



Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020

(Unaudited, in thousands of Canadian dollars)

## Condensed Interim Consolidated Statement of Income

Unaudited (\$000s)	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Revenue (note 7)	73,051	53,946	145,871	129,915
Cost of sales	(46,456)	(30,486)	(82,729)	(65,620)
Gross profit	26,595	23,460	63,142	64,295
General and administrative expense	(4,705)	(5,497)	(13,996)	(16,616)
Fair value adjustment on investment properties (note 5 and 11)	(857)	3,300	(69,540)	1,359
Adjustments related to REIT units (note 10)	(2,871)	(3,398)	51,759	(10,351)
Gain on sale of assets	3	61	39	83
Operating earnings	18,165	17,926	31,404	38,770
Interest income	125	427	454	1,081
Finance costs	(7,646)	(7,333)	(20,437)	(21,399)
Net finance costs	(7,521)	(6,906)	(19,983)	(20,318)
Income before income taxes	10,644	11,020	11,421	18,452
Income tax (expense) recovery	(3,118)	5,048	155	2,343
Net income for the period	7,526	16,068	11,576	20,795
Income per share:				
Basic income per share	0.23	0.48	0.35	0.62
Diluted income per share	0.23	0.48	0.35	0.62

See accompanying notes to these condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statement of Comprehensive Income

Unaudited (\$000s)	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net income for the period	7,526	16,068	11,576	20,795
Other comprehensive income				
Items that may be reclassified subsequently to net income:				
Currency translation differences	(3,626)	1,923	4,451	(4,341)
Comprehensive income	3,900	17,991	16,027	16,454

See accompanying notes to these condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statement of Financial Position

Unaudited (\$000s)	September 30, 2020	December 31, 2019
<b>ASSETS</b>		
Cash and cash equivalents	36,266	36,980
Restricted cash (note 3)	11,331	—
Accounts receivable	9,717	9,783
Income taxes recoverable	2,469	7,058
Agreements receivable	55,645	76,406
Land inventory (note 4)	755,735	754,331
Investment properties (note 5 and 11)	1,090,394	1,141,591
Property and equipment	13,342	13,498
Other assets	54,104	56,400
	<b>2,029,003</b>	<b>2,096,047</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	42,994	43,582
Income taxes payable	—	855
Provision for land development costs	52,879	56,183
General debt (note 6)	744,183	751,353
Deferred income tax liabilities	51,392	57,174
REIT units (note 10 and 11)	49,983	106,643
	<b>941,431</b>	<b>1,015,790</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 8)	72,354	72,556
Contributed surplus	4,719	4,083
Accumulated other comprehensive income (AOCI)	25,973	21,522
Retained earnings	984,526	982,096
	<b>1,087,572</b>	<b>1,080,257</b>
	<b>2,029,003</b>	<b>2,096,047</b>

See accompanying notes to these condensed interim consolidated financial statements.



