



Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

Unaudited (\$'000s)	For the three months ended	
	March 31, 2020	March 31, 2019
Revenue (note 7)	33,767	34,884
Cost of sales	(16,545)	(16,075)
Gross profit	17,222	18,809
General and administrative expense	(4,963)	(5,671)
Fair value adjustment on investment properties (note 5 and 11)	(6,794)	(23)
Adjustments related to REIT units (note 10)	66,411	(3,807)
Operating earnings	71,876	9,308
Interest income	178	263
Finance costs	(5,106)	(6,971)
Net finance costs	(4,928)	(6,708)
Income before income taxes	66,948	2,600
Income tax expense	(308)	(1,010)
Net income for the period	66,640	1,590
Income per share:		
Basic earnings per share	2.00	0.05
Diluted earnings per share	2.00	0.05

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income (Loss)

Unaudited (\$'000s)	For the three months ended	
	March 31, 2020	March 31, 2019
Net income for the period	66,640	1,590
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences	14,550	(3,009)
Comprehensive income (loss)	81,190	(1,419)

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited (\$000s)	March 31, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents	26,396	36,980
Accounts receivable	9,306	9,783
Income taxes recoverable	9,500	7,058
Agreements receivable	69,437	76,406
Land inventory (note 4)	769,739	754,331
Investment properties (note 5 and 11)	1,154,616	1,141,591
Property and equipment	14,021	13,498
Other assets	54,768	56,400
	2,107,783	2,096,047
LIABILITIES		
Accounts payable and accrued liabilities	48,363	43,582
Income taxes payable	—	855
Provision for land development costs	53,319	56,183
General debt (note 6)	753,453	751,353
Deferred income tax liabilities	56,630	57,174
REIT units (note 10 and 11)	37,889	106,643
	949,654	1,015,790
SHAREHOLDERS' EQUITY		
Share capital (note 8)	72,511	72,556
Contributed surplus	4,329	4,083
Accumulated other comprehensive income (AOCI)	36,072	21,522
Retained earnings	1,045,217	982,096
	1,158,129	1,080,257
	2,107,783	2,096,047

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited (\$000's)	Equity attributable to Melcor's shareholders				Total equity
	Share capital	Contributed surplus	AOCI	Retained earnings	
Balance at January 1, 2020	72,556	4,083	21,522	982,096	1,080,257
Net income for the period	—	—	—	66,640	66,640
Cumulative translation adjustment	—	—	14,550	—	14,550
Transactions with equity holders					
Dividends	—	—	—	(3,321)	(3,321)
Share repurchase (note 8)	(53)	—	—	(198)	(251)
Employee share options					
Value of services recognized	—	254	—	—	254
Share issuance	8	(8)	—	—	—
Balance at March 31, 2020	72,511	4,329	36,072	1,045,217	1,158,129
Unaudited (\$000's)	Equity attributable to Melcor's shareholders				Total equity
	Share capital	Contributed surplus	AOCI	Retained earnings	
Balance at January 1, 2019	72,821	3,366	29,129	962,249	1,067,565
Net income for the period	—	—	—	1,590	1,590
Cumulative translation adjustment	—	—	(3,009)	—	(3,009)
Transactions with equity holders					
Dividends	—	—	—	(4,327)	(4,327)
Share repurchase	(141)	—	—	(686)	(827)
Employee share options					
Value of services recognized	—	177	—	—	177
Balance at March 31, 2019	72,680	3,543	26,120	958,826	1,061,169

