

## PRESS RELEASE

for immediate distribution

# Melcor Developments announces first quarter results, declares quarterly dividend of \$0.14 per share

Edmonton, Alberta | May 9, 2022

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the first quarter ended March 31, 2022. Revenue for the quarter was up 23% to \$53.31 million compared to Q1-2021. Net income in the quarter was impacted by non-cash fair value losses of \$5.68 million on REIT units related to unit price appreciation since December 31, 2021 resulting in a net income of \$2.47 million or \$0.08 per share (basic) compared with a net loss of \$14.03 million or \$0.42 per share (basic) in Q1-2021.

Funds from operations (FFO) increased 5% to \$10.70 million or \$0.33 per share over Q1-2021. FFO is a better measure of performance as it eliminates the significant swings in fair value adjustments on REIT units and investment properties.

**Community Development** division revenue increased 75% over Q1-2021, with 288 single-family lots and 7.58 multi-family acres sold (Q1-2021: 122 single-family lots and 8.53 acres of land sold to government bodies). **Property Development** activity corresponds to the construction season in Alberta, with increases in fair value typically occurring in the later part of the year.

Revenue in our income-producing divisions (**Investment Properties** and **REIT**) was down 3% over Q1-2021. Excluding the Early Termination in the REIT and the IP Early Termination events in Q1-2021, revenue in these divisions was up 7% over Q1-2021.

Timothy Melton, Melcor's Executive Chair and Chief Executive Officer, commented on the quarter: "We are pleased to present Melcor's results for the first quarter of 2022. The Community Development division had a strong quarter, with 288 single-family lots sold compared to 122 in Q1-2021. The division is planning to produce several new phases in a number of communities through the second and third quarters this year.

Revenue and occupancy in our income-producing divisions have remained relatively stable. Leasing activity through the quarter has trended to positive, with 179,269 sf of new and renewed leasing (including holdovers) in the REIT leading to improved occupancy of 87.4%. Occupancy for IP was also up slightly to 77.6% for Canadian properties and 76.9% for US properties.

Golf course operations will start contributing to revenue in the second quarter."

## First Quarter Results

Revenue in Q1-2022 was up 23% compared to Q1-2021 as a result of continued strength in the new homes market and the timing of lot registrations in the quarter, which contributed to the 75% increase in Community Development revenue. The Community Development division also sold 7.58 acres of multi-family land, including 2.3 acres in Edmonton and 5.3 acres in Lethbridge in Q1-2022. Given the timing of sales in real estate development, comparison of any three-month period may not be meaningful.

Revenue from our income-generating Investment Properties and REIT divisions was down compared to Q1-2021 due to the Early Termination and IP Early Termination events (see Investment Properties, page 10 and REIT, page 10 for additional information) which contributed \$2.94 million to other revenue as well as US residential properties disposed of over the past 12 months contributing to lower revenue.

## FINANCIAL HIGHLIGHTS

Revenue was up 23% as a result of the 136% increase in single-family lots sold and 7.58 acres in multi-family land sales (Q1-2021 - nil), leading to 75% growth in Community Development revenue.

Funds from operations (FFO) increased 5% over Q1-2021.

Net income was \$2.47 million in Q1-2022 compared to a net loss of \$14.03 million in Q1-2021. Net loss is significantly impacted by swings in non-cash fair value adjustments on investment properties and REIT units. The change in the REIT's unit price has a counter-intuitive impact on net income as an increase in unit value decreases net income. These losses are a key reason we focus on FFO as a truer measure of our financial performance.

## DIVISIONAL OPERATING HIGHLIGHTS

The **Community Development** division will have a busy construction season to replenish inventory in all regions. Showhomes in the new community known as Cobblestone Creek in Airdrie, AB will be opening soon. The Pinnacle at Sunset Ridge in Cochrane, AB is a highly anticipated estate community, with lots scheduled for release in 2022. New showhome parades are also opening in several other communities in the spring/summer of 2022.

Sales activity remains healthy in our Canadian markets, including satellite communities such as St. Albert, Spruce Grove, Airdrie and Cochrane. Year-to-date, we sold 288 single-family lots compared to 122 last year. We continue to move new communities and additional phases in existing neighbourhoods through the municipal approval process.

The **Property Development** team has 6,913 sf in 1 project (Jensen Lakes Crossing) currently under construction, with no transfers in 2022 to date. A further 23,247 sf is complete and awaiting lease-up and transfer in 2 projects: Woodbend Market and Chestermere Station. Construction and leasing activity resulted in fair value gains of \$0.33 million.

Revenue in our income-producing divisions (**Investment Properties** and **REIT**) was down 3% in the quarter. This decrease is a result of the Early Termination and IP Early Termination events which both occurred in Q1-2021, coupled with reduced revenue from our US properties as 11 residential units were sold in Q2 and Q3-2021. These reductions to revenue were partially offset by increased occupancy in both Canada and the US.

Our **Recreational Properties** are now open. Black Mountain opened on March 30, 2022. Our other courses opened subsequent to the quarter, on April 22 for courses managed by Melcor and April 29 for the course managed by a third party.

## RETURNING VALUE

We continue to return value to our shareholders and unitholders:

- We paid a quarterly dividend of \$0.14 per share in Q1-2022.
- On May 9, 2022 we declared a quarterly dividend of \$0.14 per share, payable on June 30, 2022 to shareholders of record on June 15, 2022. The dividend is an eligible dividend for Canadian tax purposes.
- The REIT increased monthly distributions by 14% to \$0.04 per unit compared to Q1-2021.
- The REIT also declared the following distributions for periods subsequent to the quarter:

Month	Record Date	Distribution Date	Distribution Amount
April 2022	April 29, 2022	May 16, 2022	\$0.04 per Unit
May 2022	May 31, 2022	June 15, 2022	\$0.04 per Unit

## Selected Highlights

(\$000s except as noted)				Three months ended		
	31-Mar-22	31-Mar-21	Change			
Revenue	53,306	43,270	23.2 %			
Gross margin (%) <sup>1</sup>	47.2 %	52.2 %	(9.6)%			
Net income	2,470	(14,033)	117.6 %			
Net margin (%) <sup>1</sup>	4.6 %	(32.4)%	114.2 %			
Funds from operations (FFO) <sup>2</sup>	10,697	10,174	5.1 %			
<b>Per Share Data (\$)</b>						
Basic earnings	0.08	(0.42)	119.0 %			
Diluted earnings	0.07	(0.42)	116.7 %			
Funds from operations <sup>3</sup>	0.33	0.31	6.5 %			
Dividends	0.14	0.10	40.0 %			
<b>As at (\$000s except share and per share amounts)</b>						
	31-Mar-22	31-Dec-21	Change			
Total assets	2,114,888	2,113,927	– %			
Shareholders' equity	1,110,053	1,116,469	(0.6)%			
Total shares outstanding	32,832,559	32,961,015	(0.4)%			
<b>Per Share Data (\$)</b>						
Book value <sup>3</sup>	33.81	33.87	(0.2)%			

1. Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

2. Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

3. Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

## MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three months ended March 31, 2022, which can be found on the company's website at [www.Melcor.ca](http://www.Melcor.ca) or on SEDAR ([www.sedar.com](http://www.sedar.com)).

## Non-GAAP & Non-Standard Measures

FFO is a key measures of performance used by real estate operating companies; however, that is not defined by International Financial Reporting Standards ("IFRS"), do not have standard meanings and may not be comparable with other industries or income trusts. This non-IFRS measures are more fully defined and discussed in the Melcor's management discussion and analysis for the period ended March 31, 2022, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**Funds from operations (FFO):** FFO is a non-GAAP financial measure and is defined as net income in accordance with IFRS, excluding (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; (vi) adjustment for amortization of deferred financing fees, which is included in non-cash financing costs and (vii) fair value adjustment on derivative instrument, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties. See tables below for reconciliation of FFO:

### Consolidated

(\$000s)	Three months ended	
	31-Mar-22	31-Mar-21
<b>Net income (loss) for the period</b>	<b>2,470</b>	(14,033)
Amortization of operating lease incentives	<b>1,407</b>	2,011
Fair value adjustment on investment properties	<b>2,522</b>	(976)
Depreciation on property and equipment	<b>156</b>	178
Stock based compensation expense	<b>117</b>	266
Non-cash finance costs	<b>(1,472)</b>	1,274
Gain on sale of asset	<b>—</b>	(4)
Deferred income taxes	<b>(181)</b>	(184)
Fair value adjustment on REIT units	<b>5,678</b>	21,642
<b>FFO</b>	<b>10,697</b>	10,174

### Investment Properties

(\$000s)	Three months ended	
	31-Mar-22	31-Mar-21
<b>Segment Earnings</b>	<b>5,112</b>	6,666
Fair value adjustment on investment properties	<b>218</b>	(466)
Amortization of operating lease incentives	<b>365</b>	515
<b>Divisional FFO</b>	<b>5,695</b>	6,715

### REIT

(\$000s)	Three months ended	
	31-Mar-22	31-Mar-21
<b>Segment Earnings</b>	<b>6,513</b>	10,395
Fair value adjustment on investment properties	<b>3,662</b>	401
Amortization of operating lease incentives	<b>901</b>	915
<b>Divisional FFO</b>	<b>11,076</b>	11,711

**Gross margin (%):** Gross margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn revenue. This ratio is calculated by dividing gross profit by revenue.

**Net margin (%):** Net margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn income. This ratio is calculated by dividing net income by revenue.

**Book value per share:** Book value per share is a non-GAAP financial ratio and is calculated as shareholders' equity over number of common shares outstanding.