## Condensed Interim Consolidated Statement of Cash Flows

Unaudited (\$000's)	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
<b>CASH FLOWS FROM (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net income for the period	7,526	16,068	11,576	20,795
Non cash items:				
Amortization of tenant incentives	1,910	3,161	5,955	5,919
Depreciation of property and equipment	504	525	1,173	1,153
Stock based compensation expense	208	189	644	548
Non-cash finance costs	1,786	611	2,809	1,973
Straight-line rent adjustment	(134)	(262)	(755)	(1,465)
Fair value adjustment on investment properties (note 5 and 11)	857	(3,300)	69,540	(1,359)
Fair value adjustment on REIT units (note 10 and 11)	1,696	1,180	(56,324)	3,685
Gain on sale of assets	(3)	(61)	(39)	(83)
Deferred income taxes	(169)	(7,677)	(5,818)	(8,283)
	14,181	10,434	28,761	22,883
Agreements receivable	1,827	14,773	20,761	50,968
Development activities	12,525	(10,992)	(1,602)	(22,687)
Purchase of land inventory (note 4)	—	(4,000)	—	(12,496)
Payment of tenant lease incentives and direct leasing costs	(1,837)	(4,623)	(5,624)	(9,107)
Change in restricted cash (note 3)	(4,978)	—	(11,503)	—
Operating assets and liabilities	(7,791)	15,799	3,491	(8,842)
	13,927	21,391	34,284	20,719
<b>INVESTING ACTIVITIES</b>				
Purchase of investment properties (note 5)	—	(1,050)	—	(13,528)
Additions to investment properties (note 5)	(7,421)	(5,431)	(20,817)	(15,633)
Net proceeds from disposal of investment properties (note 5)	6,925	—	7,182	314
Purchase of property and equipment	(43)	(477)	(1,029)	(883)
Proceeds on disposal of property and equipment	4	134	51	162
	(535)	(6,824)	(14,613)	(29,568)
<b>FINANCING ACTIVITIES</b>				
Revolving credit facilities	8,773	(9,441)	587	34,545
Proceeds from general debt	22,201	17,714	35,065	51,223
Repayment of general debt	(34,520)	(16,213)	(46,842)	(57,967)
Repurchase of REIT units	—	(216)	(336)	(361)
Dividends paid	(2,650)	(3,992)	(8,625)	(12,646)
Common shares repurchased (note 8)	(167)	(280)	(731)	(1,107)
	(6,363)	(12,428)	(20,882)	13,687
<b>FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY</b>				
	83	(179)	497	(145)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>				
	7,112	1,960	(714)	4,693
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD</b>				
	29,154	29,460	36,980	26,727
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>				
	36,266	31,420	36,266	31,420
<b>Total income taxes paid</b>	4,000	13,874	7,712	22,508
<b>Total interest paid</b>	7,208	8,144	24,786	23,532

See accompanying notes to these condensed interim consolidated financial statements.

## 1. DESCRIPTION OF THE BUSINESS

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

Melcor Developments Ltd. (“Melcor” or “we”) is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States (“US”). Our shares are traded on the Toronto Stock Exchange under the symbol “MRD”. As at September 30, 2020 Melton Holdings Ltd. holds approximately 47.3% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at November 10, 2020, Melcor through an affiliate, holds an approximate 55.4% effective interest in Melcor REIT (“REIT” or “the REIT”) through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol “MR.UN”.

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

## 2. BASIS OF PRESENTATION

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

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

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on November 10, 2020.

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

### SIGNIFICANT ACCOUNTING POLICIES AND NEW STANDARDS ADOPTED

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

#### a) *Restricted Cash*

Restricted cash can only be used for specific purposes. As at September 30, 2020 our restricted cash represents amounts required to be used for specific land development activities related to our Harmony land project in the US. These cash balances are either currently held in escrow for distribution related to these activities, or have been set aside to be placed in escrow for distribution as stipulated by our amended loan agreement.

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

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

#### *Impact of Adoption*

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

## CRITICAL ACCOUNTING ESTIMATES

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

### a) Valuation of agreements receivable

We review our agreements receivable on a regular basis to estimate the risk of default on outstanding balances. Factors such as the related builder's reputation and financial status, the geographic location of the lot, and length of time the agreement receivable has been outstanding are all considered when estimating any impairment on agreements receivable. The economic uncertainty resulting from COVID-19 has also been considered by management in assessing any impairments to agreements receivable, and will continue to be monitored. As a result of COVID-19, estimates could be subject to changes and such changes may be material. Please refer to note 12 for further information related to credit risk associated with agreements receivable.

### b) Valuation of investment properties

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

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

4. LAND INVENTORY	September 30, 2020	December 31, 2019
Raw land held	401,940	399,456
Land under development	164,803	146,743
Developed land	188,992	208,132
	<b>755,735</b>	754,331

During the nine month period ended September 30, 2020, there were no land purchases made.

