793)**	(14,078)
Cash flow from (used in) financing activities	**318**	(6,197)	**(4,443)**	(14,519)

During Q2-2021, cash flow from operating activities was $14.48 million, a decrease of $0.13 million over Q2-2020. Collections on agreements receivable were down $5.84 million in the quarter compared to an $11.97 million increase in Q2-2020. We also incurred $1.90 million in tenant incentives and direct leasing costs in the quarter compared to $1.36 million in Q2-2020. We purchased 17.1 acres of land in Arizona for $3.04 million (US $2.45 million) in Q2-2021, with no land purchased in Q2-2020. Operating assets and liabilities tend to fluctuate quarter over quarter depending on the timing of payments due and receivable, which resulted in cash inflow of $10.49 million in Q2-2021 compared to cash inflow of $8.34 million in Q2-2020.

Cash flow used in investing activities was $10.50 million in Q2-2021 (Q2-2020 - $5.44 million) and $14.79 million year to date (2020 - $14.08 million). We continue to develop commercial properties and invest in our portfolio, resulting in $8.88 million of cash outflow in the quarter (Q2-2020 - $5.22 million) and $13.15 million year to date (2020 - $13.40 million). Investments in properties under development (Property Development division) contributed $11.58 million year to date to cash outflows (2020 - $11.74 million).

Cash flow from financing activities was $0.32 million during the quarter compared to $6.20 million used in Q2-2020. Repayments on the credit facility were $7.54 million in Q2-2020 compared with draws of $11.26 million in Q2-2021. Draws on the credit facility were offset by net repayments on our general debt of $7.08 million in Q2-2021 compared with net proceeds of $4.52 million in Q2-2020. Proceeds from general debt in the current quarter of $30.57 million relate to two mortgage refinancings (net $7.10 million).

In the quarter, we paid a $0.10 per share dividend for a total of $6.62 million paid year-to-date. This compares to Q2-2020 payments of $0.08 per share for a total of $5.98 million year-to-date.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at June 30, 2021 there were 33,066,649 common shares issued and outstanding, 767,900 options, and 309,855 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 June 30, 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	122,616	29,405
Repurchase Total Cost	$ 801,107	$359,213
Average Per Share	$6.53	$12.22
Purchased and Cancelled: Q2-2021	N/A	20,824
Repurchase Total Cost	N/A	$251,958
Average Per Share	N/A	$12.10
Settled/Purchased Subsequent to the Quarter	N/A	8,581
Repurchase Total Cost	N/A	$ 107,255
Average Per Share	N/A	$12.50

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	104,417	47,206
Repurchase Total Cost	$ 477,346	$305,202
Average Per Unit	$4.57	$6.47
Purchased and Cancelled: Q2-2021	N/A	47,206
Repurchase Total Cost	N/A	$305,202
Average Per Unit	N/A	$6.47
Settled/Purchased Subsequent to the Quarter	N/A	N/A
Repurchase Total Cost	N/A	N/A
Average Per Unit	N/A	N/A

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)	30-June-21	31-Mar-21	31-Dec-20	30-Sept-20	30-June-20	31-Mar-20	31-Dec-19	30-Sept-19
Revenue	**65,547**	43,270	80,947	73,051	39,053	33,767	78,056	53,946
Net income (loss)	**9,014**	(14,033)	(112)	7,526	(62,590)	66,640	16,946	16,068
FFO	**16,326**	10,174	21,908	14,315	9,276	5,925	13,917	10,696
Per Share								
Basic earnings (loss)	**0.27**	(0.42)	(0.01)	0.23	(1.88)	2.00	0.51	0.48
Diluted earnings (loss)	**0.27**	(0.42)	(0.01)	0.23	(1.88)	2.00	0.51	0.48
FFO	**0.49**	0.31	0.66	0.43	0.28	0.18	0.42	0.32
FFO Diluted	**0.49**	0.30	0.66	0.43	0.28	0.18	0.42	0.32
Book value *	**32.10**	31.98	32.56	32.83	32.76	34.88	32.51	32.20