### About Melcor Developments Ltd.

Melcor is a diversified real estate development and asset management company that transforms real estate from raw land through to high-quality finished product in both residential and commercial built form. Melcor develops and manages mixed-use residential communities,

business and industrial parks, office buildings, retail commercial centres and golf courses. Melcor owns a well diversified portfolio of assets in Alberta, Saskatchewan, British Columbia, Arizona and Colorado.

Melcor has been focused on real estate since 1923. The company has built over 140 communities and commercial projects across Western Canada and today manages 4.75 million sf in commercial real estate assets and 593 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

Melcor's headquarters are located in Edmonton, Alberta, with regional offices throughout Alberta and in Kelowna, British Columbia and Phoenix, Arizona. Melcor has been a public company since 1968 and trades on the Toronto Stock Exchange (TSX:MRD).

## **Forward Looking Statements**

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

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

*This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2022 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.*

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

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

## **Contact Information:**

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# Management's Discussion & Analysis

May 9, 2022

The following discussion of Melcor Developments' (Melcor's) financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the quarter ended March 31, 2022 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2021.

The financial statements underlying this MD&A, including 2021 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Melcor's Board of Directors approved the content of this MD&A on May 9, 2022 on the recommendation of the Audit Committee.

## Other Information

Additional information about Melcor, including our annual information form, information circular and annual and quarterly reports, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Non-standard Measures

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

## Forward-looking Statements

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

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

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2022 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. We also caution readers that the COVID-19 pandemic resulted in both new and increased risk; however we feel that the worst is now behind us with the lifting of restrictions. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risks in our annual MD&A and the updated risk disclosure contained in the Business Environment & Risks section contained in this MD&A.

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

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## Our Business

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

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

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

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

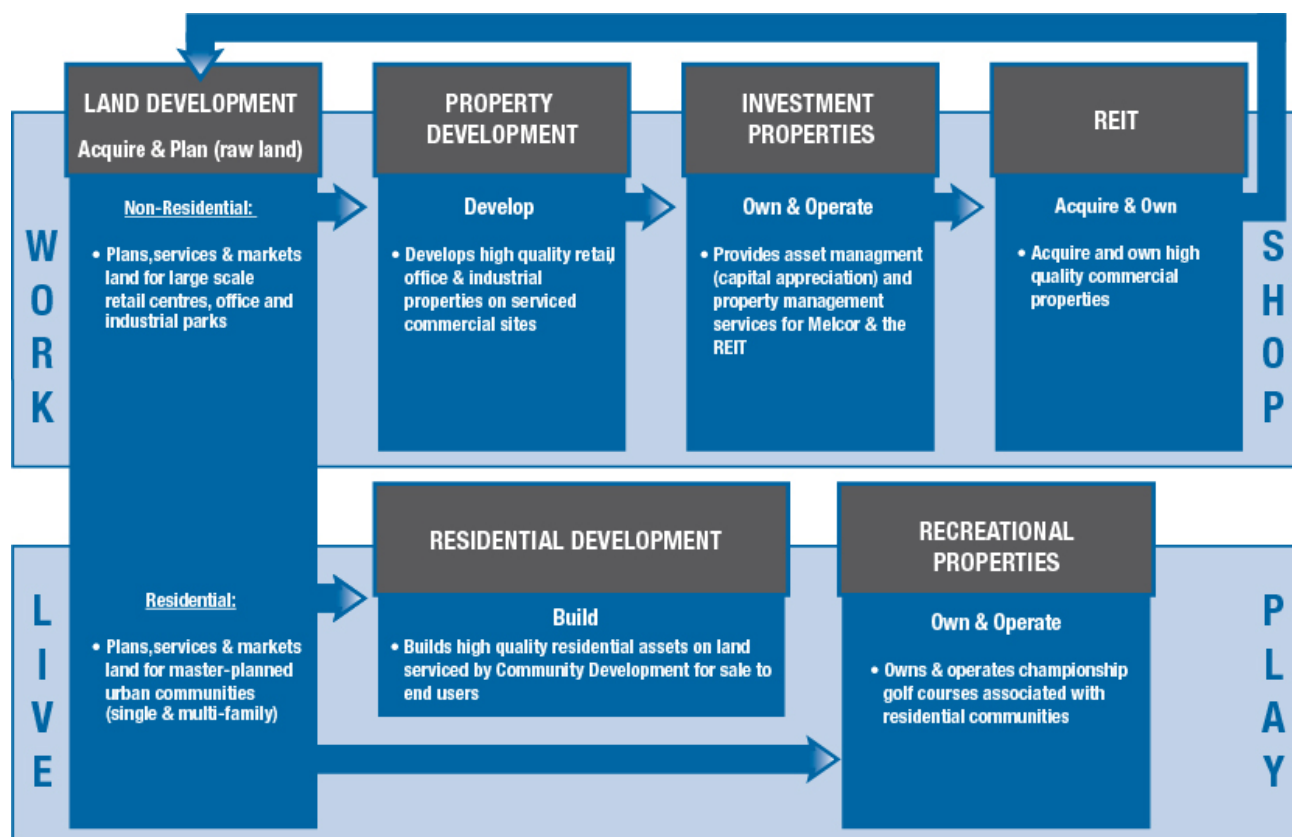
In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreational Properties. Melcor has \$2.11 billion in assets.

The diagram below illustrates how each of our operating divisions complements one another to create and enhance value from our real estate assets.

In addition to extending the value of our asset base, these diversified operating divisions enable us to manage our business through real estate cycles (both general market conditions and the seasonality associated with construction and development) and diversify our revenue base.

Our headquarters are in Edmonton, Alberta, with regional offices across Alberta, in Kelowna, British Columbia, and in Phoenix, Arizona. Our developments span western Canada, and Colorado and Arizona in the US.

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



# Glossary of Acronyms

Common Acronyms	
<b>FFO</b>	funds from operations
<b>GAAP</b>	generally accepted accounting principles
<b>G&amp;A</b>	general and administrative expense
<b>GBV</b>	gross book value
<b>GLA</b>	gross leasable area
<b>IFRS</b>	international financial reporting standards
<b>NCIB</b>	normal course issuer bid
<b>NOI</b>	net operating income
<b>sf</b>	square feet
<b>SLR</b>	straight-line rent
<b>WABR</b>	weighted average base rent

## First Quarter Highlights

Readers are reminded that established key performance measures may not have standardized meaning under GAAP. For further information on Melcor's non-standard measures, non-GAAP measures, operating measures and non-GAAP ratios, refer to the non-GAAP and non-standard measures section.

(\$000s except as noted)		Three months ended		
	31-Mar-22	31-Mar-21	Change	
Revenue	<b>53,306</b>	43,270	23.2 %	
Gross margin <sup>1</sup>	<b>47.2 %</b>	52.2 %	(9.6)%	
Net income (loss)	<b>2,470</b>	(14,033)	117.6 %	
Net margin <sup>1</sup>	<b>4.6 %</b>	(32.4)%	114.2 %	
FFO <sup>2</sup>	<b>10,697</b>	10,174	5.1 %	
Per Share Data (\$)				
Basic earnings	<b>0.08</b>	(0.42)	119.0 %	
Diluted earnings	<b>0.07</b>	(0.42)	116.7 %	
FFO <sup>3</sup>	<b>0.33</b>	0.31	6.5 %	
Dividends	<b>0.14</b>	0.10	40.0 %	
As at (\$000s except share and per share amounts)				
	31-Mar-22	31-Dec-21	Change	
Total assets	<b>2,114,888</b>	2,113,927	— %	
Shareholders' equity	<b>1,110,053</b>	1,116,469	(0.6)%	
Total shares outstanding	<b>32,832,559</b>	32,961,015	(0.4)%	
Per Share Data (\$)				
Book value <sup>(3)</sup>	<b>33.81</b>	33.87	(0.2)%	

- 1 Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.
- 2 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.
- 3 Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

Revenue in Q1-2022 was up 23% compared to Q1-2021 as a result of continued strength in the new homes market and the timing of lot registrations in the quarter, which contributed to the 75% increase in Community Development revenue. The Community Development division also sold 7.58 acres of multi-family land,

including 2.3 acres in Edmonton and 5.3 acres in Lethbridge in Q1-2022. Given the timing of sales in real estate development, comparison of any three-month period may not be meaningful.

Investment properties GLA increased slightly as a result of property remeasures, which typically occur when leases turnover. Revenue from our income-generating Investment Properties and REIT divisions was down compared to Q1-2021 due to the Early Termination and IP Early Termination events which contributed \$2.94 million to other revenue. We also disposed of some US residential units over the past 12 months contributing to lower revenue. See Investment Properties, page 9 and REIT, page 10 for additional information.

## FINANCIAL HIGHLIGHTS

Revenue was up 23% as a result of the 136% increase in single-family lots sold and 7.58 acres in multi-family land sales (Q1-2021 - nil), leading to 75% growth in Community Development revenue.

Funds from operations (FFO) increased 5% over Q1-2021.

Net income was \$2.47 million in Q1-2022 compared to a net loss of \$14.03 million in Q1-2021. Net loss is significantly impacted by swings in non-cash fair value adjustments on investment properties and REIT units. The change in the REIT's unit price has a counter-intuitive impact on net income as an increase in unit value decreases net income. These losses are a key reason we focus on FFO as a truer measure of our financial performance.

## DIVISIONAL OPERATING HIGHLIGHTS

The **Community Development** division will have a busy construction season to replenish inventory in all regions. Showhomes in the new community known as Cobblestone Creek in Airdrie, AB will be opening soon. The Pinnacle at Sunset Ridge in Cochrane, AB is a highly anticipated estate community, with lots scheduled for release in 2022. New showhome parades are also opening in several other communities in the spring/summer of 2022.