During the comparative nine month period ended September 30, 2019, we purchased 470.6 acres of land at a cost of \$28,608 and received vendor financing of \$16,112.

Land is recorded at the lower of cost and net realizable value. Due to the uncertainty of the economic environment as a result of COVID-19, the net realizable value of land could be subject to significant changes and such changes could be material. As at September 30, 2020 management does not consider there to be a negative impact on the current carrying value of land, but will continue monitoring the net realizable value of land during these uncertain times.

## 5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	September 30, 2020	December 31, 2019
Investment properties	1,003,299	1,063,026
Properties under development	87,095	78,565
Total	<b>1,090,394</b>	1,141,591

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

	Nine months ended September 30, 2020		
	Investment Properties	Properties under Development	Total
Balance - beginning of period	1,063,026	78,565	1,141,591
Additions			
Direct leasing costs	602	269	871
Property improvements	2,745	—	2,745
Development costs	—	17,769	17,769
Capitalized borrowing costs	—	303	303
Disposals	(6,600)	—	(6,600)
Transfers	12,881	(12,881)	—
Fair value adjustment on investment properties	(72,610)	3,070	(69,540)
Foreign currency translation (included in OCI)	3,255	—	3,255
Balance - end of period	<b>1,003,299</b>	<b>87,095</b>	<b>1,090,394</b>

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

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

### Disposals

On August 28, 2020, we disposed of an office building in Arizona for a sales price of \$6,069 (US\$4,633) (net of transaction costs and including tenant incentives of \$379 (US\$289)) and straight line rent of \$203 (US\$155). The sale price was settled through cash.

During the third quarter, we also disposed of three residential units in Arizona for a sales price of \$863 (US\$647) (net of transaction costs). The sale price was settled through cash.

Year to date, we disposed of one additional residential unit in Arizona for a sales price of \$250 (US\$191) (net of transaction costs). The sale price was settled through cash.

<b>6. GENERAL DEBT</b>		
	<b>September 30, 2020</b>	December 31, 2019
Melcor - revolving credit facilities	<b>70,937</b>	70,451
REIT - revolving credit facility	<b>22,965</b>	22,864
Project specific financing	<b>69,389</b>	68,436
Secured vendor take back debt on land inventory	<b>31,285</b>	39,005
Debt on investment properties and golf course assets	<b>484,727</b>	484,413
REIT - convertible debentures	<b>64,880</b>	66,184
<b>General debt</b>	<b>744,183</b>	751,353

During the nine months ended September 30, 2020, Melcor entered into mortgage amending agreements with various lenders in order to obtain temporary relief as a result of COVID-19. As of September 30, 2020, mortgage amending agreements entered into related to twenty-eight mortgages with an outstanding principal balance of \$275,466. The terms of the agreements vary by lender and mortgage, providing Melcor with relief of scheduled principal and interest payments and repayable over the remaining term of the mortgage. No changes were made as to the maturity date, interest rate, amortization period or security provided. Melcor has accounted for these agreements as debt modifications, with the impact of these modifications being insignificant.

During the nine months ended, Melcor entered into amending vendor take back agreements with various lenders in order to obtain temporary relief as a result of COVID-19. As of September 30, 2020, amending agreements entered into related to seven vendor take back debt with an outstanding principal balance of \$24,671. The terms of the agreements vary by lender. Melcor has accounted for these agreements as debt modifications, with the impact of these modifications being insignificant.

