



MELCOR

LIVE. WORK. SHOP. PLAY.

2 0 1 9
A N N U A L
R E P O R T

Since 1923, our focus has been the business of real estate. While the specifics of our business have changed over the years to reflect the times, real estate is fundamental to who we are.

Today, we are a diversified real estate development and asset management company. We transform raw land into high-quality residential, commercial and mixed-use real estate.

We develop and manage master-planned residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. Melcor owns a diversified portfolio of assets in Alberta, Saskatchewan, British Columbia, Arizona and Colorado.

With over 140 communities and commercial projects developed across western Canada since the 1950s and over 2.5 million square feet in commercial projects built, we have helped to shape much of Alberta's landscape. We have 10,600 acres of raw land for future development and manage 4.59 million square feet in commercial real estate assets and 608 residential rental units in the United States and Canada.

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

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

2019 Financial Highlights

| (\$000s except as noted) | 2019 | 2018 | Change |
|--|-----------|-----------|----------|
| Revenue | 207,971 | 267,434 | (22.2)% |
| Fair value adjustment on investment properties | 12,234 | 863 | 1,317.6% |
| Net income | 37,741 | 64,273 | (41.3)% |
| Funds from operations * | 38,265 | 56,127 | (31.8)% |
| Shareholders' equity | 1,080,257 | 1,067,565 | 1.2% |
| Total assets | 2,096,047 | 2,023,076 | 3.6% |

| Per Share Data | 2019 | 2018 | Change |
|-------------------------|------------|------------|---------|
| Basic earnings | 1.13 | 1.92 | (41.1)% |
| Funds from operations * | 1.13 | 1.68 | (32.7)% |
| Book value * | 32.51 | 32.01 | 1.6% |
| Average Share Price | 12.81 | 14.41 | (11.1)% |
| Dividends Paid | 0.50 | 0.52 | (3.8)% |
| Shares Outstanding | 33,225,265 | 33,346,495 | (0.4)% |

*See non-standard measures for definitions and calculations.

What's Inside

- 1 Key Metrics
- 2 Letter from the Chairman
- 4 Letter from the President & CEO
- 8 Corporate Governance
- 10 Environment, Social Responsibility & Governance
- 12 5 Year Results
- 13 Corporate Information



