

Management's Discussion & Analysis

August 11, 2020

The following discussion of Melcor Developments Ltd.'s (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, 2020 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2019.

The financial statements underlying this MD&A, including 2019 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including 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 11, 2020 on the recommendation of the Audit Committee.

Other Information

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

Non-standard Measures

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

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

Forward-looking Statements

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

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

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

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

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

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Our Business

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

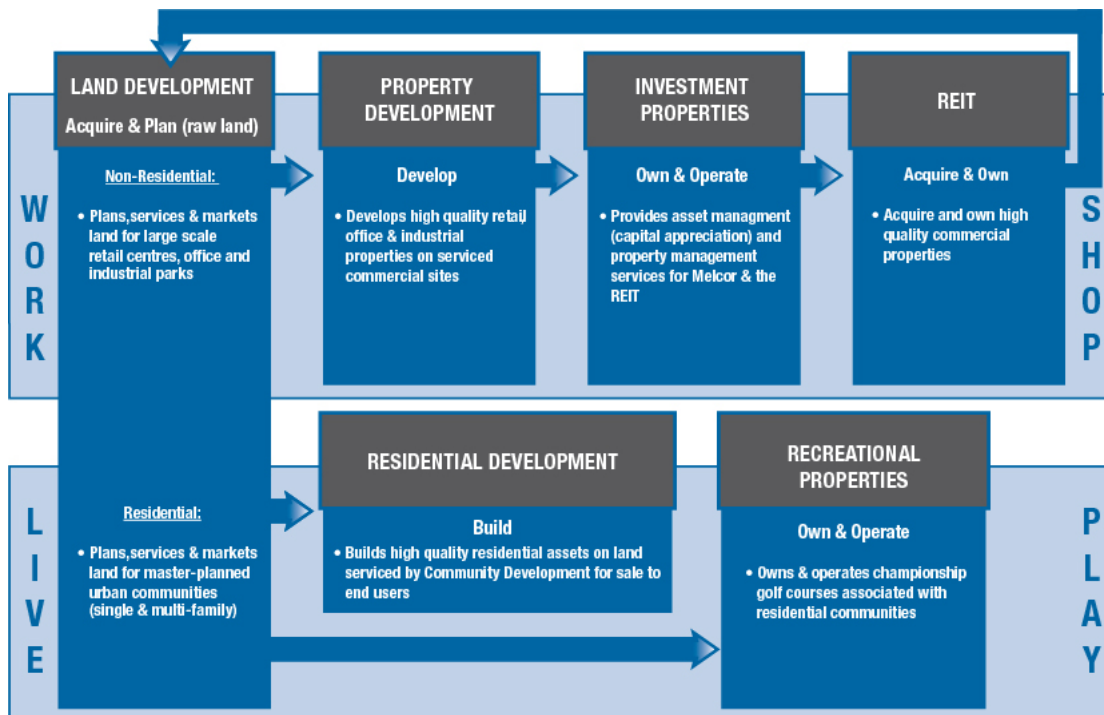
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

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

In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreational Properties. Melcor has \$2.03 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

In March 2020, the COVID-19 global pandemic arrived in western Canada. Since its arrival, federal and provincial governments responded rapidly to enact emergency measures to slow the spread of the virus and ensure that our medical system did not become overwhelmed. New measures were introduced on a weekly and often daily basis. Measures included travel bans, self-imposed quarantine periods, physical distancing, mandatory isolation for those exhibiting symptoms, restrictions on the size of gatherings, mandatory closure of all non-essential businesses including personal services, schools and daycares, and restaurants and food services reduced to pick-up/take-out only. Many of these measures have now been relaxed; however, they continue to impact the economy and caused a material disruption for many businesses. The Canadian government reacted with interventions intended to stabilize the economy and support both businesses and employees who are affected by temporary furlough or lay-offs. While Canada is now in the midst of relaunching, the long-term impact of COVID-19 related economic stressors remains to be seen.

Melcor responded quickly to the situation and implemented a variety of measures to provide safe and clean work environments and keep our employees, contractors, clients, tenants and visitors to our properties safe while doing our part to slow the spread. These measures included:

- Adhering to Alberta Health Services guidelines as a baseline for all business units. In many cases, our precautions exceed recommended actions.
- Increasing the cleaning of high-touch surfaces and providing health and safety best practice education and additional hand sanitation stations in our properties.
- Canceling all business travel and requiring a 2-week self-isolation policy for employees returning from travel.
- Closing our offices to guests. All staff who are able to work from home are doing so.
- Canceling or delaying all community, showhome and tenant events.
- Promoting virtual tours of new showhomes.
- Moving to an online only format for our Annual General Meeting.
- Delaying the opening of our golf courses to establish appropriate protocols.

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

Operations Update

Both Melcor and the REIT implemented measures since March to conserve cash and place our business in a position where we are able to support our builders, suppliers and tenants through these unprecedented times. These measures include:

- Reducing Melcor's March dividend to \$0.10 per share and the June and September dividends to \$0.08 per share.
- Reducing REIT distributions to \$0.03 per trust unit for April through August.
- Deferring discretionary capital spending planned for 2020 in an effort to improve near term liquidity and reduce non-essential activities at our properties. Strategic value-adding asset enhancement and preservation projects remains a cornerstone of our long-term strategy to improve our assets and retain and attract tenants. In the current environment we remain focused on our long-term objectives while balancing near-term needs in establishing our priorities to endure this pandemic.
- Deferring sales tax, property tax and utility payments where available.
- Working with lenders to defer mortgage payments where available.
- We also reduced board remuneration, implemented wage roll-backs for executive officers, furloughed approximately 25% of full-time staff and reduced remuneration for all remaining staff from April 1st to July 31st. The majority of furloughed staff returned to work on July 1st, in some cases as part of a work share program. Eight employees were permanently laid off and the board and senior management remain on reduced remuneration.

These cash conservation measures were enacted to enable Melcor to work with our builders to extend payment terms and allow Melcor and the REIT to work with our tenants to defer lease payments where appropriate, depending on the financial need and potential for access to government relief programs.

We are all in this together. We see ourselves as partners with our builders and tenants and our main objective is to help each other survive and thrive when the COVID-19 impact on the economy levels out.

We continue to monitor relief programs that may apply to Melcor and/or the REIT and to monitor our cash position to ensure we are able to support our builders and tenants while also taking care of our ongoing financial obligations.

To date, we have been pleasantly surprised by the seeming effect of COVID-19 on various parts of our business. New home sales, while slow through April, picked up significantly in May and June, and our golf courses have been quite busy since their delayed opening. New home sales in Harmony (Denver, CO) remained steady throughout the quarter. In spite of this success, we anticipate that the economic impact of COVID-19 may have a negative impact on our future cash flow and net operating income.

Collections Update

Due to non-essential business closure orders issued by local governments, some of our retail tenants were closed for two months starting mid-March. Most were allowed to re-open mid May; however, many retailers are taking a very cautious approach to reopening, including delaying their opening to ensure they can comply with new recommendations and procedures to protect the health and safety of their customers and staff.