Sales activity remains healthy in our Canadian markets, including satellite communities such as St. Albert, Spruce Grove, Airdrie and Cochrane. Year-to-date, we sold 288 single-family lots compared to 122 last year. We continue to move new communities and additional phases in existing neighbourhoods through the municipal approval process.

The **Property Development** team has 6,913 sf in 1 project (Jensen Lakes Crossing) currently under construction, with no transfers in 2022 to date. A further 23,247 sf is complete and awaiting lease-up and transfer in 2 projects: Woodbend Market and Chestermere Station. Construction and leasing activity resulted in fair value gains of \$0.33 million.

Total GLA under management increased a marginal 1,462 sf due to remeasures of property that typically occur on lease transfers and/or renewals. Revenue in our income-producing divisions (**Investment Properties** and **REIT**) was down 3% in the quarter. This decrease is a result of the Early Termination and IP Early Termination events which both occurred in Q1-2021, coupled with reduced revenue from our US properties as 11 residential units were sold in Q2 and Q3-2021. These reductions to revenue were partially offset by increased occupancy in both Canada and the US.

The investment property portfolio fair value decreased \$3.88 million in Q1-2022. This relates to increased tenant incentives that did not have a corresponding increase in fair value.



Our **Recreational Properties** are now open. Black Mountain opened on March 30, 2022. Our other courses opened subsequent to the quarter.

## RETURNING VALUE

We continue to return value to our shareholders and unitholders:

- We paid a quarterly dividend of \$0.14 per share in Q1-2022.
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Month	Record Date	Distribution Date	Distribution Amount
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## REVENUE & MARGINS

Revenue was up 23% to \$53.31 million compared to Q1-2021. Community Development revenue increased 75% to \$25.99 million due to strong lot sales in our major Alberta markets. Revenue from single-family lot sales in Canada was \$21.48 million, up from \$14.88 million in the comparative period. Community Development division revenue is highly dependent on the demand for new homes in the regions where we hold land, the timing of raw, commercial and multi-family land sales, and the timing of registration on single-family lots.

With the higher contribution to revenue from Community Development, our income-generating divisions (Investment Properties and the REIT) accounted for 55% of Q1-2022 revenue after intersegment eliminations compared with 71% of total revenue in Q1-2021. Q1-2022 revenue from our income-generating divisions was \$29.57 million at 58% gross margin compared to \$30.52 million at 60% gross margin in Q1-2021. This decrease in revenue is the result of the Early Termination event, coupled with the sale of residential properties in the US since Q1-2021, partially offset by higher occupancy.

Gross margin decreased to 47% compared to 52% in Q1-2021. Our Community Development division contributed 37% to gross margin in Q1-2022 (Q1-2021 - 33%). Margins in this division decreased from 40% to 38% due to changes in product mix, which, along with negative margin in our recreational properties prior full season opening, led to the decrease in consolidated gross margin.

Net income is impacted by non-cash fair value adjustments on investment properties and REIT units, which can result in wide swings from period to period. These adjustments are primarily driven by market forces outside of Melcor's control. Management believes that FFO (discussion follows) is a more accurate reflection of our true operating performance.

Revenue and net income can also fluctuate significantly from quarter to quarter due to the timing of plan registrations, the cyclical nature of real estate and construction markets, and the mix of lot sales and product types. The growth of our income-

generating divisions offsets this cyclical nature and has been a key diversification strategy over the past decade.

## Funds From Operations (FFO)

FFO is a non-GAAP measure used in the real estate industry to measure operating performance. Refer to the Non-GAAP Measures section. We believe that FFO is an important measure of the performance of our real estate assets. FFO per share adjusts for certain non-cash items included in income such as fair value adjustments on investment properties and REIT units.

Below is a reconciliation of net income to FFO:

(\$000s)	Three months ended	
	31-Mar-22	31-Mar-21
<b>Net income (loss) for the period</b>	<b>2,470</b>	(14,033)
Amortization of operating lease incentives	<b>1,407</b>	2,011
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Gain on sale of asset	<b>—</b>	(4)
Deferred income taxes	<b>(181)</b>	(184)
Fair value adjustment on REIT units	<b>5,678</b>	21,642
<b>FFO<sup>1</sup></b>	<b>10,697</b>	10,174
<b>FFO per share<sup>2</sup></b>	<b>0.33</b>	0.31

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

2 Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

FFO was up 5% or \$0.52 million in the quarter. Improved gross margin in the quarter, was partially offset by higher G&A expenses, higher distributions to REIT unitholders (included in adjustments related to REIT units), and slightly higher current tax expense. The increase in distributions correlated to the higher REIT distributions in Q2-2022, compared with Q1-2021.

As real estate development is long term in nature, comparison of any three-month period may not be as meaningful as full year results.

## Divisional Results

Our business is comprised of five integrated and complementary operating divisions:

- **Community Development**, which acquires raw land for future commercial and residential community development;



- **Property Development**, which develops high-quality retail, office and industrial income-producing properties on serviced commercial sites developed by Community Development;
- **Investment Properties**, which manages and leases the commercial developments produced by the Property Development division and an externally purchased portfolio of assets, as well as assets held in the REIT;
- **The REIT**, which owns and holds 39 income-producing properties; and
- **Recreational Properties**, which owns and operates championship golf courses associated with Melcor residential communities.

Our Corporate division carries out support functions including accounting, treasury, information technology, administration, legal, marketing and human resources.

The following table summarize the results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three months March 31		Three months March 31		Three months March 31		Three months March 31		Three months March 31	
(\$'000s except as noted)	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Revenue	25,993	14,877	18	32	10,604	11,029	18,965	19,486	113	84
Portion of total revenue %	47 %	33 %	– %	– %	19 %	24 %	34 %	43 %	– %	– %
Cost of sales	(16,073)	(8,879)	–	–	(4,265)	(4,213)	(8,009)	(7,894)	(444)	(414)
Gross profit	9,920	5,998	18	32	6,339	6,816	10,956	11,592	(331)	(330)
Gross margin % <sup>1</sup>	38 %	40 %	100 %	100 %	60 %	62 %	58 %	59 %	(293)%	(393)%
Portion of total margin <sup>1</sup>	37 %	25 %	– %	– %	24 %	28 %	41 %	48 %	(1)%	(1)%
General and administrative expense	(1,822)	(1,563)	(736)	(466)	(1,010)	(617)	(788)	(803)	(365)	(334)
Fair value adjustment on investment properties	–	–	328	72	(218)	466	(3,662)	(401)	–	–
Gain on sale of assets	–	–	–	–	–	–	–	–	–	4
Interest income	92	140	–	–	1	1	7	7	–	–
Segment Earnings (Loss)	8,190	4,575	(390)	(362)	5,112	6,666	6,513	10,395	(696)	(660)

Divisional results are shown before intersegment eliminations and exclude corporate division.

<sup>1</sup> Supplementary financial measure. Refer to Non-GAAP and Non-Standard Measures section for further details.

## Community Development

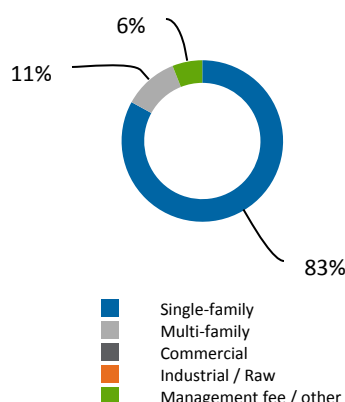
Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning, obtaining approvals from municipalities, developing the land, construction, marketing and ultimately selling the lots to home builders (for residential communities) or developers (for commercial/industrial centres). The division also sells sites to our Property Development division, which in turn develops commercial properties on the land.

Master-planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and multi-family parcels are sold to home builders who share our passion for quality and with whom we have long-standing relationships.

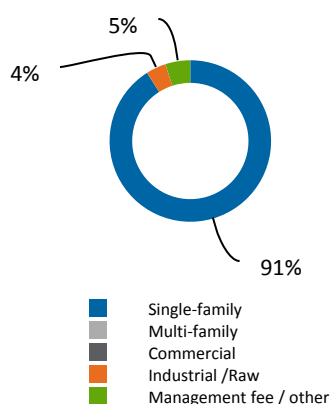
Our focus is to grow market share and income levels by ensuring that we have an appropriate land mix and the right inventory in high demand areas in growing regions. We proactively manage our agreement receivables by maintaining an exclusive builder clientele and working closely with those builders.

## REVENUE BY TYPE

Three months ended March 31, 2022



Three months ended March 31 2021



Community Development division revenue is cyclical in nature and highly dependent on the demand for new homes in the regions where we hold land as well as the timing of single-family lot registrations, and the timing of raw, commercial, industrial and multi-family land sales. Because of this, community development revenue and income can fluctuate significantly from period to period.

Consolidated	Three months ended	
	31-Mar-22	31-Mar-21
<b>Canada Sales data: (including joint ventures at 100%)</b>		
Single-family sales (number of lots)	288	122
Gross average revenue per single-family lot (\$)	144,246	179,036
Multi-family sales (acres)	7.58	—
Gross average revenue per multi-family acre (\$)	594,459	—
Land sales to government bodies - raw, other (acres)	—	8.53
Gross average revenue per other land acre (\$)	—	64,453
<b>Divisional results: (including joint ventures at Melcor's interest)</b>		
Revenue (\$000s)	25,993	14,877
Earnings (\$000s)	8,190	4,575

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

We sold 288 single-family lots in Q1-2022 compared to 122 in Q1-2021. Our major Alberta markets were busy in the first quarter of 2022 with demand and sales surpassing both the comparative period and budgeted amounts. Our Edmonton region sold 229 lots, compared to 88 in the comparative period, representing the largest increase. The Calgary region also had a busy quarter, with 51 lots sold, compared to 15 in the same period last year.