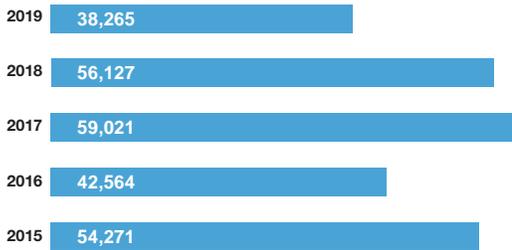
Revenue



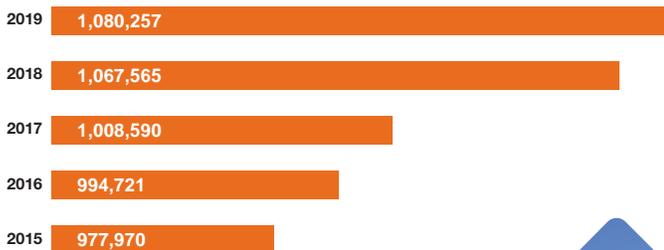
Assets



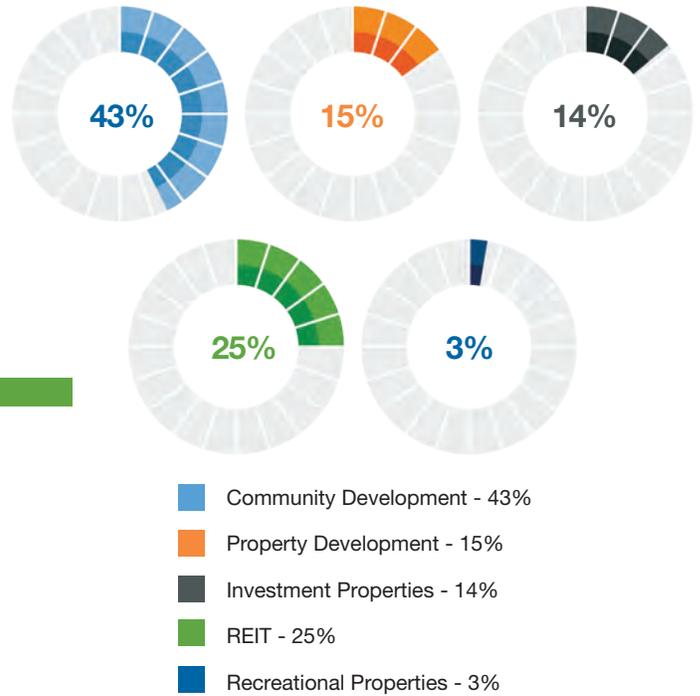
Funds from Operations



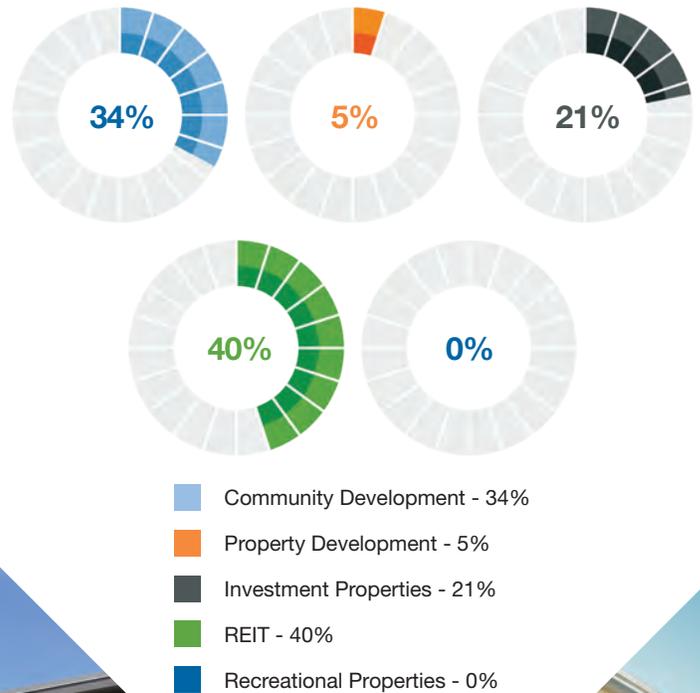
Shareholders' Equity



REVENUE MIX BY DIVISION



EARNINGS MIX BY DIVISION





Letter from the Chairman

Timothy Melton

Financial Highlights

Melcor's results in 2019 were acceptable, especially considering the prolonged downturn in the Alberta economy. Company 2019 revenues were \$208 million; a decline of 22% from \$267 million in 2018. Net income for the year declined by 41% to \$38 million versus \$64 million in 2018. Shareholder equity increased slightly to \$1,080 million as at December 31, 2019.

Company Operations

Company results from its western Canadian operations continue to show weakness. Low energy prices, pipeline access to markets, reduced capital investment in the energy sector, restrictive and onerous federal government regulations and obtaining approval for major natural resource projects in Canada are all contributing factors.

Fortunately, Melcor's strategic decision to diversify geographically and expand its U.S. operations has proven successful. Real estate acquisitions made in Arizona and Colorado have been profitable and are partially offsetting the slowdown in Canadian operations.

Giving Back

Contributing to the broader community by volunteering time and providing financial assistance to improve quality of life for all is an important part of who we are as a Company. Our charitable giving focuses on organizations that support and enrich the communities where we operate. Throughout 2019, we supported organizations focused on family and children, healthcare and wellness, science, arts and culture and also secondary education through bursaries, scholarships and endowments. We were proud to participate in the United Way Capital Region campaign for the 50th consecutive year in 2019.

Unfortunately going forward, with declining revenue and income, all company expenses must be rationalized and charitable giving will be affected.



Shareholder Commitment

The Board remains focused on protecting shareholder investment. In 2019, Melcor's quarterly dividends were \$0.13 for the first two quarters and then reduced to \$0.12 per quarter for the last two quarters. Total dividends for the year were \$0.50. Subsequent to year end, Melcor declared a quarterly dividend of \$0.10 per share payable March 31, 2020. The company remains committed to payment of dividends to shareholders commensurate with maintaining adequate financial resources for operations in these turbulent economic times.