The following table outlines the our rent collections in April, May, June, July and August by asset class.

<i>Collections by Asset Class (% of Total Rent)</i>					
	April 2020	May 2020	June 2020	July 2020	August 2020
Retail	78 %	73 %	69 %	86 %	78 %
Office	91 %	91 %	91 %	91 %	84 %
Industrial	100 %	96 %	94 %	93 %	92 %
Residential	99 %	99 %	99 %	100 %	97 %
Total	87 %	84 %	82 %	90 %	83 %

The federal government, in partnership with the provinces and territories, announced the creation of the Canada Emergency Commercial Rent Assistance (CECRA) program for small businesses that qualify for the months of April, May, June, July and August 2020. Over 97% of retail tenants surveyed in late April and early May let us know that they intend to apply for the CECRA program, provided they qualify. As the deadline to apply for the CECRA program for small businesses who qualify and wish to access funding for April, May and June is August 31, 2020; and those who wish to access funding for July can apply to do so in September, we cannot yet determine the overall impact this program will have on the REIT. To date, we have received requests to apply for the CECRA program from approximately 10% of tenants representing 8% of total Canadian GLA. We cannot yet determine how many of these applications will be successful. We believe, based on existing information, that our net exposure to CECRA claims for the Q2 period is approximately \$0.65 million.

Valuation Update

Due to the rapidly evolving and widespread impacts of the pandemic, our total Canadian portfolio was revalued by our external valuation professionals in Q2-2020, resulting in a fair value loss of \$68.68, or 6% of our portfolio value. Losses were due to declining stabilized NOI and projected cash flows as well as a 25-50 bps increase in capitalization rates and discount rates.

Second Quarter Highlights

(\$000s except as noted)		Three months ended			Six months ended	
	30-June-20	30-June-19	Change	30-June-20	30-June-19	Change
Revenue	39,053	41,085	(4.9)%	72,820	75,969	(4.1)%
Gross margin (%) *	49.5 %	53.6 %	(7.6)%	50.2 %	53.8 %	(6.7)%
Net income (loss)	(62,590)	3,137	(2,095.2)%	4,050	4,727	(14.3)%
Net margin (%) *	(160.3)%	7.6 %	(2,209.2)%	5.6 %	6.2 %	(9.7)%
Funds from operations *	9,276	7,975	16.3 %	15,201	13,652	11.3 %
Per Share Data (\$)						
Basic earnings (loss)	(1.88)	0.09	(2,188.9)%	0.12	0.14	(14.3)%
Diluted earnings (loss)	(1.88)	0.09	(2,188.9)%	0.12	0.14	(14.3)%
Funds from operations *	0.28	0.24	16.7 %	0.46	0.41	12.2 %
As at (\$000s except as noted)				30-June-20	31-Dec-19	Change
Shareholders' equity				1,086,281	1,080,257	0.6 %
Total assets				2,034,787	2,096,047	(2.9)%
Per Share Data (\$)						
Book value *				32.76	32.51	0.8 %

*See non-standard measures for calculation.

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

Revenue in Q2-2020 was down 5% over Q2-2019 and 4% year to date. The significant contributor to this decrease in revenue was commercial, industrial and raw land sales in 2019, where none have been recorded to date in 2020. Land sales, which can have a significant impact on quarterly results, are uneven by nature and it is difficult to predict when they will close. Overall, Community Development revenue was down 54% in the quarter and 48% year to date.

COVID-19 delayed the typical spring selling season, resulting in fewer single-family lot sales in Canada through the first half of the year compared to 2019. In addition, the price per lot sold was impacted by both the prevalence of sales in joint venture communities along with the focus on smaller product type to meet new home buyer market trends. This decrease in Canadian sales was offset by 33 single-family lot sales in the US during Q2-2020 as we sold most of the remaining lots in the first phase of Harmony, contributing \$4.94 million (\$US3.62 million) in revenue.

Our income producing divisions (Investment Properties and REIT) continue to grow, with an 8% increase in GLA under management contributing to second quarter revenue growth of 2% over Q2-2019 and 3% year to date, which helped to partially offset the decline in Community Development revenue. Third-party acquisitions and transfers from our Property Development division over the past 18 months contributed to the growth in GLA. US Community Development revenue will continue to be uneven as the development model differs from our Canadian markets. Production builders bulk buy lots from Melcor to then finish, build homes and sell to homeowners. Strong sales to homeowners continued in the US through the second quarter, resulting in continued demand for additional lots in the second phase of our Harmony community in Denver, which is now under development.

Our strategy of geographic and product mix diversification over the past few years continues to positively impact our financial results and serve as a partial offset to the impact of softer residential markets in Alberta.

Our Community Development and Property Development divisions are actively engaged in a small number of projects during the 2020 construction season, including two brand new communities that are adjacent to successful communities that are close-to or fully built out and the continued build out of neighbourhood shopping centres adjacent to some of our most popular communities.

The community phases under development are comprised of predominantly smaller, more affordable product types such as laned homes, duplex, townhomes and multi-family sites as there has been demand from builders for these products.

FINANCIAL HIGHLIGHTS

- Revenue was down 4% year to date and 5% in the quarter as a result of the timing of raw, multi-family and commercial land sales, which tend to fluctuate quarter to quarter. Land sales made up over 50% of community development revenue in 2019 versus zero land sales to date in 2020. Although the number of single-family lots sold in the current period were comparable to 2019, year to date revenues from these sales increased from \$15.09 million in 2019 to \$17.06 million in 2020 as a result of sales of higher-priced products such as, lake-view estate lots in Kelowna, BC.

- Funds from operations (FFO) increased 11% year to date and 16% in the quarter. FFO increased as a result of our continued focus on reducing general and administrative expenses, which were down 21% in the quarter and 16% year to date.
- Net income for the six-months ended June 30, 2020 was positively impacted by the non-cash fair value gains on REIT units of \$58.02 million due to the drastic swing in the REIT unit price from December 31, 2019 at \$8.12 per unit down to \$3.70 per unit on June 30, 2020 as worldwide equity markets experienced significant volatility due to COVID-19. This non-cash increase to net income was offset by non-cash fair value losses on investment properties of \$68.68 million. Both these gains and losses are driven by market forces outside of Melcor's control and are a key reason we focus on FFO as a better measure of our financial performance.