** 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 June 30, 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.

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

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

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

Investment Properties

($000s)	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Segment Earnings (Loss)	**8,133**	(6,438)	**14,799**	(3,209)
Fair value adjustment on investment properties	**(3,405)**	11,642	**(3,871)**	13,607
General and administrative expenses	**545**	725	**1,162**	1,307
Interest income	**—**	(2)	**(1)**	(17)
Amortization of operating lease incentives	**293**	456	**808**	893
Straight-line rent adjustment	**(293)**	(111)	**(508)**	(163)
Divisional NOI	**5,273**	6,272	**12,389**	12,418

REIT

($000s)	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Segment Earnings (Loss)	**10,629**	(40,726)	**21,024**	(36,542)
Fair value adjustment on investment properties	**(531)**	51,109	**(130)**	57,296
General and administrative expenses	**696**	726	**1,499**	1,530
Interest income	**(6)**	(20)	**(13)**	(47)
Amortization of operating lease incentives	**936**	910	**1,851**	1,977
Straight-line rent adjustment	**142**	(260)	**22**	(511)
Divisional NOI	**11,866**	11,739	**24,253**	23,703

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		Six months	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Net (loss) income for the period	**9,014**	(62,590)	**(5,019)**	4,050
Amortization of operating lease incentives	**1,809**	1,951	**3,820**	4,045
Fair value adjustment on investment properties	**(3,881)**	61,889	**(4,857)**	68,683
Depreciation on property and equipment	**420**	468	**598**	669
Stock based compensation expense	**242**	182	**508**	436
Non-cash finance costs	**3,008**	1,794	**4,282**	1,023
Gain on sale of asset	**(58)**	(36)	**(62)**	(36)
Deferred income taxes	**459**	(4,989)	**275**	(5,649)
Fair value adjustment on REIT units	**5,313**	10,607	**26,955**	(58,020)
FFO	**16,326**	9,276	**26,500**	15,201

Investment Properties

($000s)	Three months ended		Six months	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Segment Earnings (Loss)	**8,133**	(6,438)	**14,799**	(3,209)
Fair value adjustment on investment properties	**(3,405)**	11,642	**(3,871)**	13,607
Amortization of operating lease incentives	**293**	456	**808**	893
Divisional FFO	**5,021**	5,660	**11,736**	11,291

REIT

($000s)	Three months ended		Six months	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Segment Earnings (Loss)	**10,629**	(40,726)	**21,024**	(36,542)
Fair value adjustment on investment properties	**(531)**	51,109	**(130)**	57,296
Amortization of operating lease incentives	**936**	910	**1,851**	1,977
Divisional FFO	**11,034**	11,293	**22,745**	22,731

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

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2021

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of (Loss) Income

	For the three months ended		For the six months ended	
Unaudited ($000s)	**June 30, 2021**	June 30, 2020	**June 30, 2021**	June 30, 2020
Revenue (note 7)	**65,547**	39,053	**108,817**	72,820
Cost of sales	**(35,554)**	(19,728)	**(56,226)**	(36,273)
	29,993	19,325	**52,591**	36,547
General and administrative expense	**(4,964)**	(4,328)	**(9,856)**	(9,291)
Fair value adjustment on investment properties (note 5 and 11)	**3,881**	(61,889)	**4,857**	(68,683)
Adjustments related to REIT units (note 10)	**(6,675)**	(11,781)	**(29,686)**	54,630
Gain on sale of assets	**58**	36	**62**	36
Operating earnings (loss)	**22,293**	(58,637)	**17,968**	13,239
Interest income	**137**	458	**293**	636
Finance costs	**(9,053)**	(7,992)	**(16,641)**	(13,098)
Net finance costs	**(8,916)**	(7,534)	**(16,348)**	(12,462)
Income (loss) before income taxes	**13,377**	(66,171)	**1,620**	777
Income tax (expense) recovery	**(4,363)**	3,581	**(6,639)**	3,273
Net (loss) income for the period	**9,014**	(62,590)	**(5,019)**	4,050
(Loss) income per share:				
Basic (loss) income per share	**0.27**	(1.88)	**(0.15)**	0.12
Diluted (loss) income per share	**0.27**	(1.88)	**(0.15)**	0.12

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive (Loss) Income

	For the three months ended		For the six months ended	
Unaudited ($000s)	**June 30, 2021**	June 30, 2020	**June 30, 2021**	June 30, 2020
Net (loss) income for the period	**9,014**	(62,590)	**(5,019)**	4,050
Other comprehensive income				
Items that may be reclassified subsequently to net income:				
Currency translation differences	**(2,347)**	(6,473)	**(4,575)**	8,077
Comprehensive (loss) income	**6,667**	(69,063)	**(9,594)**	12,127