Outlook

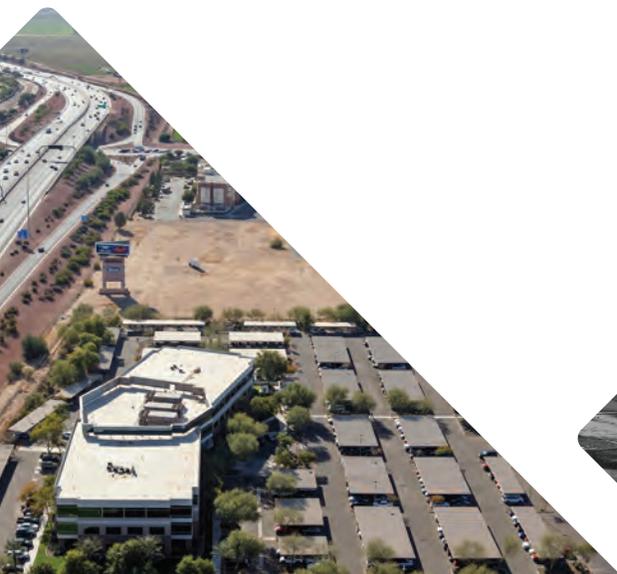
Making forecasts at any time is a precarious endeavor; especially at the time of writing this report. Previously mentioned factors together with the shock of oil price collapse, unprecedented monetary initiatives, cutting interest rates and the magnitude of the societal and economic impact of Coronavirus are negatively affecting all markets and the economy. Throughout my 50-year career there has never been such a convergence of factors that have affected the economy, our business and consumer confidence in general. The extent and duration of this problematic and unsettling set of circumstances remain to be seen. Although the economy is currently facing huge challenges, and the future is uncertain, we remind shareholders that the company has a long-term, proven record of adapting to market conditions and delivering relatively favourable results. We appreciate the Alberta government for all of its efforts in bolstering our energy sector and attempts to restore fiscal prudence.

Coronavirus (COVID-19)

The Melcor senior management team is constantly monitoring this issue as it unfolds and will respond as necessary with company employees and affected stakeholders.

Appreciation

On behalf of the Board and all shareholders, our thanks to Melcor's excellent team for continuing to deliver satisfactory results while adapting to the changing conditions and business environment. I would also like to thank our Board of Directors for their guidance and counsel, our customers and suppliers, and our shareholders for your ongoing support and confidence. In particular, I thank Eric Newell who is not seeking re-election at our AGM after six years of service.





Letter from the President & CEO

Darin Rayburn
April 28, 2020

On behalf of the Melcor team and our Board of Directors, it is my privilege to report on our 2019 results. Our annual report typically explains the results of the past year and provides insight into where we are going in the current year. We usually celebrate the past and look forward to the upcoming year. However, as we submit this year's annual Letter to Shareholders, with the current global COVID-19 pandemic and OPEC+ price war, 2019 feels like a long time ago. These unprecedented events have produced a double-whammy for Alberta, with sub \$10/barrel for West Canadian Select (WCS) oil and the forced shutdown of many retail service industry operations to stop the spread of COVID-19. Both events led to significant reductions in consumer spending and labour, with both temporary and permanent layoffs. This continues to unfold before our eyes without any indication of when we will see the other side of the pandemic or the oil price war.

Before we look at our present situation, I would like to take a brief moment to reflect on 2019.

The economic environment in Alberta remained challenging throughout the year. With continued uncertainty surrounding employment coupled with ongoing debate over pipelines and unstable oil prices, the residential housing market remained soft and contributed to the decline in revenue compared to 2018. We continue to focus on the right product type in the right areas in our community development division. We developed 57% fewer lots than in 2018, our second year of decline as we seek to maintain appropriate inventory levels. We continue to work through strategic marketing programs to reduce both our inventory and our builders' spec inventory. We sold 72 lots in our new community outside of Denver, CO. Sales velocity has been very positive in this new community and we have begun development of the second phase to meet builder demand for lots.