DIVISIONAL OPERATING HIGHLIGHTS

- All Community Development regions continue to focus on moving existing inventory and are deploying strategies and marketing programs to this effect. These efforts, combined with very cautious new development, have resulted in a 23% reduction to single-family lot inventory since June 30, 2019.
 - We began marketing the initial phase of North Clifton Estates in Kelowna, BC in Q1-2020. This highly anticipated development is a high-end Okanagan lake view community just 20 minutes from downtown Kelowna. Interest in the project has been strong through Q2-2020, with 11 of the 44 lots in Phase 1 sold.
 - Showhomes in our new community of Lanark Landing, adjacent to King's Heights in Airdrie, AB, opened during the quarter with laned single-family, duplex and townhome product available in Phase 1A. Interest in the project has been strong and we are beginning Phase 1B of the community.
 - Showhomes in our new community of Rosewood, adjacent to Rosenthal in Edmonton, AB, are nearing completion and will be opening in Q3-2020.
 - Interest in Harmony in Aurora, CO remained strong throughout the quarter with a total of 33 lots sold as of June 30, 2020. The STEM-focused neighbourhood school, Harmony Ridge, is set to open for the 2020-21 school year and the community centre with pool was completed in June 2020; however, it remains closed due to COVID-19. Phase 2 of the community is under development.
- Our Property Development team has a total of 115,244 sf currently under construction in five projects. A further 52,548 sf is complete and awaiting lease-up and/or transfer in two projects. Our Property Development division currently only operates in Alberta.
- As a result of the uncertainty surrounding the fair value of many of our investment properties, management engaged our independent external valuation professionals to perform assessments of Canadian properties in our income generating divisions. This resulted in a net fair value loss of \$61.89 million in the quarter and \$68.68 million year to date.
- Total GLA under management has increased 8% via acquisitions and transfers from Property Development since June 30, 2019. Revenue in our income-producing divisions (Investment Properties and REIT) was up 2% over Q2-2019 and 3% over the same period last year. These divisions continue to yield stable results and have achieved consistent occupancy and base rents despite challenging market conditions. See the COVID-19 section for rent collection information.
- Our golf courses (Recreational Properties) opened May 1 in BC and May 7 in Alberta. These openings are later than the weather would have otherwise allowed as a result of COVID-19. In response to regulations put in place by health officials, services provided at the golf courses were limited in scope in early May. Clubhouses are now open and following all guidelines for safe physical distancing of patrons.

RETURNING VALUE

- We continue to return value to our shareholders and unit holders:
 - We paid a quarterly dividend of \$0.08 per share on June 30, 2020. This is a reduction from the \$0.10 per share dividend paid during the first quarter in order to conserve cash as a response to COVID-19.
 - On August 11, 2020 we declared a quarterly dividend of \$0.08 per share, payable on September 30, 2020 to shareholders of record on September 15, 2020. The dividend is an eligible dividend for Canadian tax purposes.
 - The REIT paid distributions of \$0.03 per unit in April, May and June for a quarterly payout ratio of 55%. Distributions made subsequent to June 2020 remained at \$0.03 per unit to conserve cash in response to COVID-19.

REVENUE & MARGINS

Revenue was down 5% to \$39.05 million compared to revenue of \$41.09 million at Q2-2019. Year to date, revenue was down 4% to \$72.82 million over the prior year. Community Development revenue was down by 54% to \$10.95 million over Q2-2019 and down 48% to \$17.72 million year to date due to the timing of land sales. Year to date revenue from the sale of single-family lots in Canada was down 20% to \$12.12 million compared to \$15.09 million in 2019. The sale of 33 single-family lots in the US resulted in revenue of \$4.94 million (\$US3.62 million) in the quarter. No land sales have been recorded in 2020, whereas we sold 24.99 acres of raw and commercial land for \$17.71 million in the first half of 2019. Community Development division revenue is highly dependent on the demand for new homes in the regions where we hold land as well as the timing of single-family lot registrations, and by the timing of raw, commercial and multi-family land sales.

Gross margin decreased 8% compared to Q2-2019 and by 7% year to date as a result of margin compression in our Community Development division. Gross margins in Community Development can fluctuate based on the mix of product type sold in any period. Our income-generating divisions continue to yield strong margins. Through third party acquisitions and transfers from Property Development, these divisions continue to grow which helps stabilize company wide gross margins. In Q2-2020, Investment Properties and the REIT accounted for 67% of total revenues compared with 50% in Q2-2019. Q2-2020 revenue from our income-generating divisions was \$27.78 million at 61% gross margin compared to \$27.18 million at 59% in Q2-2019 and \$56.72 million at 60% gross margin year to date compared to \$54.81 million at 59% in 2019.

Net income and net margin are both 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 income can fluctuate significantly from quarter to quarter due to the timing of plan registrations, the cyclical nature of real estate and construction markets, the mix of lot sales and product types, and the mix of joint operation sales activity. The growth of our income-generating divisions offsets this cyclicity 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 income to FFO:

(\$000s)	Three months ended		Six months ended	
	30-June-20	30-June-19	30-June-20	30-June-19
Net income (loss) for the period	(62,590)	3,137	4,050	4,727
Amortization of operating lease incentives	1,951	1,038	4,045	2,758
Fair value adjustment on investment properties	61,889	1,918	68,683	1,941
Depreciation on property and equipment	468	441	669	628
Stock based compensation expense	182	182	436	359
Non-cash finance costs	1,794	679	1,023	1,362
Gain on sale of asset	(36)	(22)	(36)	(22)
Deferred income taxes	(4,989)	(321)	(5,649)	(606)
Fair value adjustment on REIT units	10,607	923	(58,020)	2,505
FFO	9,276	7,975	15,201	13,652
FFO per share	0.28	0.24	0.46	0.41

FFO increased by \$1.55 million or 11% year to date and by \$1.30 million or 16% over Q2-2019 in spite of the decline in gross profit in both the three and six-month period. Disciplined focus on reducing G&A expenses resulted in a 21% reduction in the quarter and 16% year to date, resulting in the FFO increase. G&A impacts the beginning net income for the period number, while the fair value adjustments that created the negative net income get adjusted out in the reconciliation to FFO. Year to date finance costs adjusted for non-cash items were down 5% compared to the prior period which also contributed to the increase in FFO.

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

The following tables 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)	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue	10,949	23,797	105	12	9,687	9,709	18,097	17,474	2,604	3,860
Portion of total revenue	26 %	43 %	— %	— %	23 %	18 %	44 %	32 %	6 %	7 %
Cost of sales	(8,360)	(17,766)	—	—	(3,760)	(4,035)	(7,008)	(7,046)	(1,338)	(2,129)
Gross margin	2,589	6,031	105	12	5,927	5,674	11,089	10,428	1,266	1,731
Gross margin %	24 %	25 %	100 %	100 %	61 %	58 %	61 %	60 %	49 %	45 %
Portion of total margin	12 %	25 %	1 %	— %	28 %	24 %	53 %	44 %	6 %	7 %
General and administrative expense	(1,320)	(1,866)	(402)	(571)	(725)	(505)	(726)	(743)	(624)	(803)
Fair value adjustment on investment properties	—	—	26	252	(11,642)	(1,369)	(51,109)	(1,879)	—	—
Gain on sale of assets	—	—	—	—	—	—	—	—	36	22
Interest income	122	285	1	7	2	12	20	33	—	—
Segment Earnings (Loss)	1,391	4,450	(270)	(300)	(6,438)	3,812	(40,726)	7,839	678	950

	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)	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue	17,717	34,344	198	36	19,330	19,396	37,389	35,418	2,760	4,002
Portion of total revenue	23 %	37 %	— %	— %	25 %	21 %	48 %	38 %	4 %	4 %
Cost of sales	(13,062)	(23,761)	—	—	(7,642)	(7,997)	(15,152)	(14,446)	(1,850)	(2,631)
Gross profit	4,655	10,583	198	36	11,688	11,399	22,237	20,972	910	1,371
Gross margin %	26 %	31 %	100 %	100 %	60 %	59 %	59 %	59 %	33 %	34 %
Portion of total profit	12 %	26 %	— %	— %	29 %	28 %	56 %	51 %	2 %	3 %
General and administrative expense	(3,025)	(4,020)	(930)	(1,204)	(1,307)	(1,120)	(1,530)	(1,464)	(965)	(1,190)
Fair value adjustment on investment properties	—	—	608	610	(13,607)	(3,980)	(57,296)	(720)	—	—
Gain on sale of assets	—	—	—	—	—	—	—	—	36	22
Interest income	239	456	13	14	17	17	47	61	—	—
Segment Earnings (Loss)	1,869	7,019	(111)	(544)	(3,209)	6,316	(36,542)	18,849	(19)	203

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, who in turn develops commercial properties on the land.