Multi-family land sales also contributed \$3.02 million to revenue in the quarter, while no land was sold in Q1-2021. We sold multi-family lots in two communities in the first quarter - 2.28 acres in SW Edmonton (Windermere) and 5.30 acres in Lethbridge (Legacy Ridge). Land sales, including commercial and multi-family sites, tend to vary quarter over quarter and can lead to lumpy revenue.

Gross margin in the Community Development division was down slightly as a result of higher estate lot sales in the prior year period. Gross margin was 38% in Q1-2022(Q1-2021 - 40%).

With low single-family lot inventory coming into 2022 combined with strong demand, we have an active construction program for the year and are currently planning to bring on 25 new phases in 19 communities for a total of 1,195 new lots being brought into inventory in 2022.

The average selling price on our single-family lots in Canada decreased 24% from Q1-2021 as a result of the combination of product type and selling region. Single-family lot sales covered a wide mix of product categories at various price points in 2022 thus far, from starter townhomes and duplexes to zero lot line homes. In Q1-2021 we released and sold 11 lake-view lots in our Kelowna region, at an average selling price of \$0.47 million per lot, bringing the comparative period average up. Excluding these lots sold, the average selling price was more comparative to that in the current period.

No lots were sold in the USA in the quarter. We are actively marketing and working on final approvals for all of our land assets in the US. We intend to sell many of these projects as paper lots, which means we do not plan to develop ourselves. While we may participate in strategic land purchase opportunities, our primary focus is on harvesting our current inventory.

We continue to develop new phases in communities where demand is evident. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development, and by ensuring that our product mix is aligned with current market preferences.

### Regional Sales Analysis

A summary of our lot and acre sales by region is as follows:

(including joint ventures at 100%)	Three months ended March 31, 2022			Three months ended March 31, 2021			
	Single-family (Lots)	Multi-family (Acres)	Other (Acres)	Single-family (Lots)	Multi-family (Acres)	Other (Acres)	Paper Lots
Edmonton Region	229	2.28	—	88	—	8.53	—
Red Deer	8	—	—	7	—	—	—
Calgary Region	51	—	—	15	—	—	—
Lethbridge	—	5.30	—	1	—	—	—
Kelowna	—	—	—	11	—	—	—
United States	—	—	—	—	—	—	—
	288	7.58	—	122	—	8.53	—

Single-family lot sales may vary significantly quarter over quarter as plan registrations typically occur in the latter half of the year. Lot sales were up in our major Alberta regions. In Q1-2022, we rezoned a 3.3 acre site into 36 new single-family lots in our Edmonton region.

Sales remain strong in all areas that have available inventory.

### Inventory

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

(including joint ventures at 100%)	Three months ended March 31, 2022			Three months ended March 31, 2021		
	Single-family (Lots)	Multi-family (Acres)	Other (Acres)	Single-family (Lots)	Multi-family (Acres)	Other (Acres)
Open	685	61.7	—	652	59	126
Purchases	—	—	—	—	—	—
New developments	—	—	—	17	—	—
Redevelopment	36	(3.3)	—	—	—	—
Sales	(288)	(7.6)	—	(122)	—	—
	433	50.8	—	547	59	126

We strategically monitor inventory levels and bring on appropriately sized new phases where market demand dictates.

### Raw land inventory

We acquire land in strategic growth corridors and maintain an inventory of land for future development in our primary markets. Raw land acquisitions are based on management's anticipation of market demand and development potential. The markets we operate in require significant infrastructure development and heavy capital investment, creating a barrier to entry. We continually investigate potential raw lands that complement our existing land holdings or provide attractive projects that are

consistent with our overall strategy and management expertise. We acquire land when we find a good fit within these criteria.

No new land was purchased in Q1-2022 or Q1-2021. We continue to monitor our land holdings and manage our cash position in order to capitalize on land acquisition opportunities as they arise.

### Property Development

Our Property Development division develops, manages construction, markets and initially leases high-quality retail, office, industrial and multi-family residential revenue-producing properties on prime commercial sites purchased primarily from our Community Development division at fair market value. The division currently operates solely in Alberta.

The Property Development division supports our strategic objectives of asset diversification, income growth and value creation by constructing income-producing commercial developments.

The Property Development division increases the value of land assets and delivers long-term sustainable returns with high profile anchor tenants such as ATB, Bank of Montreal, Canadian Tire, Canadian Western Bank, CIBC, Home Depot, Loblaws, McDonald's, Recipe Unlimited, Rona, Royal Bank, Save-on Foods, Scotiabank, Shoppers Drug Mart, Staples, Starbucks, Subway, TD Canada Trust, Tim Hortons, Wal-Mart, Winners and many others.

Completed buildings are transferred from Property Development to Investment Properties at fair market value (based on third party appraisals) once construction and leasing activity nears completion. The transferred revenue and related costs are eliminated on consolidation and do not impact overall earnings.

Management fee revenue is comprised of fees paid by joint arrangement partners and is a percentage of total development costs incurred, which fluctuate period to period depending on the development stage of active projects.

The Property Development division realizes fair value gains resulting from development and leasing activities as construction is in progress. We generally expect to see the majority of fair value increases in the third and fourth quarters as construction and leasing are completed.

### Division Highlights

(\$000s and at JV%, except as noted)	Three months ended	
	31-Mar-22	31-Mar-21
Total revenue	18	32
Management fees revenue	18	32
Fair value gains on investment properties	328	72

Our Property Development division is actively constructing 1 new CRU and has plans to expand development in several other projects as the 2022 construction season commences.

Continued development and leasing in these projects resulted in fair value gains of \$0.33 million during the quarter. Management examines each project on a case by case basis and we continue to develop where we remain confident in our lessees prospects.

The Property Development division currently has 30,160 sf under active development or completed and awaiting lease-up.

## Regional Highlights

(\$000s and at JV%, except as noted)	Three months ended	
	31-Mar-22	31-Mar-21
Fair value adjustments by region		
Northern Alberta	328	—
Southern Alberta	—	72
	328	72

**Northern Alberta:** We recognized \$0.33 million in fair value gains year-to-date related to ongoing development in Jensen Lakes and Woodbend Market. Development continues at neighbourhood shopping centres in Northern Alberta with 10,783 sf completed and awaiting lease-up and a further 6,913 sf under construction.

**Southern Alberta:** Year-to-date we have not recognized any fair value gains. We are actively working on leasing up 12,464 sf of space at Chestermere Station and expect to complete and transfer this property later in the year.

## Future development opportunities

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

The following tables illustrate our current and future project expectations:

Current Projects					
Project	Location	Type	Total SF <sup>1</sup>	Developed and transferred to IP or Sold <sup>2</sup>	SF Under Development or developed and awaiting lease up
The Village at Blackmud Creek	South Edmonton	Regional business park	550,000	198,905	—
Telford Industrial	Leduc	Industrial Park	500,000	143,118	—
West Henday Promenade	West Edmonton	Regional mixed use centre	515,300	116,300	—
Kingsview Market	Airdrie	Regional shopping centre	331,000	200,601	—
Kingsview Commercial	Airdrie	Regional shopping centre	33,500	33,500	—
Chestermere Station	Chestermere	Neighbourhood shopping centre	278,100	241,600	12,464
Clearview Market 2	Red Deer	Neighbourhood shopping centre	80,000	3,010	—
The District at North Deerfoot	North Calgary	Regional business / industrial park	1,285,000	586,633	—
Campsite Industrial	Spruce Grove	Industrial Park	170,000	13,700	—
The Shoppes at Jagare Ridge	South Edmonton	Neighbourhood shopping centre	105,000	105,000	—
Jensen Lakes Crossing	St. Albert	Neighbourhood shopping centre	150,000	95,713	6,913
Woodbend Market	Leduc	Neighbourhood shopping centre	140,000	3,000	10,783
Vista Ridge	Sylvan Lake	Neighbourhood shopping centre	20,000	—	—
Greenwich	West Calgary	Regional mixed use centre	325,000	—	—

<sup>1</sup> Total SF represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end-users. For example, grocers usually buy land from Melcor and build/own their building. Total SF is periodically recalibrated based on current market conditions and changes to development plans.

<sup>2</sup> Developed and transferred to IP or sold includes estimated sf of sites sold to retailers for development as described above.

Expected Future Projects					
Project	Location	Type	Total SF <sup>1</sup>	Ownership Interest	Expected Start (year)
Secord	Edmonton	Neighbourhood shopping centre	75,000	60%	2022
Laredo	Red Deer	Neighbourhood shopping centre	10,000	100%	2023
Keystone Common	North Calgary	Regional power centre	350,000	100%	2023
The Shoppes at Canyons	Lethbridge	Neighbourhood shopping centre	105,000	100%	2023
Mattson	Edmonton	Neighbourhood shopping centre	75,000	50%	2024+
Rollyview	Leduc	Neighbourhood shopping centre	75,000	100%	2024+
Rosenthal	Edmonton	Neighbourhood mixed use centre	30,000	50%	2024+
West Pointe Marketplace	Lethbridge	Regional power centre	750,000	100%	2024+
Westview Commercial	West Calgary	Neighbourhood shopping centre	150,000	100%	2024+
Sora	South Calgary	Neighbourhood shopping centre	60,000	50%	2024+

<sup>1</sup> Total SF represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end-users. For example, grocers usually buy land from Melcor and build/own their building. Total SF is periodically recalibrated based on current market conditions and changes to development plans.

## Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality office, retail, industrial and residential properties, which are located across western Canada and the US, including properties owned by the REIT. Currently our Investment Properties division manages 4.75 million sf of income-producing commercial GLA and 593 residential units.

