Management's Responsibility for Financial Reporting

The consolidated financial statements, management's discussion and analysis (MD&A) and all financial information contained in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, have incorporated estimates based on the best judgment of management.

To discharge its responsibility for financial reporting, management is responsible for implementing and maintaining adequate internal controls to provide reasonable assurance that the Company's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis.

The consolidated financial statements have been examined by PricewaterhouseCoopers LLP, the Company's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditor's report outlines the scope of their audit examination and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee is comprised of three financially literate and independent directors. This committee meets regularly with management and the external auditors to review significant accounting, financial reporting and internal control matters. PricewaterhouseCoopers LLP have unrestricted access to the Audit Committee with and without the presence of management. The Audit Committee reviews the financial statements, the auditor's report, and MD&A and submits its report to the Board of Directors for formal approval. The Audit Committee is also responsible for reviewing and recommending the annual appointment of external auditors and approving the external audit plan. These consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors for inclusion in the Annual Report based on the review and recommendation of the Audit Committee.

Timothy C. Melton	Naomi Stefura, CA
Chief Executive Officer, Executive Chairman	Chief Financial Officer, Executive Vice President

Edmonton, Alberta
March 16, 2022

Independent auditor's report

To the Shareholders of Melcor Developments Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Melcor Developments Ltd. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of income for the years ended December 31, 2021 and 2020;
- the consolidated statements of comprehensive income for the years ended December 31, 2021 and 2020;
- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of changes in equity for the years ended December 31, 2021 and 2020;
- the consolidated statements of cash flows for the years ended December 31, 2021 and 2020; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
Stantec Tower, 10220 103 Avenue NW, Suite 2200, Edmonton, Alberta, Canada T5J 0K4
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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties *Refer to note 3 – Significant accounting policies, note 5 – Critical accounting estimates, note 10 – Investment properties and note 28 – Fair value measurement to the consolidated financial statements.* The Company measures its investment properties, properties under development and properties under development – undeveloped land, at fair value and as at December 31, 2021, these assets were valued at $1,119 million. The fair values of investment properties are determined by management using the direct income capitalization method or discounted future cash flows method. Properties under development are valued using the direct income capitalization method less costs to complete. Properties under development – undeveloped land are valued using the direct comparison method. 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. In applying the discounted future cash flows method, the forecasted future cash flows of each property are projected over ten years, a terminal value is applied and the cash flows are discounted using an appropriate discount rate. For the direct comparison method, fair values are determined by comparison to market transactions for similar assets. Investment properties were valued by the Company's internal valuation team as at December 31, 2021 of which 29 investment properties with a fair value of $317 million were valued with the	Our approach to addressing the matter included the following procedures, among others: ● Tested the design and operating effectiveness of internal controls related to the valuation of investment properties, including management's review of the significant assumptions used in the direct income capitalization method (less costs to complete, where applicable), discounted future cash flows method and direct comparison method. ● For a sample of investment properties, tested how management determined the fair value based on the valuation methods of direct income capitalization (less costs to complete, where applicable), discounted future cash flows or direct comparison, which included the following: − Evaluated the appropriateness of the valuation methods used by management. − Tested the underlying data used in the methods. − Evaluated whether stabilized net operating income, changes in stabilized net operating income compared to the prior year independent external valuations and forecasted future cash flows, including assumptions related to future rental income

Key audit matter	How our audit addressed the key audit matter
assistance of qualified independent external valuation professionals. At least once every two years, the valuations are performed by qualified external valuation professionals. The significant assumptions made in the valuation methods include stabilized net operating income, capitalization rates, discount rates, terminal capitalization rates, market transactions for similar assets, costs to complete and forecasted future cash flows, which involve assumptions of future rental income, including estimated market rental rates, vacancy rates and estimated direct operating costs. In determining the fair value of investment properties, significant judgment is required by management. We considered this a key audit matter due to significant judgments made by management when determining the fair values of the investment properties and a high degree of complexity in assessing audit evidence related to the significant assumptions made by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of real estate valuations.	and estimated direct operating costs, were reasonable by considering the approved budget, and the current and past performance of the property, as applicable. – Evaluated the reasonability of changes in the capitalization rates compared to the prior year independent external valuations by considering available third party published economic data relevant to the property. – For undeveloped land, evaluated the reasonableness of market transactions for similar assets by comparing the price per acre to available third party published economic data relevant to the property. – Evaluated whether costs to complete were reasonable considering the stage of completion of the property under development. – Professionals with specialized skill and knowledge in the field of real estate valuations further assisted us in assessing the appropriateness of the methods and evaluating the reasonableness of the discount rates, capitalization rates, terminal capitalization rates, estimated market rental rates, vacancy rates and market transactions for similar assets.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Gordon R. Keiller.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
March 16, 2022

MELCOR DEVELOPMENTS LTD.

Consolidated Financial Statements

December 31, 2021

Consolidated Statements of Income

For the years ended December 31 ($000s)	2021	2020
Revenue (note 21)	**315,628**	226,818
Cost of sales (note 21)	**(175,502)**	(128,599)
Gross profit	**140,126**	98,219
General and administrative expense (note 21)	**(21,935)**	(18,256)
Fair value adjustment on investment properties (note 10, 21 and 28)	**19,370**	(76,480)
Adjustments related to REIT units (note 25)	**(31,526)**	37,534
Gain on sale of assets	**151**	40
Operating earnings	**106,186**	41,057
Interest income	**572**	574
Foreign exchange gain (loss)	**76**	(369)
Finance costs (note 20)	**(27,944)**	(28,057)
Net finance costs	**(27,296)**	(27,852)
Income before income taxes	**78,890**	13,205
Income tax expense (note 22)	**(22,579)**	(1,741)
Net income for the year	**56,311**	11,464
Earnings per share attributable to Melcor's shareholders (note 17):		
Basic earnings per share	**1.70**	0.34
Diluted earnings per share	**1.70**	0.34

See accompanying notes to the consolidated financial statements.

On behalf of Melcor's Board of Directors

Bruce Pennock
Audit Committee Chair

Timothy C. Melton
CEO, Executive Chairman

Consolidated Statements of Comprehensive Income

For the years ended December 31 ($000s)	2021	2020
Net income for the year	**56,311**	11,464
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences (note 18)	**(745)**	(2,919)
Comprehensive income	**55,566**	8,545

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Financial Position

($000s)	2021	2020
ASSETS		
Cash and cash equivalents	**59,920**	29,201
Restricted cash (note 3d)	**4,824**	7,413
Accounts receivable	**10,097**	12,414
Income taxes recoverable	**323**	3,214
Agreements receivable (note 8)	**127,739**	73,336
Land inventory (note 9)	**725,806**	728,985
Investment properties (note 10 and 28)	**1,118,805**	1,081,077
Property and equipment (note 11)	**12,887**	13,135
Other assets (note 12)	**53,526**	52,510
	2,113,927	2,001,285
LIABILITIES		
Accounts payable and accrued liabilities (note 13)	**50,476**	36,096
Income taxes payable	**5,936**	1,518
Provision for land development costs (note 14)	**79,517**	49,770
General debt (note 15)	**716,913**	721,786
Deferred income tax liabilities (note 22)	**56,341**	51,652
REIT units (note 25 and 28)	**88,275**	63,034
	997,458	923,856
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 16a)	**73,304**	72,270
Contributed surplus	**4,727**	4,948
Accumulated other comprehensive income (AOCI) (note 18)	**17,858**	18,603
Retained earnings	**1,020,580**	981,608
	1,116,469	1,077,429
	2,113,927	2,001,285

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

($000s)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2021	**72,270**	**4,948**	**18,603**	**981,608**	**1,077,429**
Net income for the year	**—**	**—**	**—**	**56,311**	**56,311**
Cumulative translation adjustment (note 18)	**—**	**—**	**(745)**	**—**	**(745)**
Transactions with equity holders					
Dividends	**—**	**—**	**—**	**(14,532)**	**(14,532)**
Share repurchase (note 16a)	**(543)**	**—**	**—**	**(2,807)**	**(3,350)**
Employee share based compensation					
Value of services recognized	**—**	**1,132**	**—**	**—**	**1,132**
Share issuance	**1,577**	**(1,353)**	**—**	**—**	**224**
Balance at December 31, 2021	**73,304**	**4,727**	**17,858**	**1,020,580**	**1,116,469**

($000s)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2020	72,556	4,083	21,522	982,096	1,080,257
Net income for the year	—	—	—	11,464	11,464
Cumulative translation adjustment (note 18)	—	—	(2,919)	—	(2,919)
Transactions with equity holders					
Dividends	—	—	—	(11,270)	(11,270)
Share repurchase (note 16a)	(294)	—	—	(682)	(976)
Employee share based compensation					
Value of services recognized	—	873	—	—	873
Share issuance	8	(8)	—	—	—
Balance at December 31, 2020	72,270	4,948	18,603	981,608	1,077,429

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31 ($000s)	2021	2020
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	**56,311**	11,464
Non cash items:		
Amortization of tenant incentives (note 12)	**8,160**	7,879
Depreciation of property and equipment (note 11 and 21)	**1,334**	1,407
Stock based compensation expense (note 16g and 21)	**1,132**	873
Non cash financing costs (note 20)	**3,479**	2,043
Straight-line rent adjustment	**(858)**	(793)
Fair value adjustment on investment properties (note 10, 21 and 28)	**(19,370)**	76,480
Fair value adjustment on REIT units (note 25 and 28)	**25,748**	(43,273)
Gain on sale of assets	**(151)**	(40)
Deferred income taxes (note 22)	**4,684**	(5,409)
Cash provided by operating activities before changes in non-cash working capital	**80,469**	50,631
Agreements receivable	**(54,403)**	3,070
Development activities (note 3v)	**35,084**	16,655
Payment of tenant incentives and direct leasing costs	**(8,047)**	(7,695)
Change in restricted cash (note 3d)	**2,589**	(7,413)
Purchase of land inventory (note 9)	**(3,037)**	—
Operating assets and liabilities (note 3v)	**20,167**	(2,128)
	72,822	53,120
INVESTING ACTIVITIES		
Purchase of investment properties (note 10)	**(1,358)**	—
Additions to investment properties (note 10)	**(22,810)**	(23,594)
Net proceeds from disposal of investment properties (note 10)	**7,425**	7,182
Purchase of property and equipment (note 11)	**(1,218)**	(1,056)
Proceeds from disposal of assets	**283**	54
	(17,678)	(17,414)
FINANCING ACTIVITIES		
Revolving credit facilities	**17,139**	(23,404)
Proceeds from general debt	**132,589**	64,230
Repayment of general debt	**(156,093)**	(71,460)
Repurchase of REIT units	**(533)**	(336)
Dividends paid	**(14,532)**	(11,270)
Common shares repurchased (note 16a)	**(3,350)**	(976)
Share capital issued	**224**	—
	(24,556)	(43,216)
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	**131**	(269)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**30,719**	(7,779)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**29,201**	36,980
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**59,920**	29,201

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

We are a real estate development company with community development, property development, investment property, 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 December 31, 2021 Melton Holdings Ltd. holds approximately 47.4% of the outstanding shares and pursuant to IAS 24, Related Party Disclosures, is the ultimate controlling shareholder of Melcor.