Our property development division remained active in 2019, with 99,794 square feet in new development transferred to investment properties. An additional 47,688 square feet is completed and awaiting lease up, while a further 96,797 square feet is under active construction. All of this will eventually be added to our income producing asset portfolio, which in turn becomes potential acquisition targets for the REIT under its right of first offer. These new developments will contribute to further revenue diversification in the future. In 2019 the REIT completed third party acquisitions of over 339,000 square feet of gross leasable area in 2 retail properties and for the first time, retail comprises



38% of the combined commercial portfolio. Melcor divested an office property in the US as part of our capital recycling strategy. At year end, we owned and managed 4.59 million square feet, a growth of 11% over 2018.

Our diversification strategies continue to offset the soft residential market in Alberta & BC. The growth in income-producing properties contributed 8% growth in consolidated revenue and also served to stabilize gross margins. Our geographic diversification strategy, which includes both investment properties and residential development in the US, made up 14% of total revenue in 2019.

That was then. And this is now.

At the same time as COVID-19 continued its rapid spread around the globe and arrived in Alberta, Saudi Arabia initiated a price war with Russia triggering a staggering fall in the price of oil. The price gap between WTI and WCS widened. WCS is currently hovering around five dollars and oil prices are at their lowest level since 1999.

We are navigating an unprecedented global challenge that has significantly negatively impacted and may continue to impact our existing and potential clients and our tenants, particularly if health and government authorities implement further restrictions and shutdowns. While the recently announced government programs are designed to support businesses in financial stress, it is too early to determine how and when these programs will take effect.

We have moved from a reactionary position due to the speed at which the economy shut down and now find ourselves responding to needs and focusing on intentional actions to manage through this crisis.

On March 11, we announced results and a 17% reduction in our dividend to \$0.10 per unit. On March 20, the REIT announced that its April distribution, payable May 15, would be cut by 47% down to \$0.03 to preserve cash to be better positioned to support tenants who require rent relief to survive the crisis.

On March 25, we announced further measures which included reduced remuneration for the Board of Directors, wage roll-back for named executive officers and management committee members, and temporary furlough of approximately 25% of full time staff and reduced remuneration for all remaining staff. We also deferred all capital spending and anticipated delayed openings of our golf courses. We have been working with all clients and stakeholders on a case by case basis. We are all in this together.

These unprecedented times call for measured and intentional action. Melcor moved quickly in our response to COVID-19, both in steps taken to stop the



spread, and in actions to preserve cash. These steps, although some of them have been very difficult, were necessary to position the company to weather the COVID-19 storm and resulting economic impact to our businesses and to those of our clients and stakeholders.

Our team is our work family and we significantly value each of our colleagues and so the decisions impacting our staff were the hardest to make.

Managing cash flow while also keeping a safe environment for our staff, clients, tenants and stakeholders during the COVID-19 crisis is our priority. To support this effort, we announced that our annual general meeting would be delayed until June 25th and that it would be an online meeting only. Shareholders will be required to vote in advance to have their vote counted. We thank you for your cooperation and assistance in keeping everyone safe and healthy.

We are continuing to monitor the situation and respond accordingly. We will continue to keep all stakeholders informed and appreciate your ongoing support.

2020 OUTLOOK

Obviously the economic environment in 2020 will remain challenging in ways we haven't seen in the past. Here is the current state of our business units.

Community Development: We are carefully scrutinizing any planned new development to ensure that demand is in place before proceeding and have reduced the size of some phases approved in prior years to balance supply & demand.

Property Development: We currently have 324,900 sf under development at various stages with leases or signed agreements equivalent to 82% occupancy. This includes 116,500 sf under active constructions at a leased or signed agreement equivalent to 70% occupancy. We continue to require that certain pre-lease thresholds be met prior to construction.

Investment Properties & REIT: We are proactively working with tenants on a case by case basis and making arrangement for deferral of rent payments where appropriate, depending on the tenant's financial need and potential to access government relief programs. There will be some uncertainty about our ability to collect 100% of rent for the foreseeable future. We are all in this together. We see ourselves as partners with our clients and our main objective is to help each other survive and thrive when the COVID-19 impact on the economy levels out.