Our commercial property portfolio is primarily comprised of properties developed and transferred from our Property Development division in Alberta or acquired from third parties throughout our portfolio. Our goal is to improve the operating efficiency of each property for stable and growing cash flows, making them attractive assets for the REIT to purchase under its Right of First Offer (ROFO) option. In our management capacity, we are committed to efficient property management for optimized operating costs, occupancy and rental rates, providing the REIT and our joint venture partners with best in class management services. We focus on client retention through continuous customer contact and ongoing service evaluations. We also enhance our portfolio by upgrading the appearance, functionality and desirability of our properties, thereby increasing their rental potential.

Our US properties provide the division with a stable income stream that diversifies our exposure to the western Canadian resource sector. We also own 11 parking lots and other assets which are held for the long-term, providing current stable income and in some cases, future re-development potential.

Our portfolio under management has high occupancy rates with long-term tenancies from high-quality retail and commercial clients.

## Operating results

The following table summarizes the division's GLA, occupancy and average base rent:

(as at, at JV%, except as noted)			
	31-Mar-22	31-Dec-21	
Commercial properties GLA under management (sf, total)	<b>4,754,747</b>	4,753,285	
Properties owned and managed (sf)	<b>1,103,950</b>	1,101,292	
Properties managed (sf)	<b>3,650,797</b>	3,651,993	
Residential units managed	<b>593</b>	593	
Occupancy - CAD	<b>77.6 %</b>	76.1 %	
Occupancy - US	<b>76.9 %</b>	75.4 %	
Weighted Average Base Rent (per sf) - CAD	<b>\$ 26.99</b>	\$	26.59
Weighted Average Base Rent (per sf) - US	<b>\$ 20.53</b>	\$	20.67

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

(\$000s and at JV%, except as noted)		
	Three months ended	
	31-Mar-22	31-Mar-21
Revenue (total)	<b>10,604</b>	11,029
Canadian properties	<b>5,170</b>	4,163
US properties	<b>3,621</b>	5,205
Management fees	<b>1,685</b>	1,555
Parking lots and other assets	<b>127</b>	106
Net operating income (NOI) <sup>1</sup>	<b>6,249</b>	7,116
Funds from operations <sup>1</sup>	<b>5,695</b>	6,715
Funds from operations per share <sup>2</sup>	<b>0.17</b>	0.20

<sup>1</sup> Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

<sup>2</sup> Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

The Investment Properties division's primary function is asset management and hands on property management.

### Canadian properties

Our Canadian property portfolio continues to grow as properties are developed and transferred from Property Developments. The Property Development division has 30,160 sf of GLA under active construction or completed and awaiting lease up. The majority of transfers to Investment Properties typically occur in the latter part of the year due to construction timing.

Occupancy on Canadian properties was up over year end at 77.6% at March 31, 2022 (December 31, 2021 - 76.1%). Commercial weighted average base rents (WABR) were stable at \$26.99 (December 31, 2021 - \$26.59). Occupancy and WABR are both impacted by transfers from Property Developments where tenants were on free-rent periods, and lower rates on new leasing and pandemic related lease restructures. During the first quarter, we had new leases commence at some newer buildings (The District) which boosted occupancy quarter over quarter. Certified measures on tenant spaces can also cause slight variances on occupancy as these are adjusted as tenants occupy space.

The following is a reconciliation of Canadian properties same asset NOI to NOI:

(\$000s and at JV%, except as noted)	Three months ended	
	31-Mar-22	31-Mar-21
Same asset NOI <sup>1</sup>	2,561	2,319
Properties transferred from PD	687	98
NOI <sup>1</sup>	3,248	2,417
Amortization of operating lease incentives	(151)	(173)
Straight-line rent adjustment	352	557
Gross profit	3,449	2,801

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

Gross profit was up \$0.65 million or 23% over 2021 and NOI increased by 34%. Properties transferred from the Property Development division over the last 12 months, as well as those currently under development added \$0.69 million in NOI in the first quarter of 2022 (2021 - \$0.10 million). On a same asset basis, NOI was up 10% in the quarter due to improved occupancy and WABR in the quarter.

### US properties

**IP Early Termination event:** In Q1-2021 revenue included a termination fee of \$1.94 million (US\$1.53 million) from a tenant who surrendered 19,000 sf of office space.

**Sale of Assets:** We sold 11 Brownstone units in Q3-2021.

As these two events had a significant impact on IP results, we define the terms and refer to them in the following discussion.

Revenue on US properties was \$3.62 million compared to \$5.21 million in Q1-2021. Excluding the IP Early Termination event, revenue was up \$0.35 million. Revenue and NOI were also impacted by the Sale of Assets, which is adjusted for in the same asset NOI calculations following.

Occupancy was 76.9% at March 31, 2022, up slightly from 75.4% at year end. Q1-2022 WABR was \$20.53 per sf compared to \$20.67 at year end. WABR was negatively impacted by tenant

rollover during the year. Residential occupancy was stable at 99.5%.

A reconciliation of US properties same asset NOI to gross profit is as follows:

(\$000s and at JV%, except as noted)	Three months ended	
	31-Mar-22	31-Mar-21
Same asset NOI <sup>1</sup>	1,258	2,891
Third party disposals	—	21
NOI <sup>1</sup>	1,258	2,912
Foreign currency translation	335	775
Amortization of operating lease incentives	(214)	(253)
Straight-line rent adjustment	103	(342)
Gross profit	1,482	3,092

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

Gross profit was down \$1.61 million. Excluding the IP Early Termination event, gross profit was up \$0.33 million due to fluctuations in straight-line rent adjustments and foreign exchange rate compared to Q1-2021 and NOI was up \$0.29 million.

### Management fees & other

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the manager. Management fees were up 8% over 2021.

### Funds from Operations

FFO decreased 15% or \$1.02 million over 2021 as a result of the IP Early Termination fee, partially offset by the lower foreign exchange rate for the current period.

### REIT

The REIT owns 39 income-producing office, retail and industrial properties, comprising 3.22 million square feet of GLA at March 31, 2022. The REIT's portfolio has a diversified tenant profile - with a mix of national, regional and local tenants - operating in a variety of industries.

As at May 9, 2022 we have a controlling 55.4% interest in the REIT through ownership of all Class B LP Units (December 31, 2021 - 55.4%). As we have concluded that Melcor retains control of the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities.

**Early Termination event:** In Q1-2021, we received \$1.00 million for the early lease termination of a fast food chain occupying 6,384 sf in Leduc Common. The tenant made up 0.4% of 2020 base rent and had 11 years remaining on a 20 year lease. Early termination also resulted in \$0.19 million in reduced SLR adjustments. As this event had a significant impact on REIT results, we have defined this term and provide details here. We refer to the Early Termination event in the following discussion.



## Operating results

The following table summarizes the division's GLA, occupancy and average base rent:

<i>(as at, at JV%, except as noted)</i>		
	31-Mar-22	31-Dec-21
Commercial properties GLA under management (sf, total)	3,215,025	3,216,175
Fair value of portfolio <sup>1</sup>	723,149	723,729
Occupancy	87.4 %	87.1 %
Weighted average base rent (per sq. ft.)	16.61	16.73

1 Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

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

<i>(\$000s except as noted)</i>		
	Three months ended	
	31-Mar-22	31-Mar-21
Rental revenue	18,965	19,486
NOI <sup>1</sup>	11,855	12,627
Same asset NOI <sup>1</sup> (see calculation following)	11,855	12,627
Fair value adjustment on investment properties	(3,662)	(401)
Funds from operations <sup>1</sup>	11,076	11,711
Funds from operations per share <sup>2</sup>	0.34	0.35

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

2 Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

Rental revenue was down 3% compared to Q1-2021. Excluding the Early Termination event, revenue increased 3% over Q1-2021. Swings in SLR partially offset the higher other revenue in the comparative period.

Other revenue includes parking, storage, lease amendment fees and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period. Other revenue was significantly impacted by the Early Termination event in Q1-2021.

During Q1-2022, we signed 179,269 sf of new and renewed leasing (including holdovers) which improved occupancy slightly to 87.4%. In 2022, 9.6% of our portfolio (308,989 sf) is up for renewal, including month-to-month tenants. As at March 31, 2022, we have retained 86.1% (137,563 sf) of expiring leases and have received commitment on an additional 117,527 sf of future renewals. While we have observed some softness in the market, pockets of opportunity exist across our portfolio and in all asset classes.

Property taxes and utilities were up 2% in the quarter. Utility costs, including heating costs, fluctuate year over year depending on weather conditions in the regions where our assets are located. Property tax increases were the result of increased assessments over the prior year.

Operating expenses were up slightly, consistent with higher revenue excluding the Early Termination event.

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

<i>(\$000s except as noted)</i>		
	Three months ended	
	31-Mar-22	31-Mar-21
Same asset NOI <sup>1</sup>	11,855	12,627
NOI before adjustments	11,855	12,627
Amortization of operating lease incentives	(901)	(915)
Straight-line rent adjustment	2	(120)
Net rental income	10,956	11,592

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

NOI and same-asset NOI are non-standard metrics used in the real estate industry to measure the performance of investment properties. The IFRS measure most directly comparable to NOI and same-asset NOI is net income.

NOI and same-asset NOI are identical in Q1-2022 as no transactions were completed within the trailing 24 months. NOI was down 6% in Q1-2022 compared to Q1-2021, and up 2% compared to Q4-2021. Excluding the Early Termination event, NOI was up 2% in the quarter.

## Funds from operations

FFO is a non-GAAP financial measure used in the real estate industry to measure the operating performance of investment properties. Refer to the Non-GAAP and Non-standard Measures section for further information. FFO was down 5% in the first quarter due to lower NOI.