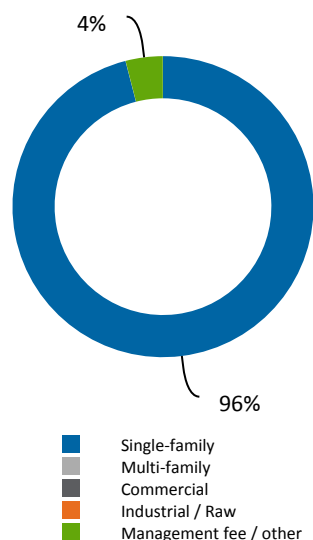
Master-planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and multi-family 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.

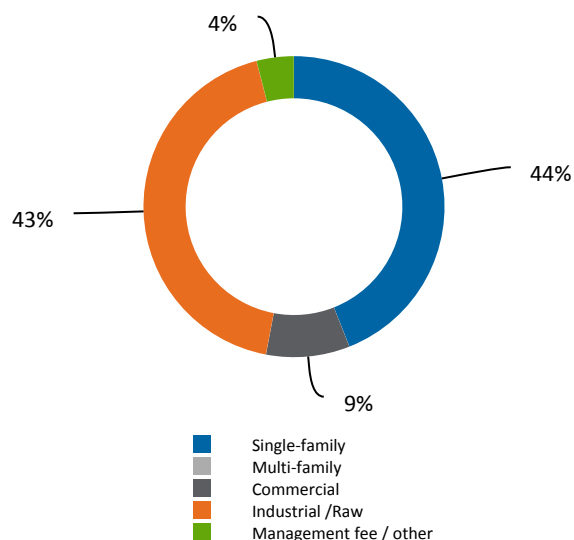
Sales Activity

REVENUE BY TYPE

Six months ended June 30, 2020



Six months ended June 30, 2019



Revenue and income can fluctuate significantly from period to period due to the timing of plan registrations, the cyclical nature of real estate markets and the mix of land sold.

Consolidated	Three months ended		Six months ended	
	30-June-20	30-June-19	30-June-20	30-June-19
Canada Sales data: (including joint ventures at 100%)				
Single family sales (number of lots)	50	106	106	135
Gross average revenue per single-family lot (\$)	119,800	149,100	153,000	157,700
Commercial sales (acres)	—	1.97	—	3.42
Gross average revenue per commercial land acre (\$)	—	776,700	—	871,000
Industrial sales (acres)	—	0.99	—	0.99
Gross average revenue per industrial land acre (\$)	—	338,300	—	338,300
Other land sales - raw, other (acres)	—	14.55	—	18.60
Gross average revenue per other land acre (\$)	—	721,700	—	763,000
US Sales data: (including joint ventures at 100%)				
Single family sales (number of lots)	33	—	33	—
Gross average revenue per single-family lot (\$)	149,800	—	149,800	—
Other land sales - raw, other (acres)	—	—	—	1.98
Gross average revenue per other land acre (\$)	—	—	—	1,029,000
Divisional results: (including joint ventures at Melcor's interest)				
Revenue (\$000s)	10,949	23,797	17,717	34,344
Earnings (\$000s)	1,391	4,450	1,869	7,019

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

The COVID-19 pandemic impacted the new home market by delaying the typical spring selling season by several months in Canada, both by lengthening the time to construct homes due to precautions taken to stop the spread and by the move to virtual showhome tours for much of the quarter. Combined with the absence of land sales, the community development division's gross margin was reduced to 26% year to date compared to 31% in 2019. We continue to focus on reducing inventory levels, with the 106 lots sold in Canada coming from existing inventory.

The average selling price on single-family lots in Canada decreased 20% over Q2-2020 and 3% year to date as a result of the combination of product type and region sold. Q2-2020 single-family lot sales covered a broad spectrum of price points, from lower-priced townhomes and duplexes to higher-priced lake-view estate lots. The majority of these sales occurred in joint arrangement projects where Melcor does not retain 100% of the revenue which also impacts the average selling price.

2019 revenue included 24.99 acres of raw land and commercial land sales, which generated revenue of \$17.71 million. No comparable sales were made in 2020.

Phase 1 of our Harmony project in Aurora, CO remains popular with homeowners. A fourth builder joined our builder group and picked up 33 lots in the quarter for revenue of \$4.94 million. We have begun developing Phase 2 of this community to keep up with sales velocity and currently have 180 lots under contract.

Due to the larger phase sizes (~300 lots/phase vs. less than 100 lots/phase in Canada) and bulk buying by production builders, US sales will remain uneven.

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 (including joint ventures at 100%)	Three months ended			Three months ended		
	30-June-20			30-June-19		
	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	35	—	—	73	—	15.54
Red Deer	2	—	—	5	—	—
Calgary Region	1	—	—	18	—	1.97
Lethbridge	8	—	—	10	—	—
Kelowna	4	—	—	—	—	4.05
United States	33	—	—	—	—	1.98
	83	—	—	106	—	23.54

Regional Sales Analysis (including joint ventures at 100%)	Six months ended			Six months ended		
	June 30, 2020			June 30, 2019		
	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	71	—	—	95	—	15.54
Red Deer	10	—	—	8	—	—
Calgary Region	3	—	—	21	—	3.42
Lethbridge	10	—	—	11	—	—
Kelowna	12	—	—	—	—	4.05
United States	33	—	—	—	—	1.98
	139	—	—	135	—	24.99

Single-family lot sales may vary significantly quarter over quarter as plan registrations typically occur in the third and fourth quarters.

Edmonton continues to be one of our strongest markets for single-family lot sales despite the decrease over Q2-2019. Kelowna launched a new community, North Clifton Estates, which accounts for 11 of the lot sales above.