Recreational Properties: Our golf courses are following the lead of provincial authorities. Our BC course is now open and we will open our Alberta courses soon with appropriate physical distancing measures in place.

We remain focused on controlling costs and moving existing inventory. Melcor's high quality portfolio of assets – raw land, developed land inventory (residential lots and acres for multi-family and commercial development), income-producing properties and championship golf courses – coupled with strong relationships with our banking and finance partners, place the company in good position to continue to weather this storm.

IN APPRECIATION

In closing, I would like to express my deep appreciation to our Directors. Thank you for your ongoing support, guidance and wisdom, in particular over the past few months. I especially acknowledge Eric Newell for his six years of service to Melcor and wish him all the best. Mr. Newell is not seeking re-election at our AGM.

I am incredibly grateful to the Melcor team for their commitment, passion and dedication to the exceptional work they do every day to take care of our tenants, manage our properties, plan and build new commercial properties and residential communities and manage our golf courses. I am extremely proud of our team's response to the challenges the current situation created. I am proud of the agility our team has demonstrated in pivoting projects and priorities, learning to work from home and meet virtually instead of in person and manage their work responsibilities along with home schooling and childcare. We continue to be proactive in all areas of our business to ensure that the right people are working on the right things in a way that is most effective for Melcor and our shareholders.

Finally, I thank our shareholders for your ongoing support and trust in our business and our team. We have been weathering the storm of general economic challenges for some time now, and these past few weeks have been particularly difficult. We appreciate your notes of support as we navigate through these unprecedented times doing our best to make the right decisions for everyone.



Corporate Governance

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practices lay the foundation for a sustainable company and long-term value creation for our shareholders.

As governance practices evolve, we periodically review, evaluate and enhance our governance program. Here are a few highlights of our program:

Independence

The majority of our directors are independent and our committees are comprised of a majority of independent directors. The independent directors meet in camera (without management and related directors) for a portion of each meeting held. As our Chairman is related to Melcor, we have appointed a Lead Director, Allan Scott, who is independent of the company. Mr. Scott chairs the in camera sessions and ensures that the board conducts itself in accordance with good governance practices.

Integrity: the Heart of our Business

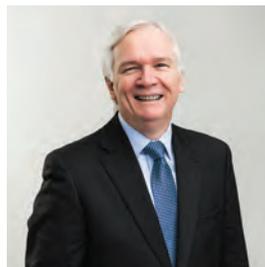
The highest standard of ethical conduct has always been at the heart of Melcor's operating philosophy. All employees, directors and officers follow our Code of Business Conduct and Ethics, which governs Melcor's work environment, regulatory compliance and the protection of our assets and reputation. The Code can be found on our website at www.melcor.ca.

Strategic Planning Process

The board ensures that Melcor establishes a solid strategy designed to optimize shareholder value. This process includes active consultation with management on the issues, business environment, assumptions, goals and financial budgets that underpin the strategy and ensures that risk levels are appropriate. To ensure that the board is fully informed and engaged in the strategic issues and critical risks of our business, one meeting each year is dedicated to the review and approval of our strategic plan to manage risk, protect shareholder value and build a sustainable business. The board meets more frequently when external or internal conditions warrant.

Alignment with Shareholder Interests

Our compensation philosophy is to pay for superior performance. Thus a significant portion of executive compensation is "at risk": tied directly to results and thus linked to Melcor's success. This ensures alignment with shareholder interests and a focus on long-term value creation.