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

Unaudited (\$000's)	For the three months ended	
	March 31, 2020	March 31, 2019
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the period	66,640	1,590
Non cash items:		
Amortization of tenant incentives	2,094	1,720
Depreciation of property and equipment	201	187
Stock based compensation expense	254	177
Non-cash finance costs	(771)	683
Straight-line rent adjustment	(354)	(705)
Fair value adjustment on investment properties (note 5 and 11)	6,794	23
Fair value adjustment on REIT units (note 10 and 11)	(68,627)	1,582
Deferred income taxes	(660)	(285)
	5,571	4,972
Agreements receivable	6,969	23,950
Development activities	(7,302)	5,425
Purchase of land inventory (note 4)	—	(8,496)
Payment of tenant lease incentives and direct leasing costs	(2,427)	(1,844)
Operating assets and liabilities	2,939	(20,797)
	5,750	3,210
INVESTING ACTIVITIES		
Additions to investment properties (note 5)	(8,176)	(5,529)
Net proceeds from disposal of investment properties (note 5)	257	314
Purchase of property and equipment	(724)	(81)
	(8,643)	(5,296)
FINANCING ACTIVITIES		
Revolving credit facilities	(649)	20,821
Proceeds from general debt	4,098	16,043
Repayment of general debt	(8,071)	(24,715)
Repurchase of REIT units	(128)	—
Dividends paid	(3,321)	(4,327)
Common shares repurchased (note 8)	(251)	(827)
	(8,322)	6,995
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	631	(78)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(10,584)	4,831
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	36,980	26,727
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	26,396	31,558
Total income taxes paid	3,553	3,320
Total interest paid	8,628	7,433

See accompanying notes to these condensed interim consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

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

Melcor Developments Ltd. ("Melcor" or "we") is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD". As at March 31, 2020 Melton Holdings Ltd. holds approximately 47.3% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at May 20, 2020, Melcor through an affiliate, holds an approximate 55.2% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

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

2. BASIS OF PRESENTATION

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

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 20, 2020.

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

SIGNIFICANT ACCOUNTING POLICIES AND NEW STANDARDS ADOPTED

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those of the previous financial year, except as described below.

We have adopted the following new IFRS standards effective January 1, 2020

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

Impact of Adoption

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

CRITICAL ACCOUNTING ESTIMATES

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus. These emergency measures have resulted in negative impacts to our economy, and Melcor recognizes that areas of significant estimates may be impacted by the uncertainty surrounding future economic activity

a) **Valuation of agreements receivable**

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

and such changes may be material. Please refer to note 12 for further information related to credit risk associated with agreements receivable.

b) Valuation of investment properties

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

Please refer to note 11 for further information about methods and assumptions used in determining fair value of investment properties.

4. LAND INVENTORY		
	March 31, 2020	December 31, 2019
Raw land held	405,464	399,456
Land under development	161,725	146,743
Developed land	202,550	208,132
	769,739	754,331

During the three month period ended March 31, 2020, there were no land purchases made.

During the comparative three month period ended March 31, 2019, we purchased 313 acres of land at a cost of \$15,808 and received vendor financing of \$7,312.

Land is recorded at the lower of cost and net realizable value. Due to the uncertainty of the economic environment as a result of COVID-19, the net realizable value of land could be subject to significant changes and such changes could be material. As at March 31, 2020 management does not consider there to be a negative impact on the current valuation of land, but will continue monitoring the net realizable value of land during these uncertain times.

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	March 31, 2020	December 31, 2019
Investment properties	1,067,583	1,063,026
Properties under development	87,033	78,565
Total	1,154,616	1,141,591

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

				Three months ended March 31, 2020
	Investment Properties	Properties under Development		Total
Balance - beginning of period	1,063,026	78,565		1,141,591
Additions				
Direct leasing costs	202	161		363
Property improvements	451	—		451
Development costs	—	7,610		7,610
Capitalized borrowing costs	—	115		115
Disposals	(257)	—		(257)
Fair value adjustment on investment properties	(7,376)	582		(6,794)
Foreign currency translation (included in OCI)	11,537	—		11,537
Balance - end of period	1,067,583	87,033		1,154,616