Inventory

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

Developed Inventory (including joint ventures at 100%)	Six months ended			Six months ended		
	30-June-20			30-June-19		
	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	1,023	59.00	126.09	1,248	59.00	130.44
Purchases	—	—	—	—	—	—
New developments	—	—	—	28	—	—
Internal sales	—	—	—	—	—	(1.97)
Sales	(139)	—	—	(135)	—	(2.44)
	884	59.00	126.09	1,141	59.00	126.03

Our primary market has traditionally been Alberta. Market conditions remain uncertain throughout the province in light of COVID-19 and depressed oil prices, so we remain cautious about developing new phases and continue to commit resources outside of Alberta to diversify our land holdings portfolio. As a result of this caution, and with active marketing programs aimed at reducing inventory, we decreased single-family lot inventory by 23% compared to June 30, 2019 and by 14% since year end.

Raw land inventory

To support future growth, we acquire land in strategic growth corridors and maintain an inventory of land for future development in our primary markets. During the quarter, no new land was purchased and no land has been purchased year to date as we continue to conserve cash.

We did not acquire any land in Q2-2019. In Q1-2019, we purchased:

- 80.00 acres in the Edmonton region for \$2.45 million
- 160.00 acres in Lethbridge for \$9.75 million, and
- 72.57 acres in the US for \$3.61 million (US\$2.70 million).

We are well placed to respond to stronger market conditions when they return and continue to focus on working through existing inventory held by Melcor and by our builders through active marketing programs.

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, Loblaw's, McDonald's, Recipe, 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-June-20	30-June-19	30-June-20	30-June-19
Total revenue	105	12	198	36
Revenue from property transfers	—	—	—	—
3rd Party property sales	—	—	—	—
Management fees revenue	105	12	198	36
Margin (%) on property transfers	— %	— %	— %	— %
Square footage transferred (sf, at 100%)	—	—	—	—
Number of buildings transferred	—	—	—	—
Fair value gains on investment properties	26	252	608	610

We continue to actively develop new phases and CRUs in existing neighbourhood shopping centres and our mixed-use business park in Calgary, AB and recorded fair value gains of \$0.03 million during the quarter and \$0.61 million year to date on our development at The District (Calgary). Management has examined each project on a case by case basis and we continue to develop where we remain confident in our lessees prospects. We have paused development on a few projects where the risk profile increased significantly due to COVID-19.

The Property Development division currently has 167,792 sf under active development or completed and awaiting lease-up.

Regional Highlights

(\$000s and at JV%, except as noted)		Three months ended		Six months ended	
Fair value adjustments by region		30-June-20	30-June-19	30-June-20	30-June-19
Northern Alberta		—	1	—	77
Southern Alberta		26	251	608	533
		26	252	608	610

Northern Alberta: No fair value gains were recorded in the quarter. We are continuing to actively develop in this region with efforts focused on leasing up vacant bays and preparing sites for transfer to Investment Properties. Lease-up of the Shoppes of Jagare Ridge, which has two buildings near completion, continues and the buildings are expected to transfer to Investment Properties later this year.

Southern Alberta: Year to date fair value gains of \$0.61 million relate to our properties under development. A veterinary clinic in The District is near completion and we expect to transfer this property to Investment Properties this year.

Future development opportunities

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

The following tables illustrate our current and future project expectations:

Current Projects					
Project	Location	Type	Total SF *	Developed and transferred to IP or Sold	SF Under Development or developed and awaiting lease up
The Village at Blackmud Creek	South Edmonton	Regional business park	725,000	113,900	—
Telford Industrial	Leduc	Industrial Park	500,000	143,100	—
West Henday Promenade	West Edmonton	Regional mixed use centre	665,000	116,300	—
Kingsview Market	Airdrie	Regional shopping centre	331,000	181,900	18,471
Kingsview Commercial	Airdrie	Regional shopping centre	33,500	—	33,500
Chestermere Station	Chestermere	Neighbourhood shopping centre	278,100	241,600	—
Clearview Market 2	Red Deer	Neighbourhood shopping centre	80,000	—	10,665
The District at North Deerfoot	North Calgary	Regional business / industrial park	1,585,000	535,290	50,525
Campsite Industrial	Spruce Grove	Industrial Park	170,000	13,700	—
The Shoppes at Jagare Ridge	South Edmonton	Neighbourhood shopping centre	105,000	27,900	34,077
Jensen Lakes Crossing	St. Albert	Neighbourhood shopping centre	150,000	85,920	9,771
Woodbend Market	Leduc	Neighbourhood shopping centre	140,000	3,000	10,783

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

The Property Development team commenced construction on 2 CRUs during the quarter in Edmonton and Leduc. We have a total of 115,244 sf currently under construction and a further 52,548 sf complete and awaiting lease-up and/or transfer.

Expected Future Projects					
Project	Location	Type	Total SF *	Ownership Interest	Expected Start (year)
Greenwich	West Calgary	Regional mixed use centre	325,000	100 %	2020
Vista Ridge	Sylvan Lake	Neighbourhood shopping centre	15,000	50 %	2021
Laredo	Red Deer	Neighbourhood shopping centre	10,000	100 %	2022
Secord	Edmonton	Neighbourhood shopping centre	75,000	60 %	2022
Mattson	Edmonton	Neighbourhood shopping centre	75,000	50 %	2022
Rollyview	Leduc	Neighbourhood shopping centre	75,000	100 %	2022
Keystone Common	North Calgary	Regional power centre	70,000	100 %	2022+
The Shoppes at Canyons	Lethbridge	Neighbourhood shopping centre	105,000	100 %	2022+
West Pointe Marketplace	Lethbridge	Regional power centre	750,000	100 %	2023+
Westview Commercial	West Calgary	Neighbourhood shopping centre	150,000	100 %	2023+
Sora	South Calgary	Neighbourhood shopping centre	60,000	50 %	2023+

* Size represents the estimated total square footage projected for full build-out. This includes sites that may be individually sold to retailers or end-users. Developed to date includes buildings built by third parties.

Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality office, retail, industrial and residential properties, which are located across western Canada and the US, including the properties owned by the REIT. Currently our Investment Properties division manages 4,524,236 sf of income-producing commercial GLA and 607 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 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-June-20	30-June-19	30-June-20	30-June-19
Commercial properties GLA under management (sf, total)	4,524,236	4,204,300	4,524,236	4,204,300
Properties owned and managed (sf)	931,064	897,778	931,064	897,778
Properties managed (sf)	3,593,172	3,306,522	3,593,172	3,306,522
Revenue (total)	9,687	9,709	19,330	19,396
Canadian properties	3,572	3,131	7,292	6,510
US properties	4,451	4,778	8,705	9,539
Management fees	1,510	1,466	2,909	2,706
Parking lots and other assets	154	334	424	641
Net operating income (NOI) *	6,272	5,745	12,418	11,273
Funds from operations *	5,660	5,743	11,291	11,166
Funds from operations per share *	0.17	0.17	0.34	0.34

* See non-standard measures for definition and calculation.

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

Canadian properties

Our Canadian property portfolio continues to grow as properties are developed and transferred from our Property Development division and third-party acquisitions are made. The Property Development division has 167,792 sf of GLA under active construction or completed and awaiting lease up. The majority of transfers to Investment Properties typically occur in the latter part of the year due to construction timing; no transfers were made in the first half of the year. Over the past eighteen months, Property Development has transferred eight buildings representing 99,794 sf (at 100%). Revenue generated on assets acquired from Property Development, as well as those currently under development and held through the first half of the year, was \$2.04 million (2019 - \$0.98 million).