As at March 16, 2022, 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".

2. BASIS OF PRESENTATION

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") as set out in Part I of the Chartered Professional Accountants ("CPA") Handbook.

Our consolidated financial statements have been prepared in accordance with IFRS. These consolidated financial statements were authorized for issue by the Board of Directors on March 16, 2022.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

a. Basis of measurement

Our consolidated financial statements have been prepared under the historical cost convention, except for investment properties, derivatives and REIT units which are measured at fair value.

We prepare our financial statements in conformity with IFRS which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions change. We believe that the underlying assumptions are appropriate. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in notes 6 and 5, respectively.

b. Basis of consolidation

These consolidated financial statements include:

I. The accounts of Melcor Developments Ltd. and its wholly-owned subsidiaries:

   i Melcor Developments Arizona Inc.
   ii Melcor Lakeside Inc.
   iii Stanley Investments Inc.
   iv Melcor REIT Holdings GP Inc.
   v Melcor REIT Holdings Limited Partnership
   vi Melcor Homes Ltd.

II. The accounts of Melcor REIT Limited Partnership (the "Partnership") (55.4% owned by Melcor Developments Ltd as at December 31, 2021). The remaining 44.6% publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to notes 7 and 25 for details related to our interest in the REIT.

III. Investments in 31 joint arrangements (2020 – 30) with interests ranging from 7% to 67%. These arrangements are undivided interests in the assets, liabilities, revenue and expenses and we record our proportionate share in accordance with the agreements. Refer to note 23 for details on joint arrangements.

All intercompany transactions and balances are eliminated on consolidation.

c. Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term deposits with maturity dates of less than three months from the date they were acquired.

d. Restricted cash

Restricted cash can only be used for specific purposes. As at December 31, 2021 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. As these restrictions are related to development activities, the cash movements are included under operating activities within the cash flow.

e. Land inventory

Land inventory is recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less costs to complete the development and selling costs. Cost includes all costs incurred to purchase development land, capitalized carrying costs related to holding the land under development, and development costs to build infrastructure. The estimated unexpended portion of costs to complete building the infrastructure, which are classified as “provision for land development costs” (refer to note 3j), are recorded as a liability upon the approval of the development plan with the municipality.

The cost of land and carrying costs are allocated to each phase of development based on a prorated acreage of the total land parcel at the time a plan is registered with a municipality. The cost of sale of a lot is allocated on the basis of the estimated total cost of the project prorated by the anticipated selling price of the lot over the anticipated selling price of the entire project at the date of plan registration.

Where we acquire land subject to deferred payments greater than one year, it is initially recognized at the fair value of the future estimated contractual obligations.

f. Investment properties

Investment properties include commercial, industrial, and residential properties, and a manufactured home community held for the long term to earn rental income or for capital appreciation, or both. It also includes properties under development for future use as investment properties.

Acquired investment properties are measured initially at cost, including related transaction costs associated with the acquisition when the acquisition is accounted for as an asset purchase. Costs capitalized to properties under development include direct development and construction costs, borrowing costs, and property taxes.

After initial recognition, investment properties are recorded at fair value, determined based on the valuation methods of direct income capitalization or discounted future cash flows.

Melcor Developments Ltd. has an internal valuation team consisting of individuals who are knowledgeable and have experience in the fair value techniques applied in valuing investment property. At least once every two years, the valuations are performed by qualified external valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. Changes in fair value are recognized in the consolidated statements of income and comprehensive income in the period in which they arise.

Fair value measurement of an investment property under development is only applied if the fair value is considered to be reliably measurable. In rare circumstances, investment property under development is carried at cost until its fair value becomes reliably measurable. It may sometimes be difficult to determine reliably the fair value of an investment property under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers the following factors, among others:

- the provisions of the construction contract;
- the stage of completion;
- whether the project or property is standard (typical for the market) or non-standard;
- the level of reliability of cash inflows after completion;
- the development risk specific to the property;
- past experience with similar construction; and
- status of construction permits.

Subsequent expenditures are capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to Melcor and the cost of the item can be measured reliably. All repairs and maintenance costs are expensed when incurred.

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties. All direct leasing costs are external expenditures and no amounts for internal allocations are capitalized with respect to the negotiation or arranging of tenant leases.

g. Property and equipment

Property and equipment is initially measured at cost, which includes expenditures that are directly attributable to the acquisition of the asset. Subsequent to its initial recognition, property and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses.

The major categories of property and equipment are depreciated using the declining balance method of depreciation as follows:

Buildings	4%
Golf course greens and tees	6%
Golf course equipment	20-30%
Corporate assets	20-50%

Property and equipment is tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of an asset's fair value less costs to sell and the discounted expected future cash flows of the relevant asset or group of assets calculated on a value-in-use basis. An impairment loss is recognized for the amount by which the asset or group of assets' carrying amount exceeds its recoverable amount.

We evaluate impairment losses for potential reversals when events or circumstances warrant such consideration.

h. Other assets

Other assets include prepaid expenses, inventory, deposits, straight-line rent adjustments and tenant incentives incurred in respect of new or renewed leases. Tenant incentives are amortized on a straight-line basis over the lease term and are recorded as a reduction of revenue.

i. Borrowing costs

General and specific borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets. Borrowing costs are capitalized while acquisition or construction is actively underway and ceases once the asset is substantially complete, or suspended if the development of the asset is suspended. The amount of borrowing cost capitalized is determined by applying a weighted average cost of borrowings to qualifying assets. Qualifying assets include our land under development and investment properties under development assets. All other borrowing costs are recognized as finance costs in the consolidated statement of income in the period in which they are incurred.

j. Provision for land development costs

We recognize a provision for land development related to the construction, installation and servicing of municipal improvements related to subdivisions under development once we have an approved development agreement with the municipality, as this is the point in time when an obligation arises. The provision is recognized as a liability with an equal amount capitalized to land inventory. Provisions for land development are measured at management's best estimate of the expenditure required to complete the approved development plan at the end of the reporting period. Adjustments are made to the liability with a corresponding adjustment to cost of sales as actual costs are incurred. Provisions are discounted, where material, by discounting the expected future cash flows at a rate that reflects risk specific to the provision and the time value of money.

k. Provision for decommissioning obligations

Decommissioning obligations are measured at the present value of the expected cost to settle the obligation. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows as well as any changes in the discount rate. Increases or decreases in the provision are recognized as an expense or income. Actual costs incurred upon settlement of the decommissioning obligation are recorded against the provision.

l. Recognition of revenue

Revenue is generated from contracts with customers and other revenues. Contracts with customers include the sale of developed land, golf course operations and service revenue from investment properties. Other revenues include rental revenue from investment property leases and management fees from joint venture operations.

Revenue from contracts related to the sale of developed land is recognized at a point in time, which is when a minimum of 15% of the sale price has been received, the sale is unconditional and possession has been granted. All contracts related to the sale of developed land have one performance obligation, the delivery of a fully developed lot to the customer. Common areas within a development community that are subsequently transferred to municipal or government organizations or home-owner associations are not considered an extension of a customer and therefore; this does not represent a separate performance obligation.

Revenue from golf course operations (green fees, food and beverage) is recognized at a point in time and the performance obligation is satisfied in the accounting period in which the services are provided. Membership revenue from golf courses is recognized over time on a monthly basis in the period in which the performance obligations are completed.

Service revenues are amounts outlined separately in the lease agreement for distinct services provided including utilities, maintenance and security recoveries from tenants which are recognized on a monthly basis in the period in which the corresponding costs are incurred and performance obligations are completed.

Rental revenues include both lease and service revenue components. Lease revenues from investment properties include base rents, recoveries of operating expenses including property taxes, parking revenue, incidental income and sign and storage lease revenue. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from the operating leases is recognized on a straight line basis over the term of the lease; a straight line rent receivable which is included in other assets, is recorded for the difference between the rental revenue recognized and the contractual amount received. When incentives are provided to our tenants, the cost of these incentives is recognized over the lease term, on a straight line basis as a reduction to rental revenue.

Investment property leases are accounted for as operating leases given that we have retained substantially all of the risks and benefits of the ownership of our investment properties.

Management fee revenue is comprised of fees paid by our joint arrangement partners based on development and/or sales activities, which fluctuates period to period depending on the stage of various projects.

m. Recognition of government grants

Government grants are recognized as a receivable provided that there is reasonable assurance that the relevant conditions related to the grant have been met. The grant is recognized in profit and loss and is applied against the related expense.

n. Income taxes

Current income tax is the expected amount of tax payable to the taxation authorities, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the liability method based on the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are the result of recognizing the benefit associated with deductible temporary differences, unused tax credits, and tax loss carryforwards. The carrying amount of the deferred tax liabilities and assets is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the reporting period date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

We presume that investment property measured at fair value will be recovered entirely through sale. Measurement of the related deferred taxes reflects the tax consequences of recovering the carrying amount through sale.

The REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) (“Tax Act”) and as a real estate investment trust eligible for the ‘REIT Exception’, as defined in the rules applicable to Specified Investment Flow-Through (“SIFT”) trusts and partnerships in the Tax Act. We expect to allocate all of the REIT’s taxable income and to continue to qualify for the REIT Exception. As the REIT is a flow-through entity, we record current and deferred taxes on our 55.4% interest in the REIT.

o. Stock based compensation

We use the Black-Scholes option pricing model to fair value options granted to our employees, and the intrinsic method to fair value restricted share units ("RSUs"). The estimated fair value of awards on the date of grant is recognized as compensation expense on a graded vesting basis over the period in which the employee services are rendered. We estimate the number of expected forfeitures at the grant date and make adjustments for actual forfeitures as they occur. Stock based awards that give the holder the right to purchase shares are accounted for as equity-settled plans.

p. Earnings per share

Basic earnings per share (“EPS”) is calculated by dividing our net income for the period by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants, and similar instruments is computed using the treasury stock method. Our potentially dilutive common shares comprise stock options and RSU's granted to employees.

q. Foreign currency

The consolidated financial statements are presented in Canadian dollars, which is the functional currency for our Canadian operations and our presentation currency.

Assets and liabilities of our US operations, for which the functional currency is the US dollar, are translated into our presentation currency at the exchange rates in effect at the reporting period end date and revenues and expenses are translated at average exchange rates for the period. Gains or losses on translation of foreign operations are recognized as other comprehensive income or loss.

Gains or losses on the settlement of debt or on foreign exchange cash balances are recognized in income in the period realized.

r. Financial instruments

At initial recognition, we classify our financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Financial assets

Financial assets that are held for collection of contractual cash flows represent solely payments of principle and interest are measured at amortized cost. This includes cash and cash equivalents, restricted cash, accounts receivable and agreements receivable. Financial assets are initially recognized at fair value plus transaction costs, adjusted for an expected credit loss. Subsequently, receivables are measured at amortized cost using the effective interest rate method adjusted for expected credit losses.

For financial assets, Melcor applies the simplified expected credit loss approach, which requires expected lifetime losses to be recognized from initial recognition of the accounts receivables and agreements receivables.

Financial assets are derecognized only when the contractual rights to the cash flows from the financial asset expire or Melcor transfers substantially all risks and rewards of ownership. From time to time Melcor may agree with tenants to modify the terms of lease agreements, including changes to the consideration under the lease. When the changes result in a reduction in amounts receivable relating to past lease periods, Melcor applies IFRS 9, in determining whether to partially or fully derecognize those receivables.

Financial liabilities

Financial liabilities are initially recognized at fair value, net of any transaction costs incurred. Financial liabilities include accounts payable and accrued liabilities, and general debt. REIT Units are classified as fair value through profit or loss (“FVTPL”) and are designated as FVTPL to offset the accounting mismatch of REIT investment properties carried at fair value.

We record our financial liabilities at fair value on initial recognition. Subsequently, financial liabilities are measured at amortized cost using the effective interest rate method and financial liabilities designated as FVTPL are remeasured at fair value with changes in their fair value recorded through income.

Modifications of financial liabilities carried at amortized cost that do not result in derecognition give rise to a modification gain or loss equal to the change in discounted contractual cash flows using the original effective interest rate. This modification gain or loss is recognized in the consolidated statements of net income and comprehensive income.

Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

i. the amount determined in accordance with the expected credit loss model under IFRS 9, Financial Instruments, and

ii. the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15, Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, of the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted as contributions and recognized as part of the cost of the investment.

s. Non-controlling interest in Melcor REIT

We hold an effective 55.4% interest in the REIT through ownership of all Class B LP Units. A non-controlling interest, REIT units, has been recognized on the statement of financial position to reflect the 44.6% interest held by the public through ownership of all trust units. The trust units are redeemable at the option of the holder and, therefore, are considered a puttable instrument in accordance with International Accounting Standard (“IAS”) 32, Financial Instruments – Presentation (“IAS 32”). Certain conditions under IAS 32 allow the REIT to present the trust units as equity; however, on consolidation we do not meet these conditions and therefore must present the non-controlling interest as a financial liability.

As a financial liability designated as fair value through profit or loss (“FVTPL”) we recorded the REIT units at fair value on initial recognition. Subsequent to initial recognition we remeasure the liability each period at fair value based upon the trust unit’s closing trading price. Fair value gains and losses are recorded through income in the period they are incurred.

Distributions on trust units are recognized in the period in which they are approved and are recorded as an expense in income. For presentation purposes we aggregate the distribution expense with the fair value adjustment on the trust units under the caption ‘adjustments related to REIT units’.

t. Financial derivatives

Our financial derivatives include interest rate swaps and the conversion feature on the REIT convertible debenture. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair value. The host instrument financial liability is recognized initially at the fair value of a similar liability that does not have conversion feature. The conversion feature is separated from the host instrument and recognized at fair value. The fair value of the host instrument is recorded net of any related transaction costs. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Derivative instruments are recorded in the consolidated statement of financial position at their fair value. Changes in fair value of derivative instruments that are not designated as hedges for accounting purposes are recognized in the income statement.

Melcor has not designated any derivatives as hedges for accounting purposes.

u. Operating segments

Our operating segments are strategic business units that offer different products and services, and are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

v. Statement of cash flows

Development activities is defined as the net change of land inventory and the provision for land development costs and excludes the purchase of raw land. Purchase of raw land is the cost of land net of vendor financing received (see note 9 – land inventory).

Operating assets and liabilities is defined as the net change of accounts receivable, deposits, prepaids and inventory, income taxes payable, accounts payable and accrued liabilities, deferred interest payments and deferred finance costs capitalized during the year. Excluded from operating assets and liabilities are investment property additions that are unpaid and included in accounts payable and accrued liabilities at year end.

4. ACCOUNTING STANDARD CHANGES

a. New and amended standards adopted

We have adopted the following standard amendments, effective January 1, 2021.

IFRS 9, IAS 39, IFRS 7 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 amendments require that for financial instruments measured at amortized cost, changes to the basis for determining the contracted cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate. No immediate gain or loss is recognized. This practical expedient is only applicable to changes required by interest rate benchmark reform.

Impact of adoption
In accordance with the transition provisions, the amendments have been adopted retrospectively to financial instruments. Comparative amounts have not been restated, and there was no impact on the current period opening retained earnings on adoption.

Effect of IBOR reform
Following the financial crisis, the reform and replacement of benchmark interest rates such as USD LIBOR and other inter-bank offered rates (‘IBORs’) has become a priority for global regulators. There remains some uncertainty around the timing and precise nature of these changes. We have three debt agreements with a carrying value of $17,315 which reference USD LIBOR. As at December 31, 2021 these loans have not transitioned to alternative interest rate benchmarks.

b. New and amended standards adopted not yet adopted

IAS 37, Provisions, contingent liabilities and contingent assets amendments were made to IAS 37, Provisions, contingent liabilities and contingent assets in order to clarify (i) the meaning of "costs to fulfil a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IAS 37 is required to be applied for annual periods beginning on or after January 1, 2022. We are currently evaluating the impact of this standard on our financial statements.

5. CRITICAL ACCOUNTING ESTIMATES

We make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. The estimates and assumptions that are critical to the determination of the amounts reported in the financial statements relate to the following:

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. Refer to note 27a for further information related to credit risk associated with agreements receivable.

b. Valuation of investment properties

The fair value of investment property 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 costs 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.

Refer to note 28 for further information about methods and assumptions used in determining fair value of investment properties.

c. Determination of the provision for land development costs

We estimate the future costs of completing the development of land by preparing internal budgets of costs and reviewing these estimates regularly to determine if adjustments to increase or decrease the provision for land development costs are required. This estimate impacts the measurement of cost of sales reported given that land inventory is sold prior to all costs being committed or known as the nature of land development considers a long-term time frame to complete all municipal requirements.

d. Income taxes

Significant estimates are required in determining our provision for income taxes. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provision.

6. SIGNIFICANT JUDGMENTS

In the process of applying our accounting policies, we make various judgments, apart from those involving estimations, that can significantly impact the amounts recognized in the financial statements. These include:

a. Capitalization of borrowing costs

IAS 23, Borrowing Costs, requires the capitalization of borrowing costs to qualifying assets. IAS 23 also requires the determination of whether the borrowings are specific to a project or general in calculating the capitalized borrowing costs. Judgment is involved in identifying directly attributable borrowing costs to be included in the carrying value of qualifying assets and in determining if funds borrowed are for general purposes or specifically for the construction of qualifying assets. We consider our centrally managed treasury function with assessment of the circumstances surrounding individual borrowings in making this judgment. Capitalization to land inventory occurs when the land is classified to land under development and ceases when the land is considered developed and ready for sale. Borrowing costs are capitalized to investment properties when under active development. We have determined that all of our borrowings are general, except project specific financing (note 15c), as the decision on how to deploy operating and acquisition funds is a centrally managed corporate decision.

b. Transfer of land to investment property

We typically acquire raw land with the intent of developing it in our Community Development division. When development plans are formulated, we may decide that specific land holdings will be developed into investment properties. Once appropriate evidence of a change in use is established, typically on inception of an operating lease for the investment property, the land is transferred to investment properties. At that time, the land is recognized at fair value in accordance with our accounting policy for investment properties, and any gain or loss is reflected in earnings in the period the transfer occurs.

c. Classification of tenant incentives

Payments are often made to tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with IFRS 16, Leases.

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d. Investment properties

Our accounting policies related to investment properties are described in note 3f. In applying this policy, judgment is required in determining whether certain costs are additions to the carrying amount of an investment property and, for properties under development, identifying the point at which substantial completion of the property occurs.

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

e. Compliance with REIT exemption under ITA

Under current tax legislation, a real estate investment trust is not liable for Canadian income taxes provided that its taxable income is fully allocated to unitholders during the year. In order for the Trust to continue to be taxed as a mutual fund trust, we need to maintain its REIT status. The Trust qualifies as a REIT under the specified investment flow-through (“SIFT”) rules in the Canadian Income Tax Act. The Trust’s current and continuing qualification as a REIT depends on the Trust’s ability to meet the various requirements imposed under the SIFT rules, which relate to matters such as its organizational structure and the nature of its assets and revenues. We apply judgment in determining whether it continues to qualify as a REIT under the SIFT rules. Should the Trust cease to qualify, it would be subject to income tax on its earnings.

7. INTEREST IN MELCOR REIT

As at December 31, 2021 we hold a 55.4% (2020 - 55.3%) ownership interest in the REIT through ownership of all 16,125,147 Class B LP Units of the Partnership.

The publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to note 25 for summary financial information of the REIT at December 31, 2021. As of March 16, 2022 we hold a 55.4% ownership interest in the REIT.