				Year ended December 31, 2019
	Investment Properties	Properties under Development		Total
Balance - beginning of year	965,339	67,348		1,032,687
Additions				
Direct acquisition	67,502	1,050		68,552
Transfer from land inventory	—	21,015		21,015
Direct leasing costs	1,138	648		1,786
Property improvements	3,550	—		3,550
Development costs	—	16,403		16,403
Capitalized borrowing costs	—	318		318
Disposals	(8,389)	—		(8,389)
Transfers	39,464	(39,464)		—
Fair value adjustment on investment properties	987	11,247		12,234
Foreign currency translation (included in OCI)	(6,565)	—		(6,565)
Balance - end of year	1,063,026	78,565		1,141,591

In accordance with our policy we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Due to the uncertainty of the economic environment as a result of COVID-19, fair value estimates could be subject to significant changes and such changes could be material. Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 11.

Acquisitions

During the three months ended March 31, 2020, there were no acquisitions made.

Disposals

On January 16, 2020, we disposed of one residential unit in Arizona for a sales price of \$257 (US\$191) (net of transaction costs). The sale price was settled through cash.

6. GENERAL DEBT

	March 31, 2020	December 31, 2019
Melcor - revolving credit facilities	67,989	70,451
REIT - revolving credit facility	24,677	22,864
Project specific financing	73,308	68,436
Secured vendor take back debt on land inventory	36,355	39,005
Debt on investment properties and golf course assets	487,709	484,413
REIT - convertible debentures	63,415	66,184
General debt	753,453	751,353

During the quarter, Melcor entered into mortgage amending agreements with various lenders in order to obtain temporary relief as a result of COVID-19. As of March 31, 2020, mortgage amending agreements entered into related to four mortgages with an outstanding principal balance of \$47,553. The terms of the agreements vary by lender and mortgage, providing Melcor with relief of scheduled principal and interest payments and repayable over the remaining term of the mortgage. No changes were made as to the maturity date, interest rate, amortization period or security provided. Melcor has accounted for these agreements as a debt modification.

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

	March 31, 2020	December 31, 2019
Balance - beginning of period	68,436	62,639
Cash movements		
Loan repayments	(1,156)	(4,058)
New project financing	4,098	10,801
Non-cash movements		
Foreign currency translation included in OCI	1,930	(946)
Balance - end of period	73,308	68,436

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

	March 31, 2020	December 31, 2019
Balance - beginning of period	39,005	40,842
Cash movements		
Principal repayments		
Scheduled amortization on debt	(2,641)	(17,660)
Non-cash movements		
New secured vendor take back debt	—	16,112
Amortization of non-cash interest	(9)	(289)
Balance - end of period	36,355	39,005

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

	March 31, 2020	December 31, 2019
Balance - beginning of period	484,413	454,342
Cash movements		
Principal repayments		
Scheduled amortization on debt	(4,274)	(15,178)
Mortgage repayments	—	(55,803)
New mortgages	—	103,753
Non-cash movements		
Deferred financing fees capitalized	—	(637)
Amortization of deferred financing fees	54	444
Change in derivative fair value swap	1,309	865
Foreign currency translation included in OCI	6,207	(3,373)
Balance - end of period	487,709	484,413

7. REVENUE

Total Revenues

<i>for the three months ended</i>	March 31, 2020	March 31, 2019
Revenue from contracts	11,556	14,178
Revenue from other sources	22,211	20,706
	33,767	34,884

Timing of contract revenue recognition

<i>for the three months ended</i>	March 31, 2020	March 31, 2019
At a point in time	6,645	8,981
Over time	4,911	5,197
	11,556	14,178

8. SHARE CAPITAL

Issued and outstanding common shares at March 31, 2020 are 33,201,677 (December 31, 2019 – 33,225,265). During the three months ended March 31, 2020, there were no options exercised (Q1-2019 – nil).

During the three months ended March 31, 2020 there were 24,200 common shares purchased for cancellation by Melcor pursuant to the Normal Course Issuer Bid (NCIB) at a cost of \$251 (December 31, 2019 - 121,252 common shares purchased at a cost of \$1,526). Share capital was reduced by \$53 and retained earnings reduced by \$198. The NCIB commenced March 31, 2019 and ended March 30, 2020. Refer to note 13 for information pertaining to the NCIB which commenced after the quarter end.

9. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues

For the three months ended

	March 31, 2020	March 31, 2019
United States	4,308	6,821
Canada	29,459	28,063
Total	33,767	34,884

Total Assets

As at

	March 31, 2020	December 31, 2019
United States	285,939	256,144
Canada	1,821,844	1,839,903
Total	2,107,783	2,096,047

9. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

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

For the three months ended March 31, 2019	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	10,547	24	9,687	17,944	142	—	38,344	(3,460)	34,884
Cost of sales	(5,995)	—	(3,962)	(7,400)	(502)	—	(17,859)	1,784	(16,075)
Gross profit	4,552	24	5,725	10,544	(360)	—	20,485	(1,676)	18,809
General and administrative expense	(2,154)	(633)	(615)	(721)	(387)	(1,766)	(6,276)	605	(5,671)
Fair value adjustment on investment properties	—	358	(2,611)	1,159	—	—	(1,094)	1,071	(23)
Interest income	171	7	5	28	—	52	263	—	263
Segment Earnings (Loss)	2,569	(244)	2,504	11,010	(747)	(1,714)	13,378	—	13,378
Finance costs									(6,971)
Adjustments related to REIT units									(3,807)
Income before tax									2,600
Income tax expense									(1,010)
Net income for the period									1,590

10. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 44.8% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at March 31, 2020 the REIT units had a fair value of \$37,889. We recorded adjustments related to REIT units for the three months ended March 31, 2020 of \$66,411 (Q1-2019 - \$3,807). Melcor notes that the economic uncertainty surrounding COVID-19 has created volatility in the equity markets which has significantly impacted the fair value of these units.

On April 1, 2019 the REIT commenced a normal course issuer bid ("REIT NCIB") which allows the REIT to purchase up to 659,339 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 2,908. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The REIT NCIB ended one year from commencement on March 31, 2020.

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

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

For the three months ended	March 31, 2020	March 31, 2019
Fair value adjustment on REIT units (note 11)	68,627	(1,582)
Distributions to REIT unitholders	(2,216)	(2,225)
Adjustments related to REIT units	66,411	(3,807)

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

As at	March 31, 2020	December 31, 2019
Assets	777,435	783,534
Liabilities	460,546	463,879
Net assets	316,889	319,655
Cost of NCI	103,959	103,959
Fair value of NCI	37,889	106,643

For the three months ended	March 31, 2020	March 31, 2019
Rental Revenue	19,292	17,944
Net income and comprehensive income	83,912	2,478
Cash flows from operating activities	3,453	2,751
Cash flows used in investing activities	(115)	(882)
Cash flows from (used in) financing activities, before distributions to REIT unitholders	(1,510)	322
Cash flows used in financing activities - cash distributions to REIT unitholders	(2,216)	(2,225)
Net decrease in cash and cash equivalents	(388)	(34)

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, accounts receivables, agreements receivable and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.
- fair values of general debt are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).
- fair value of derivative financial liabilities, which is the conversion feature on the REIT convertible debenture, and our floating for fixed interest rate swap, are estimated based upon unobservable inputs, including volatility and credit spread (Level 3).
- fair value of REIT units are estimated based on the closing trading price of the REIT's trust units and the fair value of the convertible debenture is estimated based on the closing trading price of the REIT's debenture (Level 1).