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

	<b>September 30, 2020</b>	December 31, 2019
<b>Balance - beginning of period</b>	<b>68,436</b>	62,639
<b>Cash movements</b>		
Loan repayments	<b>(16,576)</b>	(4,058)
New project financing	<b>16,975</b>	10,801
<b>Non-cash movements</b>		
Foreign currency translation included in OCI	<b>554</b>	(946)
<b>Balance - end of period</b>	<b>69,389</b>	68,436

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

	<b>September 30, 2020</b>	December 31, 2019
<b>Balance - beginning of period</b>	<b>39,005</b>	40,842
<b>Cash movements</b>		
Principal repayments		
Scheduled amortization on debt	<b>(7,720)</b>	(17,660)
<b>Non-cash movements</b>		
New secured vendor take back debt	—	16,112
Amortization of non-cash interest	—	(289)
<b>Balance - end of period</b>	<b>31,285</b>	39,005

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

	September 30, 2020	December 31, 2019
<b>Balance - beginning of period</b>	<b>484,413</b>	454,342
<b>Cash movements</b>		
Principal repayments		
Scheduled amortization on debt	(9,853)	(15,178)
Mortgage repayments	(12,693)	(55,803)
New mortgages	18,090	103,753
<b>Non-cash movements</b>		
Deferred interest payments	926	—
Deferred financing fees capitalized	(102)	(637)
Amortization of deferred financing fees	438	444
Change in derivative fair value swap	1,696	865
Foreign currency translation included in OCI	1,812	(3,373)
<b>Balance - end of period</b>	<b>484,727</b>	484,413

## 7. REVENUE

Total Revenues	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Revenue from contracts	50,951	33,865	79,441	67,756
Revenue from other sources	22,100	20,081	66,430	62,159
	<b>73,051</b>	53,946	<b>145,871</b>	129,915

Timing of contract revenue recognition	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
At a point in time	46,246	29,032	65,314	52,566
Over time	4,705	4,833	14,127	15,190
	<b>50,951</b>	33,865	<b>79,441</b>	67,756

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

During the nine-months ended September 30, 2020, the government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses. The program provides forgivable loans to qualifying commercial property owners to cover up to 50% of six monthly rent payments that are payable by eligible small business tenants, requiring the landlord to forgive at least 25% of rent covered by the application, with the tenant paying the balance. Participation in this program by Melcor has resulted in net rent payments forgiven of \$822 recorded in cost of sales for the nine-months ended September 30, 2020.

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

## 8. SHARE CAPITAL

Issued and outstanding common shares at September 30, 2020 are 33,129,561 (December 31, 2019 – 33,225,265). During the three and nine months ended September 30, 2020, there were no options exercised (Q3-2019 – nil).

During the first quarter there were 24,200 common shares purchased for cancellation by Melcor pursuant to the Normal Course Issuer Bid (NCIB) at a cost of \$251 (December 31, 2019 - 121,252 common shares purchased at a cost of \$1,526). Share capital was reduced by \$55 and retained earnings reduced by \$203. The NCIB commenced March 31, 2019 and ended March 30, 2020.

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

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

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

As of September 30, 2020 there were 72,116 common shares purchased for cancellation by Melcor pursuant to the new NCIB. Share capital was reduced by \$155 and retained earnings reduced by \$318.

Year to date, there were a total of 96,316 common shares purchased for cancellation with share capital reduced by \$210 and retained earnings reduced by \$521 under the above mentioned NCIB agreements.

## 9. SEGMENTED INFORMATION

### Geographic Analysis

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

External Revenues	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
United States	31,403	7,508	45,276	19,124
Canada	41,648	46,438	100,595	110,791
Total	73,051	53,946	145,871	129,915

### Total Assets

As at	September 30, 2020	December 31, 2019
United States	267,329	256,144
Canada	1,761,674	1,839,903
Total	2,029,003	2,096,047

## 9. SEGMENTED INFORMATION (continued)

### Divisional Analysis

Our divisions reported the following results:

For the three months ended September 30, 2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	43,076	13,973	9,241	18,441	4,380	—	<b>89,111</b>	(16,060)	<b>73,051</b>
Cost of sales	(32,635)	(13,867)	(3,898)	(8,470)	(2,267)	—	<b>(61,137)</b>	14,681	<b>(46,456)</b>
Gross profit	10,441	106	5,343	9,971	2,113	—	<b>27,974</b>	(1,379)	<b>26,595</b>
General and administrative expense	(1,800)	(390)	(538)	(748)	(683)	(1,394)	<b>(5,553)</b>	848	<b>(4,705)</b>
Fair value adjustment on investment properties	—	2,462	(1,315)	(2,535)	—	—	<b>(1,388)</b>	531	<b>(857)</b>
Gain on sale of assets	—	—	—	—	3	—	<b>3</b>	—	<b>3</b>
Interest income	105	—	1	13	—	6	<b>125</b>	—	<b>125</b>
Segment earnings (loss)	8,746	2,178	3,491	6,701	1,433	(1,388)	<b>21,161</b>	—	<b>21,161</b>
Finance costs									<b>(7,646)</b>
Adjustments related to REIT units									<b>(2,871)</b>
Income before tax									<b>10,644</b>
Income tax expense									<b>(3,118)</b>
Net income for the period									<b>7,526</b>

For the three months ended September 30, 2019	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	25,897	13,559	9,589	17,468	3,854	—	<b>70,367</b>	(16,421)	<b>53,946</b>
Cost of sales	(17,800)	(13,500)	(4,100)	(6,782)	(2,579)	—	<b>(44,761)</b>	14,275	<b>(30,486)</b>
Gross profit	8,097	59	5,489	10,686	1,275	—	<b>25,606</b>	(2,146)	<b>23,460</b>
General and administrative expense	(2,068)	(561)	(607)	(697)	(723)	(1,707)	<b>(6,363)</b>	866	<b>(5,497)</b>
Fair value adjustment on investment properties	—	2,931	(1,373)	462	—	—	<b>2,020</b>	1,280	<b>3,300</b>
Gain on sale of assets	—	—	—	—	61	—	<b>61</b>	—	<b>61</b>
Interest income	326	7	11	28	—	55	<b>427</b>	—	<b>427</b>
Segment earnings (loss)	6,355	2,436	3,520	10,479	613	(1,652)	<b>21,751</b>	—	<b>21,751</b>
Finance costs									<b>(7,333)</b>
Adjustments related to REIT units									<b>(3,398)</b>
Income before tax									<b>11,020</b>
Income tax recovery									<b>5,048</b>
Net income for the period									<b>16,068</b>

For the nine months ended	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
September 30, 2020									
Segment revenue	60,793	14,171	28,571	55,830	7,140	—	166,505	(20,634)	145,871
Cost of sales	(45,697)	(13,867)	(11,540)	(23,622)	(4,117)	—	(98,843)	16,114	(82,729)
Gross profit	15,096	304	17,031	32,208	3,023	—	67,662	(4,520)	63,142
General and administrative expense	(4,825)	(1,320)	(1,845)	(2,279)	(1,648)	(4,456)	(16,373)	2,377	(13,996)
Fair value adjustment on investment properties	—	3,070	(14,922)	(59,831)	—	—	(71,683)	2,143	(69,540)
Gain on sale of assets	—	—	—	—	39	—	39	—	39
Interest income	344	13	18	60	—	19	454	—	454
Segment earnings (loss)	10,615	2,067	282	(29,842)	1,414	(4,437)	(19,901)	—	(19,901)
Finance costs									(20,437)
Adjustments related to REIT units									51,759
Income before tax									11,421
Income tax recovery									155
Net income for the period									11,576

For the nine months ended	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
September 30, 2019									
Segment revenue	60,241	13,595	28,985	52,886	7,856	—	163,563	(33,648)	129,915
Cost of sales	(41,561)	(13,500)	(12,097)	(21,228)	(5,210)	—	(93,596)	27,976	(65,620)
Gross profit	18,680	95	16,888	31,658	2,646	—	69,967	(5,672)	64,295
General and administrative expense	(6,088)	(1,765)	(1,727)	(2,161)	(1,913)	(5,205)	(18,859)	2,243	(16,616)
Fair value adjustment on investment properties	—	3,541	(5,353)	(258)	—	—	(2,070)	3,429	1,359
Gain on sale of assets	—	—	—	—	83	—	83	—	83
Interest income	782	21	28	89	—	161	1,081	—	1,081
Segment earnings (loss)	13,374	1,892	9,836	29,328	816	(5,044)	50,202	—	50,202
Finance costs									(21,399)
Adjustments related to REIT units									(10,351)
Income before tax									18,452
Income tax recovery									2,343
Net income for the period									20,795