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	**June 30, 2021**	December 31, 2020
ASSETS		
Cash and cash equivalents	**45,548**	29,201
Restricted cash	**4,988**	7,413
Accounts receivable	**5,594**	12,414
Income taxes recoverable	**—**	3,214
Agreements receivable	**69,345**	73,336
Land inventory (note 4)	**721,826**	728,985
Investment properties (note 5 and 11)	**1,090,975**	1,081,077
Property and equipment	**13,148**	13,135
Other assets	**56,128**	52,510
Asset held for sale (note 5 and 13)	**7,312**	—
	2,014,864	2,001,285
LIABILITIES		
Accounts payable and accrued liabilities	**43,134**	36,096
Income taxes payable	**965**	1,518
Provision for land development costs	**41,664**	49,770
General debt (note 6)	**726,301**	721,786
Deferred income tax liabilities	**51,925**	51,652
REIT units (note 10 and 11)	**89,457**	63,034
	953,446	923,856
SHAREHOLDERS' EQUITY		
Share capital (note 8)	**72,282**	72,270
Contributed surplus	**5,388**	4,948
Accumulated other comprehensive income (AOCI)	**14,028**	18,603
Retained earnings	**969,720**	981,608
	1,061,418	1,077,429
	2,014,864	2,001,285

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited ($000's)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2021	**72,270**	**4,948**	**18,603**	**981,608**	**1,077,429**
Net loss for the period	—	—	—	(5,019)	(5,019)
Cumulative translation adjustment	—	—	(4,575)	—	(4,575)
Transactions with equity holders					
Dividends	—	—	—	(6,617)	(6,617)
Share repurchase (note 8)	(56)	—	—	(252)	(308)
Employee share options					
Value of services recognized	—	508	—	—	508
Share issuance	68	(68)	—	—	—
Balance at June 30, 2021	**72,282**	**5,388**	**14,028**	**969,720**	**1,061,418**

Unaudited ($000's)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2020	72,556	4,083	21,522	982,096	1,080,257
Net income for the period	—	—	—	4,050	4,050
Cumulative translation adjustment	—	—	8,077	—	8,077
Transactions with equity holders					
Dividends	—	—	—	(5,975)	(5,975)
Share repurchase	(154)	—	—	(410)	(564)
Employee share options					
Value of services recognized	—	436	—	—	436
Share issuance	8	(8)	—	—	—
Balance at June 30, 2020	72,410	4,511	29,599	979,761	1,086,281

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

	For the three months ended		For the six months ended	
Unaudited ($000's)	**June 30, 2021**	June 30, 2020	**June 30, 2021**	June 30, 2020
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net (loss) income for the period	**9,014**	(62,590)	**(5,019)**	4,050
Non cash items:				
Amortization of tenant incentives	**1,809**	1,951	**3,820**	4,045
Depreciation of property and equipment	**420**	468	**598**	669
Stock based compensation expense	**242**	182	**508**	436
Non-cash finance costs	**3,008**	1,794	**4,282**	1,023
Straight-line rent adjustment	**(334)**	(267)	**(312)**	(621)
Fair value adjustment on investment properties (note 5 and 11)	**(3,881)**	61,889	**(4,857)**	68,683
Fair value adjustment on REIT units (note 10 and 11)	**5,313**	10,607	**26,955**	(58,020)
Gain on sale of assets	**(58)**	(36)	**(62)**	(36)
Deferred income taxes	**459**	(4,989)	**275**	(5,649)
	15,992	9,009	**26,188**	14,580
Agreements receivable	**(5,843)**	11,965	**3,991**	18,934
Development activities	**(2,056)**	(6,825)	**(1,240)**	(14,127)
Purchase of land inventory (note 4)	**(3,037)**	—	**(3,037)**	—
Payment of tenant lease incentives and direct leasing costs	**(1,898)**	(1,360)	**(4,133)**	(3,787)
Change in restricted cash	**834**	(6,525)	**2,227**	(6,525)
Operating assets and liabilities	**10,489**	8,343	**11,704**	11,282
	14,481	14,607	**35,700**	20,357
INVESTING ACTIVITIES				
Purchase of investment properties (note 5)	**(1,438)**	—	**(1,438)**	—
Additions to investment properties (note 5)	**(8,875)**	(5,220)	**(13,152)**	(13,396)
Net proceeds from disposal of investment properties (note 5)	**346**	—	**346**	257
Purchase of property and equipment	**(676)**	(262)	**(695)**	(986)
Proceeds on disposal of property and equipment	**142**	47	**146**	47
	(10,501)	(5,435)	**(14,793)**	(14,078)
FINANCING ACTIVITIES				
Revolving credit facilities	**11,264**	(7,537)	**14,806**	(8,186)
Proceeds from general debt	**30,574**	8,766	**59,343**	12,864
Repayment of general debt	**(37,655)**	(4,251)	**(71,134)**	(12,322)
Repurchase of REIT units	**(305)**	(208)	**(533)**	(336)
Dividends paid	**(3,308)**	(2,654)	**(6,617)**	(5,975)
Common shares repurchased (note 8)	**(252)**	(313)	**(308)**	(564)
	318	(6,197)	**(4,443)**	(14,519)
FOREIGN EXCHANGE (LOSS) GAIN ON CASH HELD IN A FOREIGN CURRENCY	**(62)**	(217)	**(117)**	414
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**4,236**	2,758	**16,347**	(7,826)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**41,312**	26,396	**29,201**	36,980
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**45,548**	29,154	**45,548**	29,154
Total income taxes paid	**3,852**	159	**6,602**	3,712
Total interest paid	**7,167**	8,950	**14,358**	17,578