Occupancy on Canadian properties was 87% at June 30, 2020, stable over Q1-2020 and up 3% over year end. Commercial weighted average base rents (WABR) was steady over the comparative period at \$30.01.

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-June-20	30-June-19	30-June-20	30-June-19
Same asset NOI*	1,853	2,096	3,881	4,107
Properties transferred from PD	602	318	1,212	513
NOI*	2,455	2,414	5,093	4,620
Amortization of operating lease incentives	(136)	(301)	(285)	(372)
Straight-line rent adjustment	77	108	49	296
Gross profit	2,396	2,221	4,857	4,544

* See non-standard measures for definition.

Gross profit was up \$0.18 million or 8% over Q2-2019 and \$0.31 million or 7% year to date, while NOI was up \$0.04 million or 2% over Q2-2019 and \$0.47 million or 10% year to date. Properties transferred from the Property Development division over the past 12 months, as well as those currently under development added \$0.60 million in NOI in the second quarter of 2020 (Q2-2019 - \$0.32 million). On a same asset basis, NOI was down 12% or \$0.24 million over Q2-2019 and down 6% or \$0.23 million year to date due to \$0.20 million expected credit loss provision related to doubtful tenant receivables (2019 - \$0.06 million). The decrease in gross profit was due to lower same asset NOI and straight-line rent adjustments and partially offset by lower amortization of operating lease incentives, which can fluctuate based on the timing of lease rollovers and leasing incentives.

US properties

Revenue on US properties was \$4.45 million compared to \$4.78 million in Q2-2019 and \$8.71 million compared with \$9.54 million in 2019. In Q4-2019 we disposed of a 63,112 sf office property (Centennial Airport Plaza) which contributed \$0.48 million in 2019 revenue (2020 - \$nil). During the first half of the year, we also disposed of one residential unit in Arizona for a sales price of \$0.26 million (US\$0.19 million) (net of transaction costs). The sale price was settled through cash.

Stable leasing across the portfolio resulted in consistent occupancy of 88% compared to Q2-2019 and year end.

Weighted average rental rate (WABR) for Q2-2020 was \$21.07 per sf compared to \$19.47 in Q2-2019 and \$19.64 at year end. WABR on our US commercial properties increased modestly in 2020 due to the sale of Centennial Airport Plaza which had a lower than average WABR. Residential occupancy was stable at 99%.

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-June-20	30-June-19	30-June-20	30-June-19
Same asset NOI *	1,762	1,453	3,456	2,993
Third party disposals	—	102	(2)	216
NOI	1,762	1,555	3,454	3,209
Foreign currency translation	680	525	1,263	1,082
Amortization of operating lease incentives	(319)	(262)	(608)	(499)
Straight-line rent adjustment	91	383	115	700
Gross profit	2,214	2,201	4,224	4,492

* See non-standard measures for definition.

Gross profit was up \$0.01 million or 1% over Q2-2019, and NOI was up \$0.21 million or 13%. Gross profit was up due to lower operating costs on account of the COVID-19 pandemic and reduced activity levels at many of our properties where we have deferred and suspended where appropriate operating expenses. Same asset NOI was up \$0.31 million or 21% over Q2-2019 due to lower operating costs.

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 8% over 2019 due to the growth of the REIT portfolio and new leasing coming online in one of our joint venture assets.

Funds from Operations

Funds from operations (FFO) decreased 1% or \$0.08 million over Q2-2019 as a result of increased G&A costs during the quarter. Year to date FFO increased 1% or \$0.13 million over 2019 as a result of lower operating costs incurred over 2019.

REIT

The REIT owned 39 income-producing office, retail and industrial properties, comprising 3,208,277 square feet of gross leasable area (GLA) at June 30, 2020. The REIT's portfolio has a diversified tenant profile - with a mix of national, regional and local tenants - operating in a variety of industries.

As at August 11, 2020 we have a controlling 55.3% interest in the REIT through ownership of all Class B LP Units (June 30, 2020 - 55.2%, December 31, 2019 - 55.1%). As we have concluded that Melcor retains control of the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities.

Operating results

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

(\$000s except as noted)	Three months ended		Six months ended	
	30-June-20	30-June-19	30-June-20	30-June-19
Gross leasable area (GLA) (sf)	3,208,277	2,869,743	3,208,277	2,869,743
Occupancy % (weighted by GLA)	88.0 %	90.3 %	88.0 %	89.3 %
Fair value of portfolio	720,255	706,775	720,255	706,775
Rental revenue	18,097	17,474	37,389	35,418
Net operating income (NOI) *	11,739	11,382	23,703	22,394
Same asset NOI * (see calculation following)	10,527	11,229	21,198	22,241
Fair value adjustment on investment properties	(51,109)	(1,879)	(57,296)	(720)
Funds from operations *	11,293	10,756	22,731	21,372
Funds from operations per share *	0.34	0.32	0.68	0.64

* See non-standard measures for definition and calculation.

Rental revenue for the three and six-month period ended June 30, 2020 increased \$0.62 million or 4% over Q2-2019 and \$1.97 million or 6% year to date as a result of properties acquired within the past twelve months: Melcor Crossing (Nov-2019) contributing rental revenue of \$1.66 million in the second quarter and \$3.51 million year to date (2019 - \$nil). Revenues from new property

acquisitions were partially offset by a decline in same-asset revenues primarily the result of reduced recovery revenue on account of lower direct operating costs.

Year to date, we signed 207,052 sf of new and renewed leasing (including holdovers) and maintained steady occupancy at 88%, compared with 88% at year end. In 2020, 104 leases representing 332,622 sf or 10% of our portfolio are up for renewal. We have retained 79% of expiring leases (representing 150,513 sf) as at June 30, 2020 in spite of challenging market conditions in many of our operating regions.

Weighted average base rent was \$16.68, down \$0.11 compared to December 31, 2019 and down \$0.15 over Q2-2019. Occupancy has remained stable over year end.

Direct operating expenses were up 5% year to date largely due to acquisitions made in the past twelve months. On a same-asset basis, direct operating expenses were down 4% in 2020.

Property taxes and utilities were down 5% in the quarter, with same-assets down 11%. Property taxes declined across the portfolio as a result of lower valuations and were down over Q1-2020 due to the cancellation and reduction of mill rate increases planned in many municipalities. Utilities were down over Q1-2020 and 2019 due to reduced consumption, a direct result of many of our tenants not operating in their space during the quarter. Year to date taxes property taxes and utilities increased 3%, with same-asset down 5%

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

(\$000s except as noted)	Three months ended		Six months ended	
	30-June-20	30-June-19	30-June-20	30-June-19
Same asset NOI *	10,527	11,229	21,198	22,241
Acquisitions	1,212	153	2,505	153
NOI before adjustments	11,739	11,382	23,703	22,394
Amortization of operating lease incentives	(910)	(1,038)	(1,977)	(1,803)
Straight-line rent adjustment	260	84	511	381
Net rental income	11,089	10,428	22,237	20,972

* 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 was up 3% over Q2-2019 and 6% year-to-date due to properties acquired in the last fifteen months. Same-asset NOI was down 6% over Q2-2019 and 5% year-to-date due to lower occupancy on certain properties and higher provision for expected credit losses. Second quarter same-asset NOI was stable over Q2-2019.