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

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

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

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

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

	March 31, 2020					December 31, 2019	
	Fair Value Hierarchy	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
Non-financial assets							
Investment properties	Level 3	1,154,616	—	1,154,616	1,154,616	1,141,591	1,141,591
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	Level 3	—	688,591	688,591	706,111	685,107	697,920
Convertible debentures	Level 2	—	63,406	63,406	35,675	63,104	67,990
Derivative financial liability							
Interest rate swaps	Level 3	1,447	—	1,447	1,447	62	62
Conversion feature on convertible debentures	Level 3	9	—	9	9	3,080	3,080
REIT units	Level 1	37,889	—	37,889	37,889	106,643	106,643

Investment properties

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

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

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 valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Investment properties were valued by Melcor's internal valuation team as at March 31, 2020 of which 4 investment properties (of 90 legal phases) with a fair value of \$55,050 were valued by qualified independent external valuation professionals during the period. Valuations performed during the period resulted in net fair value losses of \$6,794. As at December 31, 2019 Melcor's internal valuation team valued investment properties of which 44 investment properties (of 90 legal phases valued) with a fair value of \$593,212 were valued by qualified independent external valuation professionals during the year. Valuations performed during 2019 resulted in net fair value gains of \$12,234.

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

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

Weighted average annual stabilized net operating income for investment properties as at March 31, 2020 is \$1,629 (December 31, 2019 - \$1,647) per property. Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

March 31, 2020	Investment Properties			Properties under Development		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	10.50%	6.72%	5.50%	6.00%	5.78%
Terminal capitalization rate	5.75%	9.00%	6.82%	5.75%	6.25%	6.03%
Discount rate	6.25%	9.50%	7.67%	6.50%	7.00%	6.85%

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

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by \$64,151 (December 31, 2019 - \$63,850). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by \$74,460 (December 31, 2019 - \$74,077). Due to the uncertainty of the economic environment as a result of COVID-19, these estimates could be subject to significant changes and such changes could be material.

General debt, excluding derivative financial liabilities

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

The fair value of project specific financing, secured vendor take back debt on land inventory and debt on investment properties and golf course assets and convertible debenture have been calculated by discounting the expected cash flows of each loan using a discount rate specific to each individual loan. The discount rate is determined using the bond yield for similar instruments of similar maturity adjusted for each individual project's specific credit risk. In determining the adjustment for credit risk, we consider current market conditions and other indicators of credit worthiness. Due to the volatility resulting from uncertainty surrounding COVID-19, interest rates have declined significantly, which has had a negative impact on the fair value of our general debt. Melcor is expecting to continue experiencing significant volatility as the situation evolves.

Derivative financial liabilities

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

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at March 31, 2020, the fair value of interest rate swap contracts was \$1,447 (December 31, 2019 - \$62).

The significant unobservable inputs used in the fair value measurement of the conversion features on the REIT convertible debentures are volatility and credit spread. As at March 31, 2020 the fair value of the conversion feature on our convertible debenture was \$9 (December 31, 2019 - \$3,080)

Due to the volatility in the equity and debt markets resulting from uncertainty surrounding COVID-19, the REIT trust units and convertible debentures have been negatively impacted which has had a significant impact on the fair value of the conversion features on REIT convertible debentures. Melcor is expecting to continue to experience significant volatility as the situation evolves.

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At March 31, 2020 the fair value of the REIT units was \$37,889, resulting in a fair value gain during the three months ended of \$68,627 (Q1-2019 - loss of \$1,582) in the statement of income and comprehensive income for the period ended March 31, 2020 (note 10). Melcor notes that the economic uncertainty surrounding COVID-19 has created volatility in the equity markets which has significantly impacted the fair value of these units.

12. RISK MANAGEMENT

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

a. Credit Risk

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

Accounts receivables are significantly low risk due to their individual immaterial balances, the nature of the party they are due from (including joint venture participants under management by Melcor), and the overall lack of historical write offs. No lifetime expected losses are considered necessary.

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

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

b. Liquidity Risk

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

To mitigate the risk associated with the economic uncertainty caused by COVID-19, Melcor has entered into several amending agreements to obtain relief periods in which payments of interest and principal will be suspended temporarily.

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 \$2,307 (December 31, 2019 - \$2,273). Due to the volatility resulting from the uncertainty surrounding COVID-19, there is risk that these rates will fluctuate significantly. We are not subject to other significant market risks pertaining to our financial instruments.