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 June 30, 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 August 5, 2021, Melcor through an affiliate, holds an approximate 55.4% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

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

2. BASIS OF PRESENTATION

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

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 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 August 5, 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

	June 30, 2021	December 31, 2020
Raw land held	**394,266**	395,785
Land under development	**188,116**	161,647
Developed land	**139,444**	171,553
	721,826	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 June 30, 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.

During the six month period ended June 30, 2021, we purchased 17.1 acres of land in Buckeye, Arizona in the United States at a cost of $3,037 (USD$2,450) for cash. During the six month period ended June 30, 2020, there were no land purchases made.

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

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	June 30, 2021	December 31, 2020
Investment properties	**1,016,366**	1,016,312
Properties under development	**74,609**	64,765
Total	**1,090,975**	1,081,077

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

			Six months ended June 30, 2021
	Investment Properties	**Properties under Development**	**Total**
Balance - beginning of period	1,016,312	64,765	**1,081,077**
Additions			
Direct acquisition	—	1,438	**1,438**
Transfer from land inventory	—	301	**301**
Direct leasing costs	534	229	**763**
Property improvements	1,570	—	**1,570**
Development costs	—	11,345	**11,345**
Capitalized borrowing costs	—	237	**237**
Disposals	(346)	—	**(346)**
Transfers	3,134	(3,134)	**—**
Fair value adjustment on investment properties	5,429	(572)	**4,857**
Foreign currency translation (included in OCI)	(2,955)	—	**(2,955)**
Investment property classified as held for sale	(7,312)	—	**(7,312)**
Balance - end of period	**1,016,366**	**74,609**	**1,090,975**

			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.

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

During the six months ended June 30, 2021, we disposed of one residential unit in Arizona for cash price of $346 (US$278) (Q2–2020 – $257 (US$191)) (net of transaction costs).

Asset held for sale

As at June 30, 2021, we have classified an investment property as held for sale with a fair value of $7,312 (US$5,900). As at June 30, 2021 management has committed to a plan of sale of the property, with a contract in place. Subsequent to the quarter the property was sold to a third party for a purchase price of $7,312 (US$5,900) (note 13).

6. GENERAL DEBT

	June 30, 2021	December 31, 2020
Melcor - revolving credit facilities	**81,328**	59,925
REIT - revolving credit facility	**3,389**	9,986
Project specific financing	**61,274**	66,248
Secured vendor take back debt on land inventory	**19,540**	28,616
Debt on investment properties and golf course assets	**489,528**	490,801
REIT - convertible debentures	**71,242**	66,210
General debt	**726,301**	721,786

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

	June 30, 2021	December 31, 2020
Balance - beginning of period	**66,248**	68,436
Cash movements		
Loan repayments	**(6,488)**	(21,676)
New project financing	**1,795**	19,540
Non-cash movements		
Foreign currency translation included in OCI	**(281)**	(52)
Balance - end of period	**61,274**	66,248