8. AGREEMENTS RECEIVABLE

Agreements receivable are due in 2022, except for $28,041 due in 2023, and $1,504 due in 2024 (2020 - balance due 2021, except $23,765 due in 2022, $407 due in 2023, $1,656 due in 2024). Subsequent to the interest adjustment date, which provides an interest relief period to qualifying registered builders, these receivables earn interest at prime plus two percent (4.45% at December 31, 2021) and are collateralized by the specific real estate sold.

At December 31, 2021, promotional programs of $439 (2020 - $2,234) were offered to promote home sales activities in our communities and encourage agreements receivable collections. This amount was determined based on management's best estimate and is subject to measurement uncertainty introduced by the impact of the uncertain economic environment. As a result, revisions to this estimate may be required in future periods. Refer to note 27a for further discussion surrounding credit risk.

9. LAND INVENTORY

As at December 31	**2021**	**2020**
Raw land held	**387,598**	395,785
Land under development	**153,671**	161,647
Developed land	**184,537**	171,553
	725,806	728,985

A breakdown of our land purchases are as follows:

	2021	**2020**
Land purchases - acres	**17.10**	—
Land cost	**3,037**	—
Net cash to close	**3,037**	—

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During the year ended December 31, 2021, we purchased 17.1 acres of land in Buckeye, Arizona in the United States at a cost of $3,037 (USD$2,450) for cash. There were no land purchases made in the comparative period.

The weighted average interest rate used for capitalization of borrowing costs to land under development is 3.26% for the year ended December 31, 2021 (2020 – 3.33%). Borrowing costs capitalized to land inventory during the year were $3,525 (2020 - $4,749).

Land inventory expensed to cost of sales during the year was $127,058 (2020 - $80,269).

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 December 31, 2021 management does not consider there to be a negative impact on the current carrying value of land, but will continue monitoring the net realizable value of land during these uncertain times. The net realizable value exceeds the carrying cost of all land inventories at December 31, 2021 and 2020, such that no provision for impairment is required.

10. INVESTMENT PROPERTIES

Investment properties consists of the following:

As at December 31	2021	2020
Investment properties	1,071,456	1,016,312
Properties under development	47,349	64,765
Total	1,118,805	1,081,077

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

			2021
	Investment properties	Properties under development	Total
Balance - beginning of year	1,016,312	64,765	1,081,077
Additions			
Direct acquisition	—	1,358	1,358
Transfer from land inventory	—	301	301
Direct leasing costs	1,341	475	1,816
Property improvements	3,294	—	3,294
Property development	—	19,041	19,041
Capitalized borrowing costs	—	475	475
Disposals	(7,425)	—	(7,425)
Transfers	41,903	(41,903)	—
Fair value adjustment on investment properties	16,533	2,837	19,370
Foreign currency translation (included in OCI)	(502)	—	(502)
Balance - end of year	1,071,456	47,349	1,118,805

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			2020
	Investment properties	Properties under development	Total
Balance - beginning of year	1,063,026	78,565	1,141,591
Additions			
Direct leasing costs	779	387	1,166
Property improvements	2,902	—	2,902
Property development	—	20,229	20,229
Capitalized borrowing costs	—	463	463
Disposals	(6,600)	—	(6,600)
Transfers	38,537	(38,537)	—
Fair value adjustment on investment properties	(80,138)	3,658	(76,480)
Foreign currency translation (included in OCI)	(2,194)	—	(2,194)
Balance - end of year	1,016,312	64,765	1,081,077

Acquisitions and disposals during the year:

On May 31, 2021, we acquired raw land for property development in Sylvan Lake, at a net cost of $1,358.

On June 25, 2021, we disposed of one residential unit in Arizona for net sale price of $341 (US$278) net of transaction costs.

On July 30, 2021, we sold an investment property for net sale price of $7,084 (US$5,684) net of transaction costs. The price was settled in cash, excluding working capital adjustments.

Disposals in the comparative year:

- During 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 2020, we also disposed of four residential units in Arizona for a sales price of $1,113 (US$838) (net of transaction costs). The sale price was settled through cash.

In accordance with our policy, as detailed in note 3f, we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized NOI, while development activity on properties under development and leasing activity drive fair value adjustments on properties under development. 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 significant assumptions, is included in note 28.

Properties transferred from property under development to commercial properties during the year totaled $41,903 (2020 - $38,537). Properties transferred is net of tenant incentives of $2,646 (2020 - $1,630).

Presented separately from investment properties is $31,160 (2020 - $32,973) in tenant incentives and $15,038 (2020 - $14,180) in straight-line rent adjustments (included in note 12). The fair value of investment properties has been reduced by these amounts.

The weighted average interest rate used for capitalization of borrowing costs to investment properties under development is 2.85% for the year ended December 31, 2021 (2020 – 2.87%).

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Our investment properties are leased to tenants primarily under long term operating leases. Rentals are receivable from tenants monthly. Minimum lease payments under non-cancellable operating leases of investment properties are receivable as follows:

	2021	2020
Within one year	68,779	67,958
Later than one year but not later than 2 years	62,536	62,457
Later than 2 years but not later than 3 years	53,960	53,513
later than 3 years but not later than 4 years	44,550	44,378
Later than 4 years but not later than 5 years	35,529	34,895
Later than 5 years	139,002	120,327
Total	404,356	383,528

11. PROPERTY AND EQUIPMENT

	Golf course assets					
	Land	Buildings	Equipment	Greens and tees	Corporate	Total
January 1, 2021						
Cost	1,293	8,175	9,102	6,659	7,493	32,722
Accumulated depreciation	—	(3,452)	(7,034)	(3,760)	(5,341)	(19,587)
Opening net book value	1,293	4,723	2,068	2,899	2,152	13,135
Additions	—	—	1,180	30	8	1,218
Disposals	—	—	(132)	—	—	(132)
Depreciation	—	(186)	(589)	(177)	(382)	(1,334)
Net Book Value - December 31, 2021	1,293	4,537	2,527	2,752	1,778	12,887

	Golf course assets					
	Land	Buildings	Equipment	Greens and tees	Corporate	Total
January 1, 2020						
Cost	1,293	8,175	8,996	6,659	6,713	31,836
Accumulated depreciation	—	(3,259)	(6,638)	(3,571)	(4,870)	(18,338)
Opening net book value	1,293	4,916	2,358	3,088	1,843	13,498
Additions	—	—	276	—	780	1,056
Disposals	—	—	(12)	—	—	(12)
Depreciation	—	(193)	(554)	(189)	(471)	(1,407)
Net Book Value - December 31, 2020	1,293	4,723	2,068	2,899	2,152	13,135

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12. OTHER ASSETS

	2021	2020
Tenant incentives	31,160	32,973
Deposits and prepaids	6,876	4,910
Straight-line rent adjustments	15,038	14,180
Inventory	452	447
	53,526	52,510

During the year we provided tenant incentives of $6,347 (2020 - $5,443) and recorded $8,160 (2020 - $7,879) of amortization expense. In accordance with IFRS 16 - Leases, amortization of tenant incentives are recorded on a straight-line basis over the term of the lease against rental revenue.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2021	2020
Trade accounts payable	9,810	11,820
Distribution payable	519	391
Other payables	38,373	22,179
Provision for decommissioning obligation	1,774	1,706
	50,476	36,096

As described in note 3s distributions on trust units are recognized in the period in which they are approved and are recorded as an expense. As at December 31, 2021, distribution payable pertains to the December 2021 monthly distribution which was subsequently paid on January 15, 2022 (2020 - December 2020 monthly distribution paid on January 15, 2021).

Decommissioning obligation relates to one of our commercial properties held by the REIT. The total decommissioning obligation is estimated based on the future obligation and timing of these expenditures to be incurred. We estimate the net present value of the obligation based on an undiscounted total future provision of $2,014 (December 31, 2020 - $2,014). At December 31, 2021, a discount rate of 4.00% (December 31, 2020 - 4.00%) and an inflation rate of 2.00% (December 31, 2020 - 2.00%) were used to calculate the net present value of the obligation. Due to uncertainty surrounding the nature and timing of this obligation, amounts are subject to change.

14. PROVISION FOR LAND DEVELOPMENT

	2021	2020
Balance - beginning of year	49,770	56,183
New development projects	132,121	50,675
Changes to estimates	(3,277)	(4,303)
Costs incurred	(99,097)	(52,785)
Balance - end of year	79,517	49,770

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15. GENERAL DEBT

General debt consists of the following:

		2021	2020
Melcor - revolving credit facilities	a	87,050	59,925
REIT - revolving credit facility	b	—	9,986
Project specific financing	c	40,758	66,248
Secured vendor take back debt on land inventory	d	11,794	28,616
Debt on investment properties and golf course assets	e	506,382	490,801
REIT - convertible debentures	f	70,929	66,210
General debt		716,913	721,786

a. Melcor - revolving credit facilities

We have available credit facilities with approved loan limits of $191,410 (2020 - $188,550) with a syndicate of major chartered banks. The portion of these loan limits that pertain solely to Melcor is $120,000 (2020 - $120,000) with the remaining balance pertaining to specific joint arrangements.

The amount of the total credit facilities currently used is $87,050 (2020 - $59,925). We have pledged agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral for our credit facilities. The carrying value of assets pledged as collateral is $277,205 (2020 - $241,150).

The facilities mature on July 31, 2023, renewable one year in advance of expiry.

Depending on the form under which the credit facilities are accessed, rates of interest will vary between prime plus 0.75% to prime plus 1.25% or banker's acceptance rate plus a 3.00% stamping fee resulting in interest rates ranging from 3.20% to 3.70% at December 31, 2021 (2020 - 3.20% to 3.70%). The agreements also bear a standby fee of 0.50% for the unused portions of the facilities. The weighted average effective interest rate on borrowings, based on year end balances, is 3.56% (December 31, 2020 - 3.67%).

b. REIT - revolving credit facility

On June 1, 2021 the REIT entered into the third amendment to their revolving credit facility agreement with their existing lenders. Under the terms of the amending agreement the REIT maintains an available credit limit based upon the carrying value of specific investment properties to a maximum of $35,000 for general corporate purposes and acquisitions, including a $5,000 swingline sub-facility. An additional $15,000 is available by way of an accordion feature, subject to lender approval. Depending on the form under which the credit facility is accessed, rates of interest will vary between prime plus 1.25% or bankers acceptance plus 2.25% stamping fee. The agreement also provides the REIT with $5,000 in available letters of credit which bear interest at 2.25%. Interest payments are due and payable based upon the form of the facility drawn upon, and principal is due and payable upon maturity. The agreement also bears a standby fee of 0.45% for the unused portion of the revolving facility. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the new facility. The facility matures June 1, 2024. Unamortized transaction fees of $106 are included in other assets.