## Recreational Properties

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

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

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

Revenue in the Recreational Properties division increased by 35% to \$0.11 million in Q1-2022. Black Mountain was open for 2 days in Q1-2022 and had 162 rounds played. All other courses opened in late April due to the late arrival of spring in Alberta.



	Ownership interest	Season opened 2022	Season opened 2021
<i>Managed by Melcor:</i>			
Lewis Estates (Edmonton)	60%	<b>April 22</b>	April 2
The Links (Spruce Grove)	100%	<b>April 22</b>	April 2
Black Mountain (Kelowna)	100%	<b>March 30</b>	April 1
<i>Managed by a Third Party:</i>			
Jagare Ridge (Edmonton)	50%	<b>April 29</b>	April 14

## General & Administrative Expense

G&A expenses were up 20% over Q1-2021. Community Development G&A increased as a result of increased activity in the division and the reversal of various cost constraint initiatives put in place during the comparative period. Our Investment Properties G&A expense was up due to non-recurring one time expenses.

As a percentage of revenue, G&A was stable at 11% in the current quarter (Q1-2021 - 11%). Management continues to prudently monitor and manage controllable expenses.

## Income Tax Expense

The statutory tax rate is 23% for the three months ended March 31, 2022 (2021 - 23%). Other items that impacted the effective tax rate include permanent differences related to revaluation adjustments on investment properties, distributions to REIT unitholders and the non-taxable portion of REIT income.

## Liquidity & Capital Resources

The following table represents selected information as at March 31, 2022, compared with December 31, 2021.

As at (\$000s except as noted)	31-Mar-22	31-Dec-21
Cash & cash equivalents	<b>66,372</b>	59,920
Restricted cash	<b>6,129</b>	4,824
Accounts receivable	<b>8,579</b>	10,097
Agreements receivable	<b>125,426</b>	127,739
Revolving credit facilities	<b>92,263</b>	87,050
Accounts payable and accrued liabilities	<b>50,503</b>	50,476
Total assets	<b>2,114,888</b>	2,113,927
Total liabilities	<b>1,004,835</b>	997,458
Debt to equity ratio <sup>1</sup>	<b>0.91</b>	0.89

<sup>1</sup> Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

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

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

We are able to meet our capital needs through a number of sources, including cash generated from operations, long and short-term borrowings from our syndicated credit facility, mortgage financings, convertible debentures, and the issuance of common shares or trust units. Our primary use of capital includes paying operating expenses, sustaining capital requirements on land and property development projects, completing real estate acquisitions, debt principal and interest payments, paying distributions on the REIT units and paying dividends when declared by our board of directors.

We believe that internally generated cash flows, supplemented by borrowings through our credit facility and mortgage financings, where required, will be sufficient to cover our normal operating and capital expenditures. We regularly review our credit facility limits and manage our capital requirements accordingly. Melcor continues to focus on cash management to place our business in a position where we are able to support our builders, suppliers and tenants through the unpredictability of COVID-19.

## Financing & Liquidity

Total liquidity (cash and MDL & REIT line availability) was \$153.01 million as at March 31, 2022 (December 31, 2021 - \$126.66 million). As at March 31, 2022, our total general debt outstanding was \$728.65 million compared to \$716.91 million on December 31, 2021.

A summary of our debt is as follows:

As at (\$000s)	31-Mar-22	31-Dec-21
Melcor - revolving credit facilities	<b>92,263</b>	87,050
Project specific financing	<b>39,831</b>	40,758
Secured vendor take back debt on land inventory	<b>11,435</b>	11,794
Debt on investment properties and golf course assets	<b>512,663</b>	506,382
REIT - convertible debentures	<b>72,459</b>	70,929
General debt	<b>728,651</b>	716,913

We are subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to total capital ratio of 125%, a minimum debt service coverage ratio of 3.00, and a minimum net book value of shareholder's equity of \$300.00 million. As at March 31, 2022 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT's \$35.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of \$140.00 million. As at March 31, 2022 and throughout the period, we were in compliance with our financial covenants.

These metrics are non-standard measures used to assess compliance with our lending agreements and are not specifically defined in the CPA Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies.

## Sources & Uses of Cash

The following table summarizes our cash flow from (used in) operating, investing and financing activities, as reflected in our consolidated statement of cash flow:

(\$000s)	Three months ended	
	31-Mar-22	31-Mar-21
Cash flow from operating activities	988	21,219
Cash flow used in investing activities	(1,675)	(4,292)
Cash flow from (used) in financing activities	7,746	(4,761)

Cash flow from operating activities was \$0.99 million, an decrease of \$20.23 million over comparative period. Cash flow from operating activities is significantly impacted by the timing of development and sales activity and settlement of working capital. Collections on agreements receivable were down \$7.52 million compared to 2021 due to timing of sales and receipts. Development activity was up in 2021, spending \$4.10 (2021 - cash inflow of \$0.82 million). Operating assets and liabilities tend to fluctuate year over year depending on the timing of payments due and receivable, which resulted in cash outflow of \$4.52 million year to date 2022 (2021 - cash inflow of \$1.22 million). We also incurred \$1.72 million in tenant incentives and direct leasing costs in 2021 compared to \$2.24 million in 2021. Our restricted cash balance also went up \$1.31 million related to deposits on US lot sales.

Cash flow used in investing activities was \$1.68 million in Q1-2022 (Q1-2021 - \$4.29 million). We continue to develop commercial properties and invest in our portfolio, resulting in \$1.56 million of cash outflow in the quarter (Q1-2021 - \$4.28 million). Investments in properties under development (Property Development division) contributed \$1.26 million to the cash outflows (Q1-2021 - \$3.94 million).

Cash flow from financing activities was \$7.75 million in the quarter compared to \$4.76 million used in the comparative 2021 period. Draws on the credit facility were \$5.21 million in 2022 compared with draws of \$3.54 million in 2021 comparative period. Draws on the credit facility were offset by net proceeds on our general debt of \$9.08 million year to date in 2022 compared with net repayment of \$4.71 million in Q1-2021.

We paid a \$0.14 per share dividend for a total of \$4.60 million during the quarter. This compares to Q1-2021 payments of \$0.10 per share for a total of \$3.31 million.

## Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at March 31, 2022 there were 32,832,559 common shares issued and outstanding, 378,800 options, and 260,591 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

## Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Critical Accounting Estimates, Changes in Accounting Policies

There are no material changes to the above titled sections at March 31, 2022 in comparison to the December 31, 2021 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

## Normal Course Issuer Bid

We have had active Normal Course Issuer Bids (NCIB) in place over the past year.

On April 1, 2021, Melcor commenced a Normal Course Issuer Bid (NCIB) which expired on March 31, 2022. Under this bid, we were allowed to purchase up to 1,654,553 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 3,781 common shares. We purchased 380,761 common shares for cancellation under this bid.

Also, on April 1, 2021 the REIT commenced a normal course issuer bid ("2021 NCIB") which expired on March 31, 2022. Under this bid, the REIT was allowed to purchase up to 652,525 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units were allowed to be repurchased up to a maximum daily limit of 3,824. The price which the REIT will paid for trust units repurchased under the plan was the market price at the time of acquisition. The REIT purchased a total of 89,507 units for cancellation under this plan.

On April 1, 2022 Melcor commenced a new NCIB, which allows Melcor to purchase up to 1,641,627 shares for cancellation, representing approximately 5% of the issued and outstanding shares. The shares may be repurchased up to a maximum daily limit of 1,281. The price Melcor will pay for shares repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2023. The REIT did not renew its NCIB at this time.

Melcor has entered into an automatic share purchase plan (ASPP) agreement with a broker to allow shares to be purchased under the NCIB at times we would ordinarily not be active in the market due to regulatory restrictions or self-imposed blackout periods.

## Quarterly Results

The following table presents a summary of our unaudited operating results for the past eight quarters. This information should be read in conjunction with the related financial statements, notes to the financial statements and management's discussion and analysis.

(\$000s)	Three Months Ended							
	31-Mar-22	31-Dec-21	30-Sept-21	30-June-21	31-Mar-21	31-Dec-20	30-Sept-20	30-June-20
Revenue	<b>53,306</b>	150,598	56,213	65,547	43,270	80,947	73,051	39,053
Net income (loss)	<b>2,470</b>	44,769	16,561	9,014	(14,033)	(112)	7,526	(62,590)
FFO <sup>1</sup>	<b>10,697</b>	42,311	12,516	16,326	10,174	21,908	14,315	9,276
Shares outstanding (basic)	<b>32,832,559</b>	32,961,015	32,966,423	33,066,649	33,086,061	33,091,061	33,129,561	33,155,561
<i>Per Share</i>								
Basic earnings (loss)	<b>0.08</b>	1.35	0.50	0.27	(0.42)	(0.01)	0.23	(1.88)
Diluted earnings (loss)	<b>0.07</b>	1.35	0.50	0.27	(0.42)	(0.01)	0.23	(1.88)
FFO basic <sup>2</sup>	<b>0.33</b>	1.28	0.38	0.49	0.31	0.66	0.43	0.28
FFO diluted <sup>2</sup>	<b>0.32</b>	1.28	0.37	0.49	0.30	0.66	0.43	0.28
Dividends	<b>0.14</b>	0.12	0.12	0.10	0.10	0.08	0.08	0.08
Book value <sup>2</sup>	<b>33.81</b>	33.87	32.69	32.10	31.98	32.56	32.83	32.76

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

2 Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

We have historically experienced variability in our results of operations from quarter to quarter due to the seasonal nature of the development business and the timing of plan registrations with the municipalities. We typically experience the highest sales in our Community Development division in the fourth quarter, as this is when the majority of plans register. The fair value gains in our Property Development division are also seasonally affected, as the majority of construction in Alberta takes place during the spring and summer months.