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

	June 30, 2021	December 31, 2020
Balance - beginning of period	**28,616**	39,005
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(9,076)**	(10,389)
Balance - end of period	**19,540**	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:

	June 30, 2021	December 31, 2020
Balance - beginning of period	**490,801**	484,413
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(8,621)**	(13,841)
Mortgage repayments	**(46,998)**	(25,554)
New mortgages	**57,548**	44,690
Non-cash movements		
Deferred interest payments	**—**	971
Deferred financing fees capitalized	**(740)**	(503)
Amortization of deferred financing fees	**262**	538
Change in derivative fair value swap	**(1,011)**	1,351
Foreign currency translation included in OCI	**(1,713)**	(1,264)
Balance - end of period	**489,528**	490,801

7. REVENUE

Total Revenues	**For the three months ended**		**For the six months ended**	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Revenue from contracts	**43,882**	16,934	**62,907**	28,490
Revenue from other sources	**21,665**	22,119	**45,910**	44,330
	65,547	39,053	**108,817**	72,820

Timing of contract revenue recognition	**For the three months ended**		**For the six months ended**	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
At a point in time	**39,788**	12,423	**54,171**	19,068
Over time	**4,094**	4,511	**8,736**	9,422
	43,882	16,934	**62,907**	28,490

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

8. SHARE CAPITAL

Issued and outstanding common shares at June 30, 2021 are 33,066,649 (December 31, 2020 – 33,091,061). During the three and six months ended June 30, 2021, there were 1,412 options exercised (Q2-2020 – nil).

During the first quarter there were 5,000 common shares purchased for cancellation by Melcor pursuant to the Normal Course Issuer Bid (NCIB) at a cost of $56. Share capital was reduced by $11 and retained earnings was reduced by $45. The NCIB commenced April 1, 2020 and ended March 31, 2021.

On April 1, 2021 Melcor commenced a new Normal Course Issuer (NCIB) which allowed us to purchase up to 1,654,553 share 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 new NCIB ends one year from commencement on March 31, 2022.

In connection with the commencement of the new NCIB, Melcor also entered into an automatic purchase plan agreement with a broker to allow for the purchase of common shares under the new 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 June 30, 2021 there were 20,824 common shares purchased for cancellation by Melcor pursuant to the new NCIB at a cost of $252. Share capital was reduced by $45 and retained earnings reduced by $207. Year to date, there were a total of 25,824 common shares purchased for cancellation at a cost of $308 (December 31, 2020 - 134,816 common shares purchased at a cost of $976) with share capital reduced by $56 and retained earnings reduced by $252 under the above mentioned NCIB agreements.

9. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues	**For the three months ended**		**For the six months ended**	
For the three months ended	**June 30, 2021**	June 30, 2020	**June 30, 2021**	June 30, 2020
United States	**3,656**	2,257	**9,109**	13,873
Canada	**61,891**	39,796	**99,708**	58,947
Total	**65,547**	39,053	**108,817**	72,820

Total Assets		
As at	**June 30, 2021**	December 31, 2020
United States	**252,345**	243,283
Canada	**1,762,519**	1,758,002
Total	**2,014,864**	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 June 30, 2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	37,514	3,239	9,129	17,977	4,549	—	**72,408**	(6,861)	**65,547**
Cost of sales	(24,251)	(3,200)	(3,856)	(7,189)	(1,934)	—	**(40,430)**	4,876	**(35,554)**
Gross profit	13,263	39	5,273	10,788	2,615	—	**31,978**	(1,985)	**29,993**
General and administrative expense	(1,688)	(447)	(545)	(696)	(842)	(1,575)	**(5,793)**	829	**(4,964)**
Fair value adjustment on investment properties	—	(1,211)	3,405	531	—	—	**2,725**	1,156	**3,881**
Gain on sale of assets	—	—	—	—	58	—	**58**	—	**58**
Interest income	123	—	—	6	—	8	**137**	—	**137**
Segment earnings (loss)	11,698	(1,619)	8,133	10,629	1,831	(1,567)	**29,105**	—	**29,105**
Finance costs									**(9,053)**
Adjustments related to REIT units									**(6,675)**
Income before tax									**13,377**
Income tax expense									**(4,363)**
Net income for the period									**9,014**