Gordon J. Clanachan FCA, ICD.D
Edmonton, Alberta, Canada
Independent
Corporate Director & Consultant

| | |
|----------------------------|---------------|
| Director Since | 2009 |
| 2019 Attendance | 100% |
| 2019 Director Compensation | \$52,500 |
| Common Shareholdings | 11,000 |
| Committees | Audit (Chair) |



Ralph B. Young
Edmonton, Alberta, Canada
Independent
Corporate Director

| | |
|----------------------------|---------------------------|
| Director Since | 1976 |
| 2019 Attendance | 100% |
| 2019 Director Compensation | \$39,000 |
| Common Shareholdings | 1,412,333 |
| Committees | Compensation & Governance |



Ross A. Grieve
Edmonton, Alberta, Canada
Independent
Vice Chairman, PCL Construction Holdings Ltd.

| | |
|----------------------------|---------------------------|
| Director Since | 2003 |
| 2019 Attendance | 90% |
| 2019 Director Compensation | \$37,500 |
| Common Shareholdings | 50,000 |
| Committees | Compensation & Governance |

Corporate Governance



Andrew J. Melton
Calgary, Alberta, Canada
Related
Corporate Director

| | |
|----------------------------|---------|
| Director Since | 1985 |
| 2019 Attendance | 100% |
| 2019 Director Compensation | \$nil |
| Common Shareholdings | 163,887 |
| Committees | none |



Catherine M. Roozen
Edmonton, Alberta, Canada
Independent
Director & Secretary,
Cathton Investments Ltd.

| | |
|----------------------------|----------|
| Director Since | 2007 |
| 2019 Attendance | 100% |
| 2019 Director Compensation | \$40,500 |
| Common Shareholdings | 145,600 |
| Committees | Audit |



Eric P. Newell
Edmonton, Alberta, Canada
Independent
Corporate Director

| | |
|----------------------------|----------|
| Director Since | 2014 |
| 2019 Attendance | 82% |
| 2019 Director Compensation | \$37,500 |
| Common Shareholdings | 10,000 |
| Committees | Audit |



Allan E. Scott
Edmonton, Alberta, Canada
Independent (Lead Director)
Corporate Director

| | |
|----------------------------|--------------------------------------|
| Director Since | 2007 |
| 2019 Attendance | 100% |
| 2019 Director Compensation | \$55,000 |
| Common Shareholdings | 3,000 |
| Committees | Compensation & Governance (Chair) |



Timothy C. Melton
Edmonton, Alberta, Canada
Related
Chairman, Melcor

| | |
|----------------------------|-----------|
| Director Since | 1973 |
| 2019 Attendance | 100% |
| 2019 Director Compensation | \$nil |
| Common Shareholdings | 1,940,994 |
| Committees | none |



Kathleen M. Melton
Calgary, Alberta, Canada
Related
Real Estate Development
Manager & Corporate Director

| | |
|----------------------------|----------|
| Director Since | 2016 |
| 2019 Attendance | 100% |
| 2019 Director Compensation | \$34,500 |
| Common Shareholdings | 36,950 |
| Committees | none |

Additional information on our governance practices can be found in our 2019 Information Circular.

Melcor employees do not receive additional director compensation.

Environmental, Social Responsibility & Governance

We are committed to corporate sustainability – in environmental practice, social responsibility, governance of our company and as stewards of the areas where we operate. Attaining best practice in all aspects of our business is our constant aspiration.

Our history and our culture form our strong foundation: the authentic values of a family-run organization, practicing the golden rule and building deep relationships with our clients, our business partners and our employees.

Environmental



RESIDENTIAL DEVELOPMENT

Our communities are filled with community gathering spaces - parks, playgrounds, community gardens and orchards

We dedicate several acres of land to environmental reserve annually.



COMMERCIAL DEVELOPMENT

Our commercial property development focus on building energy efficient commercial properties.

We use xeriscaping to reduce or eliminate the need for supplemental water by using native plants and trees.



PROPERTY MANAGEMENT

We reduced equivalent greenhouse gases by 30% from 2012 - 2019

100% of our properties use LED lights and have active recycling programs.

Social Responsibility



RELATIONSHIP FOCUSED

For almost 100 years, our core value has been the golden rule: treat others as you would like to be treated.



PEOPLE STRATEGY

Our people are the heart of our strategy. The average tenure of our team is 7.5 years.

In 2019, we doubled the benefit amount for mental health support.



PROPERTY MANAGEMENT

Our property managers and building operators achieved a 92% approval rating from office tenants

Many of our office properties are enhanced by public art installations, usually external so they can be enjoyed by all.

Governance



INCLUSIVE & DIVERSIFIED WORKFORCE

We are committed to workforce inclusion and diversification.