As at December 31, 2021, the carrying value of pledged properties was $62,100 (December 31, 2020 - $61,804).

As at December 31, 2021 we had $nil (December 31, 2020 - $9,986) drawn from the facility (net of unamortized transaction fees and unamortized discount on bankers acceptance); and posted letters of credit of $nil (December 31, 2020 - $nil). The weighted average effective interest rate on borrowings as at December 31, 2021 was nil% (2020 - 3.70%).

c. Project specific financing

	2021	2020
Project specific debt on land, with 3.83% interest rate (2020 - 3.45% to 9.48%)	2,287	20,390
Project specific debt on investment properties under development, with interest rates between 2.75% and 2.95% (2020 - 2.75% to 2.95%)	38,471	45,858
	40,758	66,248

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As at December 31, 2021 project specific financing of $nil (2020 - $13,338) was payable in US dollars (2021 - US $nil and 2020 - US $10,476).

Land inventory and agreements receivable with a December 31, 2021 carrying value of $5,472 (2020 - $81,878) have been pledged as collateral on project specific debt on land. The debts are due on demand by the lenders. The weighted average interest rate on the above debts, based on year end balances, is 2.92% (2020 - 3.89%). Specific investment properties under development with a December 31, 2021 carrying value of $115,886 (2020 - $109,638), have been pledged as collateral on project specific debt on investment properties under development.

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

	2021	2020
Balance - beginning of year	**66,248**	68,436
Cash movements		
Loan repayments	**(30,056)**	(21,676)
New project financing	**4,605**	19,540
Non-cash movements		
Foreign currency translation included in OCI	**(39)**	(52)
Balance - end of year	**40,758**	66,248

d. Secured vendor take back debt on land inventory

	2021	2020
Agreements payable with interest at the following contractual rates:		
Fixed rates of 4.00% - 4.25% (2020 - 4.00% to 5.00%)	**11,794**	24,167
Variable rate of nil% (2020 - 4.45%)	**—**	4,449
	11,794	28,616

As at December 31, 2021 there was no secured vendor take back debt payable in US dollars (2020 - $nil).

Land inventory with a December 31, 2021 carrying value of $25,754 (2020 - $77,586), has been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 4.13% (2020 – 4.33%).

In 2020, Melcor entered into amending vendor take back agreements with various lenders in order to obtain temporary relief as a result of COVID-19. Amending agreements entered into related to seven vendor take back debt agreements with an outstanding principal balance of $23,402. 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. No such agreements were entered into for the year ended December 31, 2021.

The minimum contractual principal payments due within each of the next two years are as follows:

2022	**6,077**
2023	**5,717**
	11,794

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

	2021	2020
Balance - beginning of year	**28,616**	39,005
Cash movements		
Scheduled amortization on debt	**(16,822)**	(10,389)
Balance - end of year	**11,794**	28,616

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e. Debt on investment properties and golf course assets

Debt on investment properties and golf course assets	2021	2020
Mortgage with interest only payments at floating interest rate of prime plus 1%	—	440
Variable rate mortgages amortized over 10 to 30 years at variable interest rates of 2.62% - 4.89% (2020 - 2.85% to 5.55%)	77,350	61,454
Mortgages amortized over 15 to 25 years at fixed interest rates of 1.75% - 4.90% (2020 - 2.54% to 5.35%)	432,569	429,960
	509,919	491,854
Fair value adjustment for interest rate swaps	(629)	1,376
Unamortized deferred financing fees	(2,908)	(2,429)
	506,382	490,801
Interest rate ranges	(1.75% - 4.90%)	(2.54% -5.55%)

As at December 31, 2021 $62,499 (2020 - $64,326) of debt was payable in US dollars (2021 - US $49,297 and 2020 - US $50,523). The debts mature from 2024 to 2028.

Specific investment properties and golf courses with a carrying value of $807,759 (2020 - $798,500) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 3.42% (2020 – 3.39%).

In 2020, Melcor entered into mortgage amending agreements with various lenders in order to obtain temporary relief as a result of COVID-19. Mortgage amending agreements entered into related to twenty-eight mortgages with an outstanding principal balance of $268,821. The terms of the agreements vary by lender and mortgage and provided 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 accounted for these agreements as debt modifications, with the impact of these modifications being insignificant. All deferral periods ended in 2020 and regular repayments resumed by end of fiscal year 2020.

The minimum contractual principal payments due within each of the next five years and thereafter are as follows:

2022	57,839
2023	67,870
2024	68,926
2025	62,286
2026	76,965
Thereafter	176,033
	509,919

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

	2021	2020
Balance - beginning of year	**490,801**	484,413
Cash movements		
Principal repayments:		
Scheduled amortization on mortgages	**(17,076)**	(13,841)
Mortgage repayments	**(92,390)**	(25,554)
New mortgages	**127,984**	44,690
Non-cash movements		
Deferred interest	**—**	971
Deferred financing fees capitalized	**(1,315)**	(503)
Amortization of deferred financing fees	**836**	538
Change in fair value of interest rate swap	**(2,005)**	1,351
Foreign currency translation included in OCI	**(453)**	(1,264)
Balance - end of year	**506,382**	490,801

f. REIT - convertible debentures

The principal amount outstanding and the carrying value for the REIT's convertible debentures are as follows:

($000s) except amounts stated in units					December 31, 2021		December 31, 2020
Convertible Debentures	**Date Issued**	**Maturity Date**	**Conversion rate in units***	**Interest Rate**	**Outstanding Principal**	**Carrying Value**	Carrying Value
2017 Debentures	Dec 21, 2017	Dec 31, 2022	86.9565	5.25 %	**22,975**	**22,458**	22,007
2019 Debentures	Oct 29, 2019	Dec 31, 2024	112.3596	5.10 %	**46,000**	**43,179**	42,332
					68,975	**65,637**	64,339

*The conversion rate is the number of trust units per one thousand principal amount of convertible debentures.

The fair value of the host instruments component was calculated using a market interest rate for an equivalent non-convertible, non-extendible bond. The conversion feature components are separated and recognized at fair value and presented as a liability.

A reconciliation of the convertible debentures is as follows:

($000s)	**Host Instruments**	**Conversion Features**	**Total**
Balance at December 31, 2019	**63,104**	**3,080**	**66,184**
Fair value adjustment on conversion features	—	(1,209)	(1,209)
Amortization of discount and transaction costs	682	—	682
Accretion on convertible debenture	553	—	553
Balance at December 31, 2020	**64,339**	**1,871**	**66,210**
Fair value adjustment on conversion features	—	3,421	**3,421**
Amortization of discount and transaction costs	735	—	**735**
Accretion on convertible debenture	588	—	**588**
2017 Debenture conversion	(25)	—	**(25)**
Balance at December 31, 2021	**65,637**	**5,292**	**70,929**

During the year ended December 31, 2021, we recognized $3,553 of interest expense related to the convertible debentures which is included in finance costs (note 20) (2020 - $3,554).

At December 31, 2021 we remeasured the conversion features to fair value resulting in fair value loss of $3,421 for the year (2020 - fair value gain of $1,209). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 28.

At December 31, 2021, the fair value of the conversion features on our convertible debenture was $5,408 liability and $116 asset (2020 - $1,871 liability).

During the year, $25 of convertible debenture were converted into REIT units.

16. SHARE CAPITAL

a. Common Shares

2021	Number of Shares Issued (# of shares)	Amount ($000s)
Common shares, beginning of the year	33,091,061	72,270
Issued on exercise or exchange of options *	114,680	1,577
Shares purchased for cancellation	(244,726)	(543)
Common shares, end of the year	32,961,015	73,304

2020	Number of Shares Issued (# of shares)	Amount ($000s)
Common shares, beginning of the year	33,225,265	72,556
Issued on exercise or exchange of options *	612	8
Shares purchased for cancellation	(134,816)	(294)
Common shares, end of the year	33,091,061	72,270

*Represents shares issued and amounts transferred from the share-based payments reserve to share capital upon cashless exercise of options.

Authorized:

- Unlimited common shares
- Unlimited common shares, non-voting
- Unlimited first preferred shares
- Unlimited first preferred shares, non-voting

On April 1, 2020, Melcor commenced a Normal Course Issuer Bid (NCIB) which expired on March 31, 2021. Under the bid, we were allowed to purchase 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.

On April 1, 2021 Melcor commenced a new Normal Course Issuer (NCIB) which allowed us to purchase up to 1,654,553 shares for cancellation, representing approximately 5% of the issued and outstanding shares. The shares may be repurchased up to a maximum daily limit of 3,781. The price, which Melcor will pay for shares repurchased under the plan, will be the market price at the time of acquisition. The new NCIB ends one year from commencement on March 31, 2022.

During the year, there were 244,726 common shares purchased for cancellation by Melcor pursuant to the above NCIBs at a cost of $3,350 (2020 - $976). As at December 31, 2021, 1,416,307 additional common shares may be repurchased by Melcor under the current NCIB.

b. Stock-Based Compensation Plans

On February 23, 2007 Melcor's Board of Directors approved a stock-based compensation plan (the "2007 Plan"). Under the 2007 Plan, Melcor may grant options to full-time, salaried employees and designated contractors after one year of service. The 2007 Plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. At the discretion of the board, the options vest over a period of three years and expire no longer than seven (7) years from the date of issuance. The 2007 Plan was approved by Melcor's shareholders at the Shareholders Annual Meeting in April 2007. Melcor has 1,747,786 shares reserved for issuance under the 2007 Plan (2020 – 1,789,000).

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On May 10, 2018 Melcor's Board of Directors approved an amendment to the 2007 Plan that will allow participants to purchase common shares of Melcor and benefit from their appreciation through a cashless exercise option feature. The cashless exercise right allows for surrender of all or part of the option to Melcor in consideration of a payment of the in-the-money amount. Upon this exercise Melcor shall satisfy the payment of the in-the-money amount by delivering to the participant the net number of shares.