For the three months ended June 30, 2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	10,949	105	9,687	18,097	2,604	—	**41,442**	(2,389)	**39,053**
Cost of sales	(8,360)	—	(3,760)	(7,008)	(1,338)	—	**(20,466)**	738	**(19,728)**
Gross profit	2,589	105	5,927	11,089	1,266	—	**20,976**	(1,651)	**19,325**
General and administrative expense	(1,320)	(402)	(725)	(726)	(624)	(1,346)	**(5,143)**	815	**(4,328)**
Fair value adjustment on investment properties	—	26	(11,642)	(51,109)	—	—	**(62,725)**	836	**(61,889)**
Gain on sale of assets	—	—	—	—	36	—	**36**	—	**36**
Interest income	122	1	2	20	—	313	**458**	—	**458**
Segment earnings (loss)	1,391	(270)	(6,438)	(40,726)	678	(1,033)	**(46,398)**	—	**(46,398)**
Finance costs									**(7,992)**
Adjustments related to REIT units									**(11,781)**
Loss before tax									**(66,171)**
Income tax recovery									**3,581**
Net loss for the period									**(62,590)**

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

For the six months ended June 30, 2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	52,391	3,271	20,158	37,463	4,633	—	117,916	(9,099)	108,817
Cost of sales	(33,130)	(3,200)	(8,069)	(15,083)	(2,348)	—	(61,830)	5,604	(56,226)
Gross profit	19,261	71	12,089	22,380	2,285	—	56,086	(3,495)	52,591
General and administrative expense	(3,251)	(913)	(1,162)	(1,499)	(1,176)	(3,355)	(11,356)	1,500	(9,856)
Fair value adjustment on investment properties	—	(1,139)	3,871	130	—	—	2,862	1,995	4,857
Gain on sale of assets	—	—	—	—	62	—	62	—	62
Interest income	263	—	1	13	—	16	293	—	293
Segment earnings (loss)	16,273	(1,981)	14,799	21,024	1,171	(3,339)	47,947	—	47,947
Finance costs									(16,641)
Adjustments related to REIT units									(29,686)
Income before tax									1,620
Income tax expense									(6,639)
Net (loss) for the period									(5,019)

For the six months ended June 30, 2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	17,717	198	19,330	37,389	2,760	—	77,394	(4,574)	72,820
Cost of sales	(13,062)	—	(7,642)	(15,152)	(1,850)	—	(37,706)	1,433	(36,273)
Gross profit	4,655	198	11,688	22,237	910	—	39,688	(3,141)	36,547
General and administrative expense	(3,025)	(930)	(1,307)	(1,530)	(965)	(3,063)	(10,820)	1,529	(9,291)
Fair value adjustment on investment properties	—	608	(13,607)	(57,296)	—	—	(70,295)	1,612	(68,683)
Gain on sale of assets	—	—	—	—	36	—	36	—	36
Interest income	239	13	17	47	—	320	636	—	636
Segment earnings (loss)	1,869	(111)	(3,209)	(36,542)	(19)	(2,743)	(40,755)	—	(40,755)
Finance costs									(13,098)
Adjustments related to REIT units									54,630
Income before tax									777
Income tax recovery									3,273
Net income for the period									4,050

10. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 44.6% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss (“FVTPL”). As at June 30, 2021 the REIT units had a fair value of $89,457. We recorded adjustments related to REIT units for the three and six months ended June 30, 2021 of $6,675 and $29,686 respectively (Q2-2020 - $11,781 and $54,630). 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.

During the first quarter there were 38,477 (2020 - 23,264) units purchased for cancellation by the REIT pursuant to the REIT normal course issuer bid ("REIT NCIB") at a cost of $228 (2020 - $128), which was recorded as a reduction in the balance of the REIT units on the consolidated statement of financial position.

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

On April 1, 2021 the REIT commenced a new 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 new REIT NCIB ends one year from commencement on March 31, 2022.

In connection with the commencement of the new 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 new 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.

During the quarter, there were 47,206 (2020 - 59,526) units purchased for cancellation by the REIT pursuant to the new REIT NCIB at a cost of $305 (2020 - $208), which is recorded as a reduction in the balance of REIT units on the consolidated statement of financial position. Year to date, there were a total of 85,683 units (2020 - 82,790) purchased through the above NCIBs at a cost of $533 (2020 - $336).