## Subsequent Events

Refer to note 13 of the interim consolidated financial statements for information pertaining to subsequent events.

## Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Melcor has continually responded to the COVID-19 pandemic by following the guidelines set forth by the Alberta government, at a minimum. As a result, the majority of Melcor's employee base was working from home wherever practical until mid-March 2022. The remote work arrangements have not impacted the design of our internal controls. We will continue to monitor and mitigate the risks associated with changes to our control environment.

# Non-GAAP and Non-standard Measures

Throughout this MD&A, we refer to terms known as non-GAAP financial performance measures that are not specifically defined in the CPA Canada Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We use REALpac definitions for items such as FFO except that, for FFO, we include an adjustment for amortization of deferred financing fees, which is included in non-cash financing costs.

We believe that these non-GAAP and non-standard measures are useful in assisting investors in understanding components of our financial results.

The non-GAAP and non-standard terms that we refer to in this MD&A are defined below.

**Net operating income (NOI):** a non-GAAP financial measure defined as rental revenue, adjusted for amortization of tenant improvements and straight-line rent adjustments, less direct operating expenses as presented in the statement of income and comprehensive income. A reconciliation of NOI to the most comparable IFRS measure, net income, is shown in the below tables:

## Investment Properties

(\$000s)	Three months ended	
	31-Mar-22	31-Mar-21
<b>Segment Earnings</b>	<b>5,112</b>	6,666
Fair value adjustment on investment properties	218	(466)
General and administrative expenses	1,010	617
Interest income	(1)	(1)
Amortization of operating lease incentives	365	515
Straight-line rent adjustment	(455)	(215)
<b>Divisional NOI</b>	<b>6,249</b>	7,116

## REIT

(\$000s)	Three months ended	
	31-Mar-22	31-Mar-21
<b>Segment Earnings</b>	<b>6,513</b>	10,395
Fair value adjustment on investment properties	3,662	401
General and administrative expenses	788	803
Interest income	(7)	(7)
Amortization of operating lease incentives	901	915
Straight-line rent adjustment	(2)	120
<b>Divisional NOI</b>	<b>11,855</b>	12,627

Further discussion over NOI can be found in the Investment Property and REIT Divisional Results sections of the MD&A.

**Same asset NOI:** Same-asset NOI is a non-GAAP financial measure that compares the NOI on assets that have been owned for the entire current and comparative period and are classified for continuing use. Further discussion over same-asset NOI can be found in the Investment Property and REIT Divisional Results sections of the MD&A. this measure compares the NOI on assets that have been owned for the entire current and comparative period.

**Fair value of investment properties:** Fair value of investment properties in the REIT Divisional results section of the MD&A is a supplementary financial measure and is calculated as the sum of the balance sheet balances for investment properties and other assets (TI's and SLR).

**Gross margin (%):** Gross margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn revenue. This ratio is calculated by dividing gross profit by revenue.

**Net margin (%):** Net margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn income. This ratio is calculated by dividing net income by revenue.

**Book value per share:** Book value per share is a non-GAAP financial ratio and is calculated as shareholders' equity over number of common shares outstanding.

**Debt to equity ratio:** this is a non-GAAP financial ratio and is calculated as total debt over total equity. Refer to the Liquidity & Capital Resources section of the MD&A for further discussion.

**Portion of total revenue:** Portion of total revenue is a supplementary financial measure and is calculated as divisional revenue over total consolidated revenue. Refer to the Divisional Results section of the MD&A for further information.

**Portion of total gross profit:** Portion of total gross profit is a supplementary financial measure and is calculated as divisional gross profit over total consolidated gross profit. Refer to the Divisional Results section of the MD&A for further information.

**Funds from operations (FFO):** FFO is a non-GAAP financial measure and is defined as net income in accordance with IFRS, excluding (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; (vi) adjustment for amortization of deferred financing fees, which is included in non-cash financing costs and (vii) fair value adjustment on derivative instrument, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties. Further discussion over FFO, including a reconciliation from net income, can be found in the Funds from Operations section of the MD&A and in the tables below:

## Consolidated

(\$000s)	Three months ended	
	31-Mar-22	31-Mar-21
<b>Net income (loss) for the period</b>	<b>2,470</b>	(14,033)
Amortization of operating lease incentives	<b>1,407</b>	2,011
Fair value adjustment on investment properties	<b>2,522</b>	(976)
Depreciation on property and equipment	<b>156</b>	178
Stock based compensation expense	<b>117</b>	266
Non-cash finance costs	<b>(1,472)</b>	1,274
Gain on sale of asset	<b>–</b>	(4)
Deferred income taxes	<b>(181)</b>	(184)
Fair value adjustment on REIT units	<b>5,678</b>	21,642
<b>FFO</b>	<b>10,697</b>	10,174

## Investment Properties

(\$000s)	Three months ended	
	31-Mar-22	31-Mar-21
<b>Segment Earnings</b>	<b>5,112</b>	6,666
Fair value adjustment on investment properties	<b>218</b>	(466)
Amortization of operating lease incentives	<b>365</b>	515
<b>Divisional FFO</b>	<b>5,695</b>	6,715

## REIT

(\$000s)	Three months ended	
	31-Mar-22	31-Mar-21
<b>Segment Earnings</b>	<b>6,513</b>	10,395
Fair value adjustment on investment properties	<b>3,662</b>	401
Amortization of operating lease incentives	<b>901</b>	915
<b>Divisional FFO</b>	<b>11,076</b>	11,711

**FFO per share:** FFO per share is a non-GAAP financial ratio and is defined as FFO over basic weighted average common shares outstanding. Refer to the Funds From Operations section of the MD&A for further discussion.



Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2022

(Unaudited, in thousands of Canadian dollars)

## Condensed Interim Consolidated Statement of Income (Loss)

Unaudited (\$000s)	For the three months ended	
	March 31, 2022	March 31, 2021
Revenue (note 7)	53,306	43,270
Cost of sales	(28,120)	(20,672)
Gross profit	25,186	22,598
General and administrative expense	(5,853)	(4,892)
Fair value adjustment on investment properties (note 5 and 11)	(2,522)	976
Adjustments related to REIT units (note 10)	(7,234)	(23,011)
Gain on sale of assets	—	4
Operating earnings (loss)	9,577	(4,325)
Interest income	145	156
Foreign exchange loss	(109)	—
Finance costs	(4,494)	(7,588)
Net finance costs	(4,458)	(7,432)
Income (loss) before income taxes	5,119	(11,757)
Income tax expense	(2,649)	(2,276)
Net income (loss) for the period	2,470	(14,033)
Income (loss) per share:		
Basic income (loss) per share	0.08	(0.42)
Diluted income (loss) per share	0.07	(0.42)

See accompanying notes to these condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statement of Comprehensive Loss

Unaudited (\$000s)	For the three months ended	
	March 31, 2022	March 31, 2021
Net income (loss) for the period	2,470	(14,033)
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences	(2,481)	(2,228)
Comprehensive loss	(11)	(16,261)

See accompanying notes to these condensed interim consolidated financial statements.



## Condensed Interim Consolidated Statement of Financial Position

Unaudited (\$000s)	March 31, 2022	December 31, 2021
<b>ASSETS</b>		
Cash and cash equivalents	66,372	59,920
Restricted cash	6,129	4,824
Accounts receivable	8,579	10,097
Income taxes recoverable	3,171	323
Agreements receivable	125,426	127,739
Land inventory (note 4)	720,640	725,806
Investment properties (note 5 and 11)	1,116,507	1,118,805
Property and equipment	12,846	12,887
Other assets	55,218	53,526
	<b>2,114,888</b>	<b>2,113,927</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	50,503	50,476
Income taxes payable	3,823	5,936
Provision for land development costs	71,794	79,517
General debt (note 6)	728,651	716,913
Deferred income tax liabilities	56,136	56,341
REIT units (note 10 and 11)	93,928	88,275
	<b>1,004,835</b>	<b>997,458</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 8)	73,126	73,304
Contributed surplus	4,733	4,727
Accumulated other comprehensive income (AOCI)	15,377	17,858
Retained earnings	1,016,817	1,020,580
	<b>1,110,053</b>	<b>1,116,469</b>
	<b>2,114,888</b>	<b>2,113,927</b>

See accompanying notes to these condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statement of Changes in Equity

Unaudited (\$000's)	Equity attributable to Melcor's shareholders				Total equity
	Share capital	Contributed surplus	AOCI	Retained earnings	
<b>Balance at January 1, 2022</b>	<b>73,304</b>	<b>4,727</b>	<b>17,858</b>	<b>1,020,580</b>	<b>1,116,469</b>
Net income for the period	—	—	—	2,470	2,470
Cumulative translation adjustment	—	—	(2,481)	—	(2,481)
<b>Transactions with equity holders</b>					
Dividends	—	—	—	(4,596)	(4,596)
Share repurchase (note 8)	(289)	—	—	(1,637)	(1,926)
Employee share options					
Value of services recognized	—	117	—	—	117
Share issuance	111	(111)	—	—	—
<b>Balance at March 31, 2022</b>	<b>73,126</b>	<b>4,733</b>	<b>15,377</b>	<b>1,016,817</b>	<b>1,110,053</b>