On May 10, 2018 shareholders of Melcor approved the grant of Restricted Share Units (RSUs). Each RSU will give the participant the right to receive, upon the vesting date, the payout amount with respect to the RSUs which have vested. Payout shall be satisfied by issuing or transferring to the participant one common share for each RSU vested. Except as otherwise provided by the RSU plan, the number of RSUs subject to each grant, how the payout amount is satisfied and other terms and conditions relating to each such RSU shall be determined by Melcor's Board of Directors. When dividends are paid by Melcor, each holder of an RSU shall be entitled to additional RSUs (each a "Dividend Restricted Share Unit") equal to (a) the product of the aggregate number or RSUs held by the participant on record for such dividend multiplied by the per common share amount of such dividend divided by (b) the fair market value of a common share calculated as of the date on which the dividend is paid. Restricted share units granted shall vest and become available for redemption between 34 and 36 months from the grant date, the vesting date shall be set forth in the grant agreement. Melcor's Board of Directors may establish additional performance criteria which may be a condition precedent to the vesting of any RSU, performance criteria will be set forth in the grant agreement.

The introduction of the RSU plan and the amendment to the 2007 Plan increased the total number of common shares cumulatively reserved for issuance under either plan, when combined with common shares reserved for issuance to a maximum of 3,300,000.

c. Stock Options Outstanding and Available for Granting Under the 2007 Plan

2007 Plan	2021	2020
Stock options available, beginning of the year	979,100	791,600
Stock options surrendered	248,353	—
Stock options expired / canceled	26,033	187,500
Stock options available, end of the year	1,253,486	979,100

	2021	
	Number of Options	Average Exercise Price
Stock options outstanding, beginning of the year	809,900	13.48
Stock options exercised	(289,567)	13.04
Stock options expired / canceled	(26,033)	12.89
Stock options outstanding, end of the year	494,300	13.77

	2020	
	Number of Options	Average Exercise Price
Stock options outstanding, beginning of the year	997,400	13.59
Stock options expired / canceled	(187,500)	14.07
Stock options outstanding, end of the year	809,900	13.48

During 2021 there were 289,567 options exercised. The 2021 weighted average share price of options exercised was $13.04. During 2020, there were no options exercised.

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d. Units Outstanding and Available for Granting Under the RSU Plan

	2021	2020
Units available, beginning of the year	**1,184,475**	1,354,578
Units granted to employees	**(78,200)**	(178,150)
Units issued under dividend reinvestment plan	**(10,269)**	(7,615)
Units expired / canceled	**41,249**	15,662
Units available, end of the year	**1,137,255**	1,184,475

2021	Number of Options	Weighted Average Fair Value
Units outstanding, beginning of the year	**314,913**	**9.71**
Units granted to employees	**78,200**	**14.35**
Units exercised	**(73,466)**	**12.18**
Units issued under dividend reinvestment	**10,269**	**9.53**
Units expired / canceled	**(41,249)**	**9.10**
Units outstanding, end of the year	**288,667**	**8.96**

2020	Number of Options	Weighted Average Fair Value
Units outstanding, beginning of the year	145,422	12.69
Units granted to employees	178,150	7.48
Units exercised	(612)	13.01
Units issued under dividend reinvestment	7,615	11.52
Units options expired / canceled	(15,662)	12.75
Units outstanding, end of the year	314,913	9.71

e. Stock Options Outstanding and Exercisable Under the 2007 Plan

2021 Stock option expiry date	Outstanding Stock Options (#)	Exercise Price Per Share ($)	Stock Options Exercisable
December 12, 2022	227,300	14.94	227,300
December 12, 2023	160,500	13.01	160,500
December 11, 2024	106,500	12.42	67,000
	494,300		454,800

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f. Restricted Share Units Outstanding and Redeemable

Restricted share unit expiry date	Outstanding Restricted Share Units (#)	Exercise Price Per Unit ($)	Restricted Share Units Vested
			2021
December 31, 2022	62,719	12.42	—
December 31, 2023	147,096	7.48	—
December 31, 2024	78,852	14.35	—
	288,667		—

g. Stock Based Compensation Expense

The following assumptions were used in the Black-Scholes option pricing model for options granted. Expected volatility was based on historical volatility.

i) 2007 Option Plan

There were no stock options granted during the year. Current year vesting of options resulted in a $185 (2020 - $357) charge to stock based compensation expense and corresponding credit to contributed surplus.

ii) RSU Plan

The weighted average fair value of RSUs granted during the year was $14.35 (2020 - $7.48) per RSU. Current year compensation expense related to the RSU plan resulted in a $947 (2020 - $516) charge to stock based compensation expense and corresponding credit to contributed surplus.

17. PER SHARE AMOUNTS

(# of shares)	2021	2020
Basic weighted average common shares outstanding during the year	**33,038,543**	33,261,922
Dilutive effect of options and restricted share units	**182,827**	14,741
Diluted weighted average common shares	**33,221,370**	33,276,663

For the year ended December 31, 2021, there were 494,300 stock options excluded from the calculation of diluted earnings per share (2020 - 809,900) as their impact would be anti-dilutive.

Diluted earnings per share was calculated based on the following:

	2021	2020
Profit attributable to shareholders	**56,311**	11,464
Profit for computation of diluted earnings per share	**56,311**	11,464

18. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2021	2020
Balance, beginning of the year	**18,603**	21,522
Other comprehensive loss, net of tax of $nil	**(745)**	(2,919)
Balance, end of the year	**17,858**	18,603

The other comprehensive income represents the net unrealized foreign currency translation gain on our net investment in our foreign operations.

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19. COMMITMENTS AND CONTINGENCIES

In the normal course of operations, we issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. As at December 31, 2021 we had $27,050 (December 31, 2020 - $25,304) in letters of credit outstanding and recorded a net liability of $79,517 (December 31, 2020 - $49,770) in provision for land development costs in respect of these development agreements.

Normally, obligations collateralized by the letters of credit diminish as the developments proceed, through a series of staged reductions over a period of years (average of three to four years) and are ultimately extinguished when the municipality has issued final completion certificates.

We enter into joint arrangements and, in doing so, may take on risk beyond our proportionate interest in the joint arrangement. These situations generally arise where preferred financing terms can be arranged on the condition that the strength of our company's covenant will backstop that of the other joint arrangement participant(s) who also provide similar guarantees. We will have to perform on our guarantee only if a joint arrangement participant was in default of their guarantee. At December 31, 2021 we had guaranteed $3,355 (December 31, 2020 - $2,092) in credit facilities in excess of the amount recognized as a liability. We also guaranteed $10,240 (December 31, 2020 - $10,504) in excess of our share of letters of credit posted with the municipalities.

The loan guarantees include those which are ongoing, as they relate to the relevant lines of credit, and those which have staged reductions as they relate to the financing of specific assets or projects such as infrastructure loans, short-term land loans or mortgages.

To mitigate the possibility of financial loss, we are diligent in our selection of joint arrangement participants. As well, we have remedies available within the joint arrangement agreement, to address the application of the guarantees. In certain instances there are reciprocal guarantees amongst joint arrangement participants.

We also enter into lease agreements with tenants which specify tenant incentive payments upon completion of the related tenant improvements. Incentive payments of approximately $2,292 (2020 - $2,929) may be required from lease agreements entered during the year.

20. FINANCE COSTS

	2021	2020
Interest on Melcor - revolving credit facilities	**3,723**	4,883
Interest on REIT - revolving credit facility	**265**	1,039
Interest on REIT convertible debenture	**3,553**	3,554
Interest on general debt	**19,149**	20,547
Financing costs and bank charges	**1,612**	984
Non cash financing costs	**3,479**	2,043
	31,781	33,050
Less: capitalized interest	**(3,837)**	(4,993)
	27,944	28,057

Cumulative interest capitalized on land inventory at the end of the year is $44,615 (2020 - $48,958). Finance costs paid during the year was $31,445 (2020 - $31,958).

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21. REVENUE AND EXPENSE BY NATURE

a. Revenue:

The components of revenue are as follows:

Revenue from contracts with customers

	2021	2020
Sale of land	199,229	112,408
Operating cost recoveries	18,459	18,550
Golf course revenue	9,280	6,926
Total	226,968	137,884

Other Revenue

	2021	2020
Lease revenue	63,569	66,237
Variable lease revenue	20,574	18,466
Management fees	4,517	4,231
Total	88,660	88,934

Total revenue	315,628	**226,818**

The timing of recognition for revenue from contracts with customers is as follows:

2021	Community Development	Investment Property	Recreational Properties	REIT	Total
Timing of Revenue Recognition					
At a point in time	199,229	—	7,943	—	207,172
Over time	—	5,595	1,337	12,864	19,796
Revenue from contracts with customers	199,229	5,595	9,280	12,864	226,968

2020	Community Development	Investment Property	Recreational Properties	REIT	Total
Timing of Revenue Recognition					
At a point in time	112,408	—	5,939	—	118,347
Over time	—	5,520	987	13,030	19,537
Revenue from contracts with customers	112,408	5,520	6,926	13,030	137,884

In 2020, as a result of COVID-19 and the direct impact on many of Melcor's tenants, Melcor proactively engaged with lessees in order to provide temporary rent relief. The amount and duration of the relief provided was dependent on the tenant's situation and included 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 were repayable over a fixed term.

In 2020, the government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses. The program provided forgivable loans to qualifying commercial property owners to cover up to 50% of six monthly rent payments that were 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. This program ended in 2020 and has resulted in $nil rent payments forgiven in 2021 (2020 - $862 recorded in cost of sales).

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b. Cost of sales:

The components of cost of sales are as follows:

	2021	2020
Cost of land sold	**127,058**	80,269
Investment property direct operating expenses	**42,893**	44,708
Direct golf course expenses	**4,599**	4,100
Government grant	**—**	(1,414)
Golf course asset depreciation	**952**	936
Total	**175,502**	128,599

c. General and administrative expenses:

The components of general and administrative expenses are as follows:

	2021	2020
Employee salary and benefits		
Salaries, wages and retirement allowance	**11,080**	9,558
Government grant	**—**	(1,095)
Employee benefits	**728**	892
Stock based compensation	**1,132**	873
Corporate asset depreciation	**382**	471
Marketing	**526**	551
Other	**8,087**	7,006
Total	**21,935**	18,256

Included in cost of sales and general and administrative expenses in 2020 are government grants related to the Canada Emergency Wage Subsidy. In order to receive the subsidy, Melcor satisfied certain eligibility criteria, including a significant decline in revenue due to the temporary closures of non-essential services. The subsidy covered a portion of employees wages during the periods when there was a decline in revenue. No amounts were received in 2021.