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

	For the three months ended		For the six months ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Fair value adjustment on REIT units (note 11)	**(5,313)**	(10,607)	**(26,955)**	58,020
Distributions to REIT unitholders	**(1,362)**	(1,174)	**(2,731)**	(3,390)
Adjustments related to REIT units	**(6,675)**	(11,781)	**(29,686)**	54,630

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	**June 30, 2021**	December 31, 2020
Assets	**728,417**	724,658
Liabilities	**461,068**	458,367
Net assets	**267,349**	266,291
Cost of NCI	**103,959**	103,959
Fair value of NCI	**89,457**	63,034

	For the three months ended		For the six months ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Rental revenue	**17,977**	18,097	**37,463**	37,389
Net (loss) income and comprehensive (loss) income	**(4,619)**	(60,790)	**(29,058)**	23,122
Cash flows from operating activities	**1,999**	2,952	**7,792**	6,405
Cash flows (used in) investing activities	**(987)**	(794)	**(1,166)**	(909)
Cash flows (used in) from financing activities, before distributions to REIT unitholders	**539**	1,221	**(3,052)**	(289)
Cash flows used in financing activities - cash distributions to REIT unitholders	**(1,362)**	(1,520)	**(2,666)**	(3,736)
Net increase in cash and cash equivalents	**189**	1,859	**908**	1,471

(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 and asset held for sale 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.

					June 30, 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**	**1,090,975**	**—**	**1,090,975**	**1,090,975**	1,081,077	1,081,077
Asset held for sale	**Level 3**	**7,312**	**—**	**7,312**	**7,312**	—	—
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	**Level 3**	**—**	**654,717**	**654,717**	**659,013**	654,200	656,510
Convertible debentures	**Level 2**	**—**	**64,983**	**64,983**	**63,385**	64,339	56,779
Derivative financial liability							
Interest rate swaps	**Level 3**	**342**	**—**	**342**	**342**	1,376	1,376
Conversion features on convertible debentures	**Level 3**	**6,259**	**—**	**6,259**	**6,259**	1,871	1,871
REIT units	**Level 1**	**89,457**	**—**	**89,457**	**89,457**	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.

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

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

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

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

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

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

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

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

Investment properties are valued by Melcor's internal valuation team each quarter, and supported by valuations completed by external valuation professionals. During the six months ended June 30, 2021, 7 investment properties (of 93 legal phases) with a fair value of $92,100 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 six months ended June 30, 2021, resulted in net fair value gains of $4,857 (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 June 30, 2021 is $1,473 (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)

	Investment Properties			**Properties under Development**		
June 30, 2021	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.25%**	**10.00%**	**6.83%**	**5.75%**	**6.25%**	**5.93%**
Terminal capitalization rate	**5.75%**	**9.00%**	**6.85%**	**6.00%**	**6.50%**	**6.18%**
Discount rate	**6.25%**	**9.75%**	**7.89%**	**7.00%**	**7.50%**	**7.27%**

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

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by $63,337 (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 $73,344 (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 features 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 June 30, 2021, the fair value of interest rate swap contracts was $342 (December 31, 2020 - $1,376).

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 June 30, 2021 the fair value of the conversion features on our convertible debenture was $6,259 (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 features 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 features 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 June 30, 2021 the fair value of the REIT units was $89,457, resulting in a fair value loss during the six months ended of $26,955 (Q2-2020 - gain of $58,020) in the statement of income and comprehensive income for the period ended ended June 30, 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 $775.

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 cash flow models created by management 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 $2,068 (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

Distributions on REIT trust units

On July 15, 2021 the REIT declared a distribution of $0.035 per unit for the month of July 2021. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
July 2021	July 30, 2021	August 16, 2021	$0.035 per unit

On July 27, 2021 the REIT declared a distribution of $0.04 per unit for the months of August and September 2021. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
August 2021	August 31, 2021	September 15, 2021	$0.04 per unit
September 2021	September 30, 2021	October 15, 2021	$0.04 per unit

Dividends declared

On August 5, 2021 our board of directors declared a dividend of $0.12 per share payable on September 30, 2021 to shareholders of record on September 15, 2021.

Asset Disposition

On July 30, 2021 the Company sold an investment property for gross proceeds of $7,312 (US$5,900). The price was settled in cash, excluding working capital adjustments.