## 10. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 44.6% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at September 30, 2020 the REIT units had a fair value of \$49,983. We recorded adjustments related to REIT units for the three and nine months ended September 30, 2020 of \$2,871 and \$51,759 (Q3-2019 - \$3,398 and \$10,351). Melcor notes that the economic uncertainty surrounding COVID-19 has created volatility in the equity markets which has significantly impacted the fair value of these units.

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

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

During the nine-months ended, there were 59,526 share purchased for cancellation by the REIT pursuant to the new REIT NCIB at a cost of \$208, which is recorded as reduction in the balance of REIT units on the consolidated statement of financial position. Year to date there were a total of 82,790 units purchased through the above NCIBs at a total cost of \$336.

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

	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Fair value adjustment on REIT units (note 11)	(1,696)	(1,180)	56,324	(3,685)
Distributions to REIT unitholders	(1,175)	(2,218)	(4,565)	(6,666)
<b>Adjustments related to REIT units</b>	<b>(2,871)</b>	<b>(3,398)</b>	<b>51,759</b>	<b>(10,351)</b>

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

As at	September 30, 2020	December 31, 2019
Assets	729,109	783,534
Liabilities	462,055	463,879
<b>Net assets</b>	<b>267,054</b>	<b>319,655</b>
Cost of NCI	103,959	103,959
<b>Fair value of NCI</b>	<b>49,983</b>	<b>106,643</b>

	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Rental revenue	18,441	17,468	55,830	52,886
Net income (loss) and comprehensive income (loss)	(1,645)	2,310	21,477	4,732
Cash flows from operating activities	4,549	2,979	10,954	6,842
Cash flows used in investing activities	(116)	(403)	(685)	(14,611)
Cash flows from (used in) financing activities, before distributions to REIT unitholders	(2,717)	(695)	(3,346)	14,277
Cash flows used in financing activities - cash distributions to REIT unitholders	(1,177)	(2,218)	(4,913)	(6,666)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>539</b>	<b>(337)</b>	<b>2,010</b>	<b>(158)</b>

## 11. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

	September 30, 2020					December 31, 2019	
	Fair Value Hierarchy	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
<b>Non-financial assets</b>							
Investment properties	Level 3	1,090,394	—	1,090,394	1,090,394	1,141,591	1,141,591
<b>Financial liabilities</b>							
General debt, excluding convertible debentures and derivative financial liability	Level 3	—	677,544	677,544	695,147	685,107	697,920
Convertible debentures	Level 2	—	64,021	64,021	50,165	63,104	67,990
<b>Derivative financial liability</b>							
Interest rate swaps	Level 3	1,759	—	1,759	1,759	62	62
Conversion feature on convertible debentures	Level 3	859	—	859	859	3,080	3,080
<b>REIT units</b>	<b>Level 1</b>	<b>49,983</b>	<b>—</b>	<b>49,983</b>	<b>49,983</b>	<b>106,643</b>	<b>106,643</b>

### Investment properties

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

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

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

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

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

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

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

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

Investment properties were valued by Melcor's internal valuation team as at September 30, 2020 of which 83 investment properties (of 93 legal phases) with a fair value of \$968,299 were valued by qualified independent external valuation professionals during the period. Valuations performed during the period resulted in net fair value losses of \$69,540. As at December 31, 2019 Melcor's internal valuation team valued investment properties of which 44 investment properties (of 90 legal phases valued) with a fair value of \$593,212 were valued by qualified independent external valuation professionals during the year. Valuations performed during 2019 resulted in net fair value gains of \$12,234.