Funds from operations

FFO was up 6% in the first quarter at \$11.29 million. Growth in the REIT portfolio over the last twelve months led to higher NOI, net rental income, and FFO. This increase was slightly offset by a decrease in straight-line rent adjustments and increase in amortization of operating lease incentives which fluctuate due to the timing of signed leases and timing tenant incentives.

Recreational Properties

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

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

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

The Recreational Properties division earned revenue of \$2.60 million in the quarter \$2.76 million year to date, a decrease of 33% in the quarter and over 31% year to date. In response to the COVID-19 pandemic, our golf courses were closed for the early part of the 2020 golf season which falls in the second quarter.

Our Black Mountain course opened on May 1, 2020, in accordance with BC Health regulations, and the Edmonton and Spruce Grove courses under management opened on May 7, 2020. Health regulations limit contact allowed and thus our clubhouses, including food and beverage operations and the pro shops, are operating at lower capacity in order to protect all patrons. We expect to see a decline in revenue in 2020 as a result of these restrictions; however, 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 2020	Rounds of Golf	Season opened 2019	Rounds of Golf
<i>Managed by Melcor:</i>					
Lewis Estates (Edmonton)	60%	May 7	9,824	April 12	10,150
The Links (Spruce Grove)	100%	May 7	9,360	April 13	10,118
Black Mountain (Kelowna)	100%	May 1	10,356	April 3	13,562
<i>Managed by a Third Party:</i>					
Jagare Ridge (Edmonton)	50%	May 5	8,676	April 19	9,415

General and Administrative Expense

General and administrative expenses (G&A) were down 21% over Q2-2019 and down 16% year to date as a result of decreased activity in our Community Development division, wage roll-backs for executive officers, reduced remuneration for remaining staff, COVID related layoffs and careful monitoring of expenses. Corporate G&A has decreased by 22% over Q2-2019 and 12% year to date as management has continued to prudently manage controllable expenses as well as make adjustments in light of COVID-19. Community Development year to date G&A has decreased 25% or \$1.00 million over 2019, primarily due to decreased activity within Canada and the timing of activity in the US.

Income Tax Expense

The statutory tax rate is 25% for the three and six months ended June 30, 2020 (2019 - 27%). The most significant adjustment impacting the 2020 effective tax rate was the fair value adjustment on REIT units, which are 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, 2020, compared with December 31, 2019.

<i>As at (\$000s except as noted)</i>	30-June-20	31-Dec-19
Cash & cash equivalents	29,154	36,980
Restricted cash	6,514	—
Accounts receivable	10,533	9,783
Agreements receivable	57,472	76,406
Revolving credit facilities	85,129	93,315
Accounts payable and accrued liabilities	47,560	43,582
Total assets	2,034,787	2,096,047
Total liabilities	948,506	1,015,790
Debt to equity ratio*	0.87	0.94

*See non-standard measures for definition.

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

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

We are able to meet our capital needs through a number of sources, including cash generated from operations, long and short-term borrowings from our syndicated credit facility, mortgage financings, convertible debentures, and the issuance of common shares or

trust units. Our primary use of capital includes paying operating expenses, sustaining capital requirements on land and property development projects, completing real estate acquisitions, debt principal and interest payments, paying distributions on the REIT units and paying dividends when declared by our board of directors.

We believe that internally generated cash flows, supplemented by borrowings through our credit facility and mortgage financings, where required, will be sufficient to cover our normal operating and capital expenditures. We regularly review our credit facility limits and manage our capital requirements accordingly.

Melcor implemented a number of measures since March to conserve cash and place our business in a position where we are able to support our builders, suppliers and tenants through COVID-19. These measures include:

- Reducing Melcor's March dividend to \$0.10 per share and the June dividend to \$0.08 per share.
- Deferring discretionary capital spending planned for 2020 to improve near term liquidity and reduce non-essential activities at our properties. We remain committed to strategic value-adding asset enhancement and preservation projects as a integral component of our strategy to improve our assets and retain and attract tenants.
- Deferring sales tax, property tax and utility payments where available.
- Working with lenders to defer mortgage payments where available.
- We also reduced board remuneration, implemented wage roll-backs for executive officers, furloughed approximately 25% of full-time staff and reduced remuneration for all remaining staff from April 1st to July 31st. The majority of furloughed staff returned to work on July 1st, in some cases as part of a work share program. Eight employees were permanently laid off and senior management remains on reduced remuneration.

These cash conservation measures were enacted to enable Melcor to work with our builders to extend payment terms and allow Melcor and the REIT to work with our tenants to defer lease payments where appropriate, depending on the financial need and potential for access to government relief programs.

We 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

As at June 30, 2020, our total general debt outstanding was \$748.53 million compared to \$751.35 million on December 31, 2019.

A summary of our debt is as follows:

As at (\$000s)	30-June-20	31-Dec-19
Melcor - revolving credit facilities	58,198	70,451
REIT - revolving credit facility	26,931	22,864
Project specific financing	79,239	68,436
Secured vendor take back debt on land inventory	35,793	39,005
Debt on investment properties and golf course assets	483,888	484,413
REIT - convertible debentures	64,476	66,184
General debt	748,525	751,353

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, 2020 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, 2020 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-June-20	30-June-19	30-June-20	30-June-19
Cash flow from operating activities	14,607	(3,882)	20,357	(672)
Cash flow used in investing activities	(5,435)	(17,448)	(14,078)	(22,744)
Cash flow from (used in) financing activities	(6,197)	19,120	(14,519)	26,115

During Q2-2020, cash flow from operating activities was \$14.61 million, an increase of \$18.49 million over Q2-2019. Collections on agreements receivable during the quarter were down slightly at \$11.97 million compared to \$12.25 million in Q2-2019. The decrease in collections on agreements receivable was offset by a decrease in cash spent on land development activities at \$6.83 million in the quarter compared to \$17.12 million in Q2-2019. Operating assets and liabilities tend to fluctuate quarter over quarter depending on the timing of payments due and receivables, which resulted in cash inflows of \$8.34 million in Q2-2020 compared to cash outflows of \$3.84 million in Q2-2019.

Cash flow used in investing activities was \$5.44 million in Q2-2020 compared with \$17.45 million during Q2-2019. We continue to develop commercial properties and invest in our portfolio. Cash flow used in the purchase of investment properties in Q2-2019 was \$12.48 million, no such purchases were made during Q2-2020.