Included in employee salary and benefits is the compensation of key management. Key management includes our directors and members of the executive management team. Compensation awarded to key management includes:

	2021	2020
Salaries, wages and retirement allowance	**3,433**	2,591
Employee benefits	**43**	39
Stock based compensation	**560**	668
Total	**4,036**	3,298

d. Fair value adjustment on investment properties

The components of the fair value adjustment are as follows:

	2021	2020
Property under development	**2,837**	3,658
Commercial and residential properties	**16,533**	(80,138)
Total	**19,370**	(76,480)

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22. INCOME TAX

Components of tax expense:

	2021	2020
Current tax expense		
Current year	16,703	7,536
Adjustment to prior years	1,192	(386)
	17,895	7,150
Deferred tax expense		
Origination and reversal of temporary differences	4,684	(4,124)
Change in tax rates	—	(1,285)
	4,684	(5,409)
Total tax expense	22,579	1,741

Reconciliation of effective tax rate:

	2021	2020
Income before taxes	78,890	13,205
Statutory rate	23 %	24 %
	18,145	3,169
(Non-taxable) taxable portion of capital gains, fair value adjustments and recovery on REIT transfer	(2,308)	4,324
(Non-taxable) non-deductible portion of REIT (income) loss	(933)	4,323
Impact of different tax rates in subsidiaries	892	92
Non-deductible expenses	861	1,502
Non-deductible (non-taxable) fair value adjustments on REIT units	5,922	(10,384)
Change in tax rates	—	(1,285)
Total tax expense	22,579	1,741

Movement in deferred tax balances during the year:

				December 31, 2021
	Opening	Recognized in profit or loss	Foreign currency translation (included in OCI)	**Closing**
Investment property and capital assets	50,489	2,893	3	53,385
Reserves for tax purposes	5,058	2,171	—	7,229
Capitalized interest	(3,687)	70	2	(3,615)
Provision for decommissioning obligation	(309)	84	—	(225)
Convertible debenture	154	(510)	—	(356)
Tax losses carried forward	(53)	(24)	—	(77)
Deferred tax liability	51,652	4,684	5	56,341

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	December 31, 2020			
	Opening	Recognized in profit or loss	Foreign currency translation (included in OCI)	Closing
Investment property and capital assets	54,374	(3,790)	(95)	50,489
Reserves for tax purposes	6,314	(1,256)	—	5,058
Capitalized interest	(3,329)	(340)	(18)	(3,687)
Provision for decommissioning obligation	(212)	(97)	—	(309)
Convertible debenture	62	92	—	154
Tax loss carry-forwards	(35)	(18)	—	(53)
Deferred tax liability	57,174	(5,409)	(113)	51,652

No deferred tax liability has been recognized in respect of the net unrealized foreign currency exchange gain in accumulated other comprehensive income. Income tax paid during the year was $13,557 (2020 - $9,950).

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23. JOINT ARRANGEMENTS

The table below discloses our proportionate share of the assets, liabilities, revenue, and earnings of 31 arrangements (2020 – 30) that are recorded in these financial statements as follows:

Joint Venture	Interest	Principle activity	Country of operations
Anders East Developments	33%	Active land development with investment property	Canada
Anders East Two Communities	50%	Non-active land development	Canada
Blackmud Communities	39%	Active land development	Canada
Capilano Investments	50%	Investment property	Canada
Chestermere Communities	50%	Active land development with investment property	Canada
Country Hills Communities	50%	Active land development	Canada
Highview Communities	60%	Active land development	Canada
HV Nine Joint Venture	7%	Active land development	Canada
Jagare Ridge Communities	50%	Active land development and recreational property	Canada
Jesperdale Communities	50%	Active land development	Canada
Kimcor Communities	50%	Active land development	Canada
Kingsview Commercial	50%	Investment Property	Canada
Kinwood Communities	50%	Active land development	Canada
Lakeside Communities	50%	Non-active land development	Canada
Larix Communities	50%	Active land development	Canada
Lewis Estates Communities	60%	Active land development and recreational property	Canada
Mattson North Communities	50%	Active land development	Canada
MMY Properties	33%	Investment property	Canada
Rosenthal Communities	50%	Active land development	Canada
South Shepard Communities	50%	Non-active land development	Canada
Stonecreek Shopping Centre	30%	Investment property	Canada
Sunset Properties	60%	Active land development	Canada
Terwillegar Pointe Communities	50%	Non-active land development	Canada
Watergrove Developments	50%	Manufactured home community	Canada
Shoppes at Jagare Ridge	50%	Investment property	Canada
Westmere Properties	50%	Investment property	Canada
Whitecap Communities	50%	Active land development	Canada
Windermere Communities	50%	Active land development	Canada
Windermere at Glenridding Communities	35%	Active land development	Canada
Winterburn Developments	50%	Active land development	Canada
Villeneuve Communities	67%	Active land development	Canada

The following summarizes financial information about our share of assets, liabilities, revenue and earnings of our interest in joint arrangements that are recorded in our accounts for the year ended December 31, 2021.

	2021	2020
Assets	**488,178**	427,745
Liabilities	**205,691**	146,766
Revenue	**90,823**	73,126
Net Earnings	**29,608**	13,303

Contingent liabilities arising for liabilities of other joint arrangement participants are disclosed in note 19.

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24. SEGMENTED INFORMATION

In the following schedules, segment earnings has been calculated for each segment by deducting from revenues of the segment all direct costs and administrative expenses which can be specifically attributed to the segment, as this is the basis for measurement of segment performance. Common costs, which have not been allocated, include finance costs, foreign exchange gains, adjustments to REIT units and income tax expense.

The allocation of these costs on an arbitrary basis to the segments would not assist in the evaluation of the segments' contributions. Inter-segment transactions are entered into under terms and conditions similar to those with unrelated third parties.

Community Development

This division is responsible for purchasing and developing land to be sold as residential, industrial and commercial lots.

Property Development

This division develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed primarily from our community development division. Once substantial completion of construction and leasing are complete, these properties are transferred to our investment property division at fair value (refer to note 10).

Investment Property

This division owns 24 leasable commercial, retail and residential properties (2020 – 24 properties) and other rental income producing assets such as parking lots and land leases.

REIT

This division owns 39 leasable commercial and retail properties (2020 – 39 properties) and other rental income producing assets such as residential property, parking lots and land leases.

Recreation Property

This division owns and manages three 18-hole golf course operations (one of which is 60% owned), and has a 50% ownership interest in one 18-hole golf course.

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

External Revenue:

(in Canadian dollars)	2021	2020
United States	70,383	50,816
Canada	245,245	176,002
Total	315,628	226,818

Total Assets:

As at December 31 (in Canadian dollars)	2021	2020
United States	287,421	243,283
Canada	1,826,506	1,758,002
Total	2,113,927	2,001,285

US Operations

Melcor has a wholly owned subsidiary with operations in the US, which includes a Community Development division and an Investment Property division. The subsidiary's related balances are included in the table above.

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Our divisions reported the following results:

2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 21)	202,754	42,929	38,931	74,094	9,989	—	368,697	(53,069)	**315,628**
Cost of sales (note 21)	(127,058)	(42,800)	(16,296)	(30,340)	(5,741)	—	(222,235)	46,733	**(175,502)**
Gross profit	75,696	129	22,635	43,754	4,248	—	146,462	(6,336)	**140,126**
General and administrative expense (note 21)	(6,902)	(1,947)	(2,409)	(2,953)	(2,610)	(8,161)	(24,982)	3,047	**(21,935)**
Fair value adjustment on investment properties (note 10, 21 and 28)	—	2,352	10,850	2,879	—	—	16,081	3,289	**19,370**
Gain on sale of assets	—	—	—	—	151	—	151	—	**151**
Interest income	516	—	1	30	—	25	572	—	**572**
Segment Earnings (loss)	*69,310*	*534*	*31,077*	*43,710*	*1,789*	*(8,136)*	*138,284*	—	***138,284***
Foreign exchange gain									**76**
Finance costs (note 20)									**(27,944)**
Adjustments related to REIT units (note 25)									**(31,526)**
Income before income taxes									**78,890**
Income tax expense (note 22)									**(22,579)**
Net income for the year									**56,311**

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2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 21)	115,087	40,186	38,004	74,572	7,703	—	275,552	(48,734)	226,818
Cost of sales (note 21)	(80,269)	(39,817)	(15,519)	(31,240)	(4,388)	—	(171,233)	42,634	(128,599)
Gross profit	34,818	369	22,485	43,332	3,315	—	104,319	(6,100)	98,219
General and administrative expense (note 21)	(5,822)	(1,766)	(2,141)	(3,043)	(1,862)	(6,720)	(21,354)	3,098	(18,256)
Fair value adjustment on investment properties (note 10, 21 and 28)	—	3,658	(20,392)	(62,748)	—	—	(79,482)	3,002	(76,480)
Gain on sale of assets	—	—	—	—	40	—	40	—	40
Interest income	444	13	18	72	—	27	574	—	574
Segment Earnings (loss)	*29,440*	*2,274*	*(30)*	*(22,387)*	*1,493*	*(6,693)*	*4,097*	—	*4,097*
Foreign exchange loss									(369)
Finance costs (note 20)									(28,057)
Adjustments related to REIT units (note 25)									37,534
Income before income taxes									13,205
Income tax expense (note 22)									(1,741)
Net income for the year									11,464

25. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, as detailed in notes 3s and 28, we account for the 44.6% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss (“FVTPL”). As at December 31, 2021 the REIT units had a fair value of $88,275 (2020 - $63,034). We recorded adjustments related to REIT units for the year of $31,526 (2020 - $37,534).

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

	2021	2020
Fair value adjustment on REIT units	(25,748)	43,273
Distributions to REIT unitholders	(5,778)	(5,739)
Adjustments related to REIT units	(31,526)	37,534

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 (presented at 100%).