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

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

Weighted average annual stabilized net operating income for investment properties as at September 30, 2020 is \$1,528 (December 31, 2019 - \$1,647) per property. Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

September 30, 2020	Investment Properties			Properties under Development		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.25%	10.00%	6.88%	6.00%	6.25%	6.10%
Terminal capitalization rate	5.75%	9.00%	6.87%	6.00%	6.50%	6.23%
Discount rate	6.25%	9.75%	7.93%	7.00%	7.50%	7.22%

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

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by \$60,558 (December 31, 2019 - \$63,850). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by \$70,048 (December 31, 2019 - \$74,077). Due to the uncertainty of the economic environment as a result of COVID-19, these estimates could be subject to significant changes and such changes could be material.

### General debt, excluding derivative financial liabilities

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

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

### Derivative financial liabilities

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

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at September 30, 2020, the fair value of interest rate swap contracts was \$1,759 (December 31, 2019 - \$62).

The significant unobservable inputs used in the fair value measurement of the conversion features on the REIT convertible debentures are volatility and credit spread. As at September 30, 2020 the fair value of the conversion feature on our convertible debenture was \$859 (December 31, 2019 - \$3,080)

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

### REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At September 30, 2020 the fair value of the REIT units was \$49,983, resulting in a fair value gain during the nine months ended of \$56,324 (Q3-2019 - loss of \$3,685) in the statement of income and comprehensive income for the period ended ended September 30, 2020 (note 10). Melcor notes that the economic uncertainty surrounding COVID-19 has created volatility in the equity markets which has significantly impacted the fair value of these units.

## 12. RISK MANAGEMENT

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

### a. Credit Risk

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

Accounts Receivables have historically been significantly low risk due to their individual immaterial balances, the nature of the party they are due from (including joint venture participants under management by Melcor), and overall lack of historical write offs. During the current quarter, in light of COVID-19, management notes that there is risk associated with the receivables pertaining to tenant rent included with accounts receivables. As a result of the risks associated COVID-19 and its effect on the ability of tenants to settle their receivables, as well as government assistance programs put in place, Melcor has adjusted the expected credit losses on this specific group of receivables. At this time, based on the current economic outlook and the expected time-line impact of COVID-19, management has assessed and recorded the current expected credit loss at \$1,641.

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

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

### b. Liquidity Risk

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

To mitigate the risk associated with the economic uncertainty caused by COVID-19, Melcor has entered into several amending agreements to obtain relief periods in which payments of interest and principal were suspended temporarily. The majority of these relief periods have now lapsed with resumption of regular repayments.

### c. Market Risk

We are subject to interest rate cash flow risk as our operating credit facilities and certain of our general debt bear interest at rates that vary in accordance with prime borrowing rates in Canada. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately \$2,319 (December 31, 2019 - \$2,273). Due to the volatility resulting from the uncertainty surrounding COVID-19, there is risk that these rates will fluctuate significantly. We are not subject to other significant market risks pertaining to our financial instruments.

## 13. EVENTS AFTER THE REPORTING PERIOD

### *Distributions on REIT trust units*

On October 15, 2020 the REIT declared a distribution of \$0.03 per unit for the months of October, November and December 2020. The distributions will be payable as follows:

<b>Month</b>	<b>Record Date</b>	<b>Distribution Date</b>	<b>Distribution Amount</b>
October 2020	October 30, 2020	November 16, 2020	\$0.03 per unit
November 2020	November 30, 2020	December 15, 2020	\$0.03 per unit
December 2020	December 31, 2020	January 15, 2021	\$0.03 per unit

### *Dividends declared*

On November 10, 2020 our board of directors declared a dividend of \$0.08 per share payable on December 31, 2020 to shareholders of record on December 15, 2020.