Women make up 29% of Melcor's management committee, 38% of management and 43% of our overall team.



CHARITABLE GIVING

Our giving and involvement focuses on key pillars of strong communities: education, health, youth, sports, public gathering places such as libraries, and social programs that lend a helping hand to those in need.



SUPPORTING LOCAL

Our focus on relationships extends to our service providers as well. The majority of our service providers are local and many are small businesses that support our local economies.

FIVE YEAR PERFORMANCE MEASURES (UNAUDITED)

| | 2019 | % change | 2018 | % change | 2017 | % change | 2016 | % change | 2015 |
|--|------------------|----------------|-----------|----------|-----------|----------|-----------|----------|-----------|
| Assets (\$000s) | 2,096,047 | 3.6% | 2,023,076 | 1.6% | 1,990,983 | 5.2% | 1,891,988 | 0.0% | 1,891,969 |
| Shareholders' Equity (\$000s) | 1,080,257 | 1.2% | 1,067,565 | 5.8% | 1,008,590 | 1.4% | 994,721 | 1.7% | 977,970 |
| Revenue (\$000s) | 207,971 | (22.2%) | 267,434 | 3.7% | 257,950 | 6.4% | 242,461 | (7.9%) | 263,309 |
| Gross Margin | 46.5% | | 46.8% | | 45.1% | | 44.7% | | 45.8% |
| Administrative Expenses/Revenue | 10.8% | | 8.8% | | 9.8% | | 8.6% | | 9.0% |
| Basic Earnings Per Share (\$) | 1.13 | (41.1%) | 1.92 | 67.0% | 1.15 | 10.6% | 1.04 | (54.6%) | 2.29 |
| Net Income (\$000s) | 37,741 | (41.3%) | 64,273 | 66.8% | 38,525 | 11.9% | 34,433 | (54.7%) | 75,958 |
| Average Share Price (\$) | 12.81 | (11.1%) | 14.41 | (5.9%) | 15.32 | 11.0% | 13.80 | (17.4%) | 16.71 |
| Dividend Per Share (\$) * | 0.50 | (3.8%) | 0.52 | 0.0% | 0.52 | 8.3% | 0.48 | (20.0%) | 0.60 |
| Dividend Yield | 3.9% | | 3.6% | | 3.4% | | 3.5% | | 3.6% |
| Book Value Per Share (\$) | 32.51 | 1.6% | 32.01 | 6.0% | 30.21 | 1.3% | 29.83 | 1.4% | 29.43 |
| Average Book Value Per Share (\$) | 32.09 | 3.5% | 31.02 | 4.9% | 29.58 | 1.4% | 29.17 | 3.0% | 28.33 |
| Average Market/Average Book (\$) | 0.40 | | 0.46 | | 0.52 | | 0.47 | | 0.59 |
| Price / Earnings Ratio | 11.34 | | 7.51 | | 13.32 | | 13.27 | | 7.30 |
| Return on Equity | 3.49% | | 6.02% | | 3.82% | | 3.46% | | 7.77% |
| Return on Assets | 1.80% | | 3.18% | | 1.93% | | 1.82% | | 4.01% |
| Debt/Equity Ratio (excluding REIT units) | 0.84 | | 0.80 | | 0.88 | | 0.81 | | 0.85 |
| Asset Turnover | 9.92% | | 13.22% | | 12.96% | | 12.82% | | 13.92% |

Price/Earnings Ratio is the average share price for the year divided by the basic earnings per share.

Return on equity is net income for the year divided by the average equity during the year.

Return on assets is net income for the year divided by the average assets during the year.

Debt/Equity Ratio is debt, excluding REIT units, divided by shareholders equity.

ANNUAL GENERAL MEETING

Melcor will be webcasting the AGM. We encourage you to vote your proxy in advance and to enjoy the meeting from the safety and comfort of your home or office. In-person attendance will not be possible.

Thursday, June 25, 2020
11:00 AM MDT

gowebcasting.com/10532



SHAREHOLDER SERVICES

For Shareholder Services, including dividend information, change of address service and lost share certificates, contact:

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Montreal, QC H3B 3K3
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