Cash flow used in financing activities were \$6.20 million during the quarter compared to cash flow from financing activities of \$19.12 million in Q2-2019, a change of \$25.32 million. Draws on the credit facility were \$23.17 million in Q2-2019 compared with repayments of \$7.54 million in Q1-2020. Net proceeds on our general debt in the second quarter of 2020 were \$4.52 million compared with \$0.43 million in Q2-2019. Proceeds from general debt in the current quarter of \$8.77 million relate to current project financing agreements in place at the start of the period with the exception of one mortgage loan which resulted in proceeds of \$0.44 million.

In the quarter, we paid a \$0.08 per share dividend for a total of \$5.98 million paid year to date. This compares to Q2-2019 payments of \$0.13 per share for a total of \$8.65 million.

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, 2020 there were 33,155,561 common shares issued and outstanding, 976,933 options, and 135,418 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, 2020 in comparison to the December 31, 2019 annual MD&A, except as noted below. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

Business Environment & Risks

Pandemics, Natural Disasters or Other Unanticipated Events

The occurrence of pandemics, natural disasters, or other unanticipated events, in any of the areas where we or our partners and suppliers operate could disrupt operations. In addition, pandemics, natural disasters or other unanticipated events could have a material adverse effect on our business, financial condition, results of operations and cash flows. The outbreak of the novel strain of the coronavirus (COVID-19) has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. Future outbreaks of viruses or other contagions, epidemic or pandemic diseases including a potential second wave outbreak of COVID-19 may lead to prolonged voluntary or mandatory building and/or business closures, restrictions on travel and gatherings, quarantines, self-isolation and physical distancing. The impact of these measures may cause a general shutdown of economic activity

and disrupt workforce and business operations in the regions where we operate. An occurrence such as this, including the COVID-19 pandemic, could have material adverse effects and increased risk, including but not limited to:

- negative impact to market demand and pricing for new homes
- negative impact to builder partners and their ability to make payment commitments
- negative impact on pricing and availability of Canadian debt and equity capital markets
- material reduction in rental revenue and related collections due to financial hardship and government ordered closures of certain business
- reduced demand for commercial real estate leading to a material increase in vacancy and decline in revenue along with a significant slow down in new commercial development
- trading price volatility for Melcor's securities
- negative impact to real estate valuations from declining revenue and lack of market activity
- uncertainty regarding delivering services due to illness, Melcor or government imposed isolation programs, restrictions on the movement of personnel, closures and supply chain disruptions
- impact of additional legislation, regulation, fiscal and monetary policies and other government interventions

This is not an exhaustive list of all risk factors.

To mitigate these risks, we have a comprehensive health and safety program and have expanded it to include pandemics. We have introduced new policies and practices, internally, in our communities, and at the properties that we build and manage to reduce the spread of COVID-19 through:

- education
- plentiful access to hand sanitizer
- more frequent cleaning schedules emphasizing disinfection of high-touch surfaces multiple times per day
- emphasis on virtual showhome tours and private appointments
- new protocols to limit physical contact in our golf course operations.

We are currently reviewing additional measures and will continue to transparently communicate with our staff, tenants and stakeholders.

Normal Course Issuer Bid

On March 31, 2020 we announced an NCIB commencing April 1, 2020 and ending March 31, 2021. Under the bid, we may acquire up to 1,661,033 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 1,000 common shares. 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). As of August 11, 2020, 46,116 shares were repurchased for cancellation under this NCIB, for a total of 70,316 shares purchased in 2020 under NCIB agreements.

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

On March 31, 2020, the REIT also announced an NCIB commencing April 1, 2020 and ending March 31, 2021. Under the bid the REIT may purchase up to 655,792 trust units for cancellation (approximately 5% of the REIT's issued and outstanding trust units) with daily repurchase restriction of 3,207. As of August 11, 2020, 59,526 units were repurchased for cancellation under this NCIB. Following the expiration of the blackout on May 15, 2020 the REIT suspended its purchases under the NCIB program and cancelled its automatic share purchase plan agreement in light of the continued market volatility and in an effort to conserve cash.

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.

(\$000s)	Three Months Ended							
	30-June-20	31-Mar-20	31-Dec-19	30-Sept-19	30-June-19	31-Mar-19	31-Dec-18	30-Sept-18
Revenue	39,053	33,767	78,056	53,946	41,085	34,884	119,982	60,245
Net income (loss)	(62,590)	66,640	16,946	16,068	3,137	1,590	36,526	11,469
FFO	9,276	5,925	13,917	10,696	7,975	5,677	30,671	12,841
<i>Per Share</i>								
Basic earnings	(1.88)	2.00	0.51	0.48	0.09	0.05	1.09	0.34
Diluted earnings	(1.88)	2.00	0.51	0.48	0.09	0.05	1.09	0.34
FFO	0.28	0.18	0.42	0.32	0.24	0.17	0.92	0.38
FFO Diluted	0.28	0.18	0.42	0.32	0.21	0.17	0.92	0.35
Book value *	32.76	34.88	32.51	32.20	31.76	31.88	30.21	30.78

* 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, 2020 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. 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, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Segment Earnings	(6,438)	3,812	(3,209)	6,316
Fair value adjustment on investment properties	11,642	1,369	13,607	3,980
General and administrative expenses	725	505	1,307	1,120
Interest income	(2)	(12)	(17)	(17)
Amortization of operating lease incentives	456	562	893	870
Straight-line rent adjustment	(111)	(491)	(163)	(996)
Divisional NOI	6,272	5,745	12,418	11,273

REIT

(\$000s)	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Segment Earnings	(40,726)	7,839	(36,542)	18,849
Fair value adjustment on investment properties	51,109	1,879	57,296	720
General and administrative expenses	726	743	1,530	1,464
Interest income	(20)	(33)	(47)	(61)
Amortization of operating lease incentives	910	1,038	1,977	1,803
Straight-line rent adjustment	(260)	(84)	(511)	(381)
Divisional NOI	11,739	11,382	23,703	22,394

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 ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Net income (loss) for the period	(62,590)	3,137	4,050	4,727
Amortization of operating lease incentives	1,951	1,038	4,045	2,758
Fair value adjustment on investment properties	61,889	1,918	68,683	1,941
Depreciation on property and equipment	468	441	669	628
Stock based compensation expense	182	182	436	359
Non-cash finance costs	1,794	679	1,023	1,362
Gain on sale of asset	(36)	(22)	(36)	(22)
Deferred income taxes	(4,989)	(321)	(5,649)	(606)
Fair value adjustment on REIT units	10,607	923	(58,020)	2,505
FFO	9,276	7,975	15,201	13,652

Investment Properties

(\$000s)	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Segment Earnings	(6,438)	3,812	(3,209)	6,316
Fair value adjustment on investment properties	11,642	1,369	13,607	3,980
Amortization of operating lease incentives	456	562	893	870
Divisional FFO	5,660	5,743	11,291	11,166

REIT

(\$000s)	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Segment Earnings	(40,726)	7,839	(36,542)	18,849
Fair value adjustment on investment properties	51,109	1,879	57,296	720
Amortization of operating lease incentives	910	1,038	1,977	1,803
Divisional FFO	11,293	10,756	22,731	21,372

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