13. EVENTS AFTER THE REPORTING PERIOD

Normal Course Issuer Bid

On April 1, 2020 Melcor commenced a normal course issuer bid ("NCIB") which allows us to purchase up to 1,661,033 shares for cancellation, representing approximately 5% of Melcor's issued and outstanding trust units. The shares may be repurchased up to a maximum daily limit of 1,000. The price which Melcor will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2021.

In accordance with temporary relief announced by the TSX on March 23, 2020, the number of shares that can be purchased pursuant to the NCIB is subject to a current daily maximum of 1,616 shares (which is equal to 50% of 3,233, being the average daily trading volume from September 2019 through to February 29, 2020). Following the expiry of such temporary relief on June 30, 2020 (or such later date as may be announced by the TSX), the number of Shares that can be purchased pursuant to the NCIB will be subject to a daily maximum of 1,000 shares (which is the greater of 25% of 3,233 or 1,000).

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

As of May 20, 2020, there were 35,020 common shares purchased for cancellation by Melcor pursuant to the NCIB at a cost of \$231.

REIT Normal Course Issuer Bid

On April 1, 2020 the REIT commenced a normal course issuer bid ("REIT NCIB") which allows the REIT to purchase up to 655,792 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,207. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The REIT NCIB ends one year from commencement on March 31, 2021.

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

As of May 20, 2020, there were 59,526 trust units purchased for cancellation by the REIT pursuant to the NCIB at a cost of \$209. Following the expiration of the blackout on May 15, 2020 the REIT suspended its purchases under the NCIB program in light of the continued market volatility and in an effort to conserve cash.

Distributions on REIT trust units

On May 14, 2020 the REIT declared a distribution of \$0.03 per unit for the month of May 2020. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
May 2020	May 29, 2020	June 15, 2020	\$0.03 per unit

Dividends declared

On May 20, 2020 our board of directors declared a dividend of \$0.08 per share payable on June 30, 2020 to shareholders of record on June 15, 2020.

Impact of COVID-19

Subsequent to the quarter, the continued government measures to combat the spread of COVID-19 have resulted in further impact. Events that have taken place subsequent to March 31, 2020 as a result of this pandemic are as follows:

Rental Revenue

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

Subsequent to the quarter, the government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses. The program will provide forgivable loans to qualifying commercial property owners to cover 50% of three monthly rent payments that are payable by eligible small business tenants, requiring the tenant to pay 25% and the landlord to forgive the remaining 25% of the lease payments. At this time it is too premature to determine with certainty how many of Melcor's tenants will qualify for this program.

Melcor remains committed to supporting its tenants through this period while ensuring we remain financially strong in order to navigate through this period of uncertainty.

REIT Units

Due to the volatility in the equity markets the REIT continues to experience significant fluctuations in the fair value of their units. As at May 20, 2020 the market value of these units was \$3.55. The REIT expects to continue to experience significant volatility as the situation evolves.

Mortgages & Vendor Take Back Loans Payable

Subsequent to March 31, 2020 and in connection with COVID-19, amending mortgage agreements have been entered into with various financial institutions related to Melcor's mortgages. These amendments have been entered into in order to provide Melcor with temporary relief periods related to the payment of principal and interest, or just interest, on these mortgages in an effort to conserve cash. These amendments will result in a period of time in which Melcor will not be required to make payments of interest or principal, but the term and interest rate related to the mortgage will not change. Accrued interest and principal payments during the relief period will be added proportionally to the remainder of the mortgage term which will not change.

Also subsequent to the quarter, Melcor entered into six vendor take back amending agreements with various lenders with a principal balance of \$18,394 in order to obtain temporary relief as a result of COVID-19. The terms of the agreements vary by lender and loan, providing Melcor with relief of scheduled principal and interest payments over the remaining term of the loan, or extending the term of the loan. No changes were made to interest rates or security provided.