	2021	2020
Assets	735,668	724,658
Liabilities	460,344	458,367
Net assets	275,324	266,291
Cost of NCI	103,959	103,959
Fair value of NCI	88,275	63,034

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	2021	2020
Revenue	74,094	74,572
Net (loss) income and comprehensive (loss) income	(16,287)	5,763
Cash flows from operating activities	14,881	13,786
Cash flows used in investing activities	(2,322)	(573)
Cash flows used in financing activities, before distributions to REIT unitholders	(3,397)	(5,662)
Cash flows used in financing activities - cash distributions to REIT unitholders	(5,651)	(6,087)
Net increase in cash and cash equivalents	3,511	1,464

26. MANAGEMENT OF CAPITAL RESOURCES

We define capital as share capital, contributed surplus, accumulated other comprehensive income, retained earnings and general debt. Our objective when managing capital is to utilize debt to improve our performance, support the growth of our assets, and finance capital requirements arising from the cyclical nature of our business. Specifically, we plan to utilize shorter term debt for financing infrastructure, land inventory, receivables and development activities and to utilize longer term debt and equity for the purchase of property and land assets.

We manage the capital structure through adjusting the amount of long-term debt, credit facilities, the amount of dividends paid, and through normal course issuer bids.

There were no changes to the way we define capital, our objectives, and our policies and processes for managing capital from the prior fiscal period.

We are subject to financial covenants on our $120,000 (2020 - $120,000) Melcor revolving credit facility. The covenants include a maximum debt to total capital ratio of 1.25, a minimum interest coverage ratio of 2.00, and a minimum net book value of shareholders' equity of $300,000. As at December 31, 2021, and throughout the period, we were in compliance with our financial covenants.

In addition, we are subject to financial covenants on our $35,000 REIT revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debentures), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of $140,000. As at December 31, 2021, and throughout the period, the REIT was in compliance with its financial covenants.

We also have financial covenants on certain mortgages for investment properties. At December 31, 2021, and throughout the period, we were in compliance with our financial covenants on our mortgages. We prepare financial forecasts to monitor the changes in our debt and capital levels and our ability to meet our financial covenants.

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27. RISK MANAGEMENT

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

a. Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Our financial assets that are exposed to credit risk consist of cash and cash equivalents, restricted cash, accounts receivable, and agreements receivable. Our maximum exposure to credit risk is the carrying amount of these instruments.

We invest our cash in bank accounts and short-term deposits with a major Canadian chartered bank. Accounts receivable balances include amounts due from other joint arrangement participants for their portion of management fees due to us as well as other various smaller balances due from municipal governments, other developers and tenants.

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

Accounts receivables are significantly low risk due to their individual immaterial balances, the nature of the party they are due from (including joint venture participants under management by Melcor), and the overall lack of historical write offs. During the current year, 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 with COVID-19 the 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 loss 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 $604 (2020 - $1,182).

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. At December 31, 2021, 95% of agreements receivable are due from approved builders (2020 – 88%).

	Current	0-6 months past due	Greater than 6 months past due	Total
As at December 31, 2021				
Expected loss rate	**0.06 %**	**0.18 %**	**0.18 %**	
Agreements receivable	**124,474**	**1,334**	**2,012**	**127,820**
Loss allowance	**75**	**2**	**4**	**81**

	Current	0-6 months past due	Greater than 6 months past due	Total
As at December 31, 2020				
Expected loss rate	0.06 %	0.18 %	0.18 %	
Agreements receivable	71,158	2,225	—	73,383
Loss allowance	43	4	—	47

Total loans included in agreements receivable that would have otherwise been past due at December 31, 2021, but whose terms have been renegotiated is $5,236 (2020 - $7,412). In order to address current market conditions, we have provided extensions on our standard terms to relieve liquidity pressure on builders. At December 31, 2021, we have identified $3,346 (2020 - $2,378) in agreements receivable which are in arrears. Due to the uncertain economic conditions surrounding COVID-19, Melcor recognizes that our counterparties' credit risk could be negatively impacted. Since 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 agreements receivable and expected credit loss rate for our agreements receivables is not considered material because we retain title. Melcor will continue to monitor change 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 updated cash flows created in order to incorporate the effects of COVID-19 we have access to sufficient liquidity through cash flows from operations, external sources and undrawn committed borrowing facilities to meet current spending forecasts.

To mitigate the risk associated with the refinancing of maturing debt, we stagger the maturity dates of our mortgage portfolio over a number of years. In 2020, to further mitigate the risk associated with the economic uncertainty caused by COVID-19, Melcor entered into several amending agreements to obtain relief periods in which payments of interest and principal were suspended temporarily. These relief periods did not change the terms of the mortgages and therefore the maturity dates continued to be staggered in order to mitigate the risk associated with refinancing of matured debt. The agreement amendments entered in 2020 were in response to programs put in place by the government. This was solely a 2020 event and as such, there were no agreement amendments for the year ended December 31, 2021.

Refer to note 15 for the maturity analysis of general debt and details on the bank indebtedness. Accounts payable and accrued liabilities are expected to be repaid in the next twelve months.

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 $2,052 (2020 - $2,021) based upon applicable year end debt balances. We are not subject to other significant market risks pertaining to our financial instruments.

28. 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 were determined as follows:

- the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, agreements receivable and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.
- fair values of general debt and the interest rate swaps are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 3).
- fair value of the conversion features on the REIT's convertible debentures 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 (Level 1).

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

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.

	December 31, 2021					December 31, 2020	
($000s)	**Fair Value hierarchy**	**Fair Value**	**Amortized Cost**	**Total Carrying Value**	**Total Fair Value**	Total Carrying Value	Total Fair Value
Non-financial assets							
Investment properties	**Level 3**	**1,118,805**	**—**	**1,118,805**	**1,118,805**	1,081,077	1,081,077
Financial liabilities							
General debt, excluding derivative financial liability	**Level 3**	**—**	**646,613**	**646,613**	**659,699**	654,200	656,510
REIT - Convertible debenture	**Level 2**	**—**	**65,637**	**65,637**	**63,683**	64,339	56,779
Derivative financial liabilities							
Interest rate swap	**Level 3**	**—**	**—**	**—**	**—**	1,376	1,376
Conversion features on convertible debentures	**Level 3**	**5,408**	**—**	**5,408**	**5,408**	1,871	1,871
REIT units	**Level 1**	**88,275**	**—**	**88,275**	**88,275**	63,034	63,034
Derivative financial asset							
Interest rate swap	**Level 3**	**629**	**—**	**629**	**629**	—	—
Conversion features on convertible debentures	**Level 3**	**116**	**—**	**116**	**116**	—	—

The table above analyzes assets and liabilities carried at fair value in the consolidated statement of financial position, by the levels in the fair value hierarchy. The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to the 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 year.

Investment properties

Investment properties are remeasured to fair value on a recurring basis, determined based on the 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. For properties under development forecasted net operating income is based on location, type and quality of the property, supported by the terms of actual or anticipated future leasing
- 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

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- 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 significant assumptions on a quarterly basis. At least once every two years, the valuations are performed by qualified external valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Investment properties were valued by Melcor's internal valuation team as at December 31, 2021 of which 29 legal phases included in investment properties (of 93 legal phases valued) with a fair value of $316,540 were valued by qualified independent external valuation professionals during the year which resulted in fair value gains of $19,370 recorded as fair value adjustment on investment properties in the statements of income and comprehensive income (2020 - investment properties were valued by Melcor Development Ltd.'s internal valuation team of which 85 legal phases included in investment properties (of 93 legal phases valued) with a fair value of $988,623 were valued by qualified independent external valuation professionals during the year which resulted in fair value losses of $76,480).

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

Asset	Valuation approach	Significant assumptions	Relationship between assumptions 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 stabilized net operating income for investment properties is $1,444 (2020 - $1,476). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties			**Properties under Development**		
December 31, 2021	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.25%**	**10.00%**	**6.68%**	**5.75%**	**6.25%**	**5.99%**
Terminal capitalization rate	**5.75%**	**9.00%**	**6.83%**	**6.00%**	**6.50%**	**6.24%**
Discount rate	**6.25%**	**9.75%**	**7.75%**	**7.00%**	**7.50%**	**7.22%**

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

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by $65,956 (2020 - $62,874). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by $76,635 (2020 - $72,771). Due to the uncertainty of the economic environment as a result of COVID-19, these estimates could be subject to significant changes and such changes could be material.

General Debt, excluding derivative financial liabilities

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

The fair value of project specific financing, secured vendor take back debt on land inventory and debt on investment properties and golf course assets 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.

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 December 31, 2021 the fair value of the REIT units was $88,275 (2020 - $63,034). During the year a fair value loss of $25,748 (2020 - gain of $43,273) was recognized in the statement of income and comprehensive income, and was included in adjustments related to REIT units. Melcor notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity markets. As the valuation of the REIT units is dependent on the trading price of the REIT's trust units, the impact on the fair value cannot be estimated at this time and such impact could be material.

Derivative financial instruments

Our derivative financial liabilities are comprised of floating for fixed interest rate swaps on mortgages (level 2) and the conversion features on our 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 December 31, 2021 the fair value of interest rate swap asset was $629 (2020 - $nil) and interest rate swap liability is $nil (2020 - $1,376).

The conversion features on the convertible debentures was valued at December 31, 2021. This resulted in a fair value adjustment of $3,421 (2020 - fair value adjustment of $1,209) being recognized in income. The significant unobservable inputs used in the fair value measurement of the conversion features on the REIT convertible debentures as at December 31, 2021 are as follows:

- Volatility - expected volatility as at December 31, 2021 was derived from the historical prices of the REIT's trust units. Volatility was 37.44% (2020 - 41.63%).
- Credit spread - the credit spread of the convertible debentures was imputed from the traded price of the convertible debentures as at December 31, 2021. The credit spread used was 7.88% (2020 - 11.34%).

Melcor notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity and debt markets. As the valuation of the conversion feature on the REIT convertible debentures is dependent on the historical price of the REIT's trust units and the trading price of the convertible debenture, the impact on the valuation of the conversion feature on the REIT convertible debentures cannot be estimated at this time and such impact could be material.

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29. SUBSEQUENT EVENTS

Distributions on REIT trust units:

Subsequent to December 31, 2021, we declared the following distributions:

Month	Record Date	Distribution Date	Distribution Amount
January 2022	January 31, 2022	February 15, 2022	$0.040 per unit
February 2022	February 28, 2022	March 15, 2022	$0.040 per unit
March 2022	March 31, 2022	April 15, 2022	$0.040 per unit

Dividend declared:

On March 16, 2022, our board of directors declared a quarterly dividend of $0.14 per share payable on March 31, 2022 to shareholders of record on March 25, 2022.