Unaudited (\$000's)	Equity attributable to Melcor's shareholders				Total equity
	Share capital	Contributed surplus	AOCI	Retained earnings	
<b>Balance at January 1, 2021</b>	<b>72,270</b>	<b>4,948</b>	<b>18,603</b>	<b>981,608</b>	<b>1,077,429</b>
Net loss for the period	—	—	—	(14,033)	(14,033)
Cumulative translation adjustment	—	—	(2,228)	—	(2,228)
<b>Transactions with equity holders</b>					
Dividends	—	—	—	(3,309)	(3,309)
Share repurchase	(11)	—	—	(45)	(56)
Employee share options					
Value of services recognized	—	266	—	—	266
<b>Balance at March 31, 2021</b>	<b>72,259</b>	<b>5,214</b>	<b>16,375</b>	<b>964,221</b>	<b>1,058,069</b>

See accompanying notes to these condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statement of Cash Flows

Unaudited (\$000's)	For the three months ended	
	March 31, 2022	March 31, 2021
<b>CASH FLOWS FROM (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the period	2,470	(14,033)
Non cash items:		
Amortization of tenant incentives	1,407	2,011
Depreciation of property and equipment	156	178
Stock based compensation expense	117	266
Non-cash finance costs	(1,472)	1,274
Straight-line rent adjustment	(374)	22
Fair value adjustment on investment properties (note 5 and 11)	2,522	(976)
Fair value adjustment on REIT units (note 10 and 11)	5,678	21,642
Gain on sale of assets	—	(4)
Deferred income taxes	(181)	(184)
	10,323	10,196
Agreements receivable	2,313	9,834
Development activities	(4,104)	816
Payment of tenant lease incentives and direct leasing costs	(1,721)	(2,235)
Change in restricted cash	(1,305)	1,393
Operating assets and liabilities	(4,518)	1,215
	988	21,219
<b>INVESTING ACTIVITIES</b>		
Additions to investment properties (note 5)	(1,561)	(4,277)
Purchase of property and equipment	(114)	(19)
Proceeds on disposal of property and equipment	—	4
	(1,675)	(4,292)
<b>FINANCING ACTIVITIES</b>		
Revolving credit facilities	5,213	3,542
Proceeds from general debt	31,903	28,769
Repayment of general debt	(22,823)	(33,479)
Repurchase of REIT units (note 10)	(25)	(228)
Dividends paid	(4,596)	(3,309)
Common shares repurchased (note 8)	(1,926)	(56)
	7,746	(4,761)
<b>FOREIGN EXCHANGE LOSS ON CASH HELD IN A FOREIGN CURRENCY</b>	(607)	(55)
<b>INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	6,452	12,111
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD</b>	59,920	29,201
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	66,372	41,312
<b>Total income taxes paid</b>	3,361	2,750
<b>Total interest paid</b>	6,247	7,191

See accompanying notes to these condensed interim consolidated financial statements.

## 1. DESCRIPTION OF THE BUSINESS

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

Melcor Developments Ltd. ("Melcor" or "we") is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD". As at March 31, 2022 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 May 9, 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".

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

## 2. BASIS OF PRESENTATION

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

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2021, which have been prepared in accordance with IFRS.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 9, 2022.

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

### SIGNIFICANT ACCOUNTING POLICIES AND NEW STANDARDS ADOPTED

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

#### NEW AND AMENDED STANDARDS ADOPTED

We adopted the following amendment on January 1, 2022.

**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. Adoption of this amendment did not require any adjustment in our treatment of provisions, contingent liabilities and contingent assets.

## 4. LAND INVENTORY

	March 31, 2022	December 31, 2021
Raw land held	388,306	387,598
Land under development	161,016	153,671
Developed land	171,318	184,537
	720,640	725,806

Land is recorded at the lower of cost and net realizable value. Due to the uncertainty of the economic environment as a result of the ongoing pandemic, the net realizable value of land could be subject to significant changes and such changes could be material. As at

March 31, 2022 management does not consider there to be a negative impact on the current carrying value of land, but will continue monitoring the net realizable value of land during these uncertain times.

## 5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	March 31, 2022	December 31, 2021
Investment properties	1,067,458	1,071,456
Properties under development	49,049	47,349
Total	1,116,507	1,118,805

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

	Three months ended March 31, 2022		
	Investment Properties	Properties under Development	Total
Balance - beginning of period	1,071,456	47,349	1,118,805
Additions			
Direct leasing costs	151	114	265
Property improvements	303	—	303
Development costs	—	1,241	1,241
Capitalized borrowing costs	—	17	17
Fair value adjustment on investment properties	(2,850)	328	(2,522)
Foreign currency translation (included in OCI)	(1,602)	—	(1,602)
Balance - end of period	1,067,458	49,049	1,116,507

	Year ended December 31, 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
Development costs	—	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

In accordance with our policy we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 11.

6. GENERAL DEBT		
	March 31, 2022	December 31, 2021
Melcor - revolving credit facilities	92,263	87,050
Project specific financing	39,831	40,758
Secured vendor take back debt on land inventory	11,435	11,794
Debt on investment properties and golf course assets	512,663	506,382
REIT - convertible debentures	72,459	70,929
General debt	728,651	716,913

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

	Three months ended March 31, 2022	Year ended December 31, 2021
<b>Balance - beginning of period</b>	40,758	66,248
<b>Cash movements</b>		
Loan repayments	(11,737)	(30,056)
New project financing	10,930	4,605
<b>Non-cash movements</b>		
Foreign currency translation included in OCI	(120)	(39)
<b>Balance - end of period</b>	39,831	40,758

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

	Three months ended March 31, 2022	Year ended December 31, 2021
<b>Balance - beginning of period</b>	11,794	28,616
<b>Cash movements</b>		
Principal repayments		
Scheduled amortization on debt	(359)	(16,822)
<b>Balance - end of period</b>	11,435	11,794

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

	Three months ended March 31, 2022	Year ended December 31, 2021
<b>Balance - beginning of period</b>	<b>506,382</b>	490,801
<b>Cash movements</b>		
Principal repayments		
Scheduled amortization on debt	(4,087)	(17,076)
Mortgage repayments	(6,631)	(92,390)
New mortgages	20,973	127,984
<b>Non-cash movements</b>		
Deferred financing fees capitalized	(928)	(1,315)
Amortization of deferred financing fees	217	836
Change in derivative fair value swap	(2,156)	(2,005)
Foreign currency translation included in OCI	(1,107)	(453)
<b>Balance - end of period</b>	<b>512,663</b>	506,382

## 7. REVENUE

Total Revenues	For the three months ended	
	March 31, 2022	March 31, 2021
Revenue from contracts	27,043	19,025
Revenue from other sources	26,263	24,245
	53,306	43,270

Timing of contract revenue recognition	For the three months ended	
	March 31, 2022	March 31, 2021
At a point in time	22,147	14,383
Over time	4,896	4,642
	27,043	19,025

## 8. SHARE CAPITAL

Issued and outstanding common shares at March 31, 2022 are 32,832,559 (December 31, 2021 – 32,961,015). During the three months ended March 31, 2022, there were 7,579 options exercised (Q1-2021 – nil).

On April 1, 2021 Melcor commenced a Normal Course Issuer (NCIB) which allowed us to purchase up to 1,654,553 share for cancellation, representing approximately 5% of the issued and outstanding shares up to a maximum daily limit of 3,781. The price, which Melcor paid for shares repurchased under the plan, were the market price at the time of acquisition. The NCIB ended on March 31, 2022.

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

During the three months ended March 31, 2022, there were 136,035 common shares purchased for cancellation by Melcor pursuant to the NCIB at a cost of \$1,926 (December 31, 2021 - 244,726 common shares purchased at a cost of \$3,350). Share capital was reduced by \$289 and retained earnings reduced by \$1,637.



## 9. SEGMENTED INFORMATION

### Geographic Analysis

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

<b>External Revenues</b> <i>For the three months ended</i>	<b>For the three months ended</b>	
	<b>March 31, 2022</b>	<b>March 31, 2021</b>
United States	<b>3,908</b>	5,453
Canada	<b>49,398</b>	37,817
<b>Total</b>	<b>53,306</b>	43,270

<b>Total Assets</b> <i>As at</i>	<b>March 31, 2022</b>	<b>December 31, 2021</b>
United States	<b>286,650</b>	287,421
Canada	<b>1,828,238</b>	1,826,506
<b>Total</b>	<b>2,114,888</b>	2,113,927

## 9. SEGMENTED INFORMATION (continued)

### Divisional Analysis

Our divisions reported the following results:

For the three months ended March 31, 2022	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	25,993	18	10,604	18,965	113	—	55,693	(2,387)	53,306
Cost of sales	(16,073)	—	(4,265)	(8,009)	(444)	—	(28,791)	671	(28,120)
Gross profit	9,920	18	6,339	10,956	(331)	—	26,902	(1,716)	25,186
General and administrative expense	(1,822)	(736)	(1,010)	(788)	(365)	(1,818)	(6,539)	686	(5,853)
Fair value adjustment on investment properties	—	328	(218)	(3,662)	—	—	(3,552)	1,030	(2,522)
Interest income	92	—	1	7	—	45	145	—	145
Segment earnings (loss)	8,190	(390)	5,112	6,513	(696)	(1,773)	16,956	—	16,956
Finance costs									(4,494)
Foreign exchange gain (loss)									(109)
Adjustments related to REIT units									(7,234)
Income before tax									5,119
Income tax expense									(2,649)
Net income for the period									2,470

For the three months ended March 31, 2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	14,877	32	11,029	19,486	84	—	45,508	(2,238)	43,270
Cost of sales	(8,879)	—	(4,213)	(7,894)	(414)	—	(21,400)	728	(20,672)
Gross profit	5,998	32	6,816	11,592	(330)	—	24,108	(1,510)	22,598
General and administrative expense	(1,563)	(466)	(617)	(803)	(334)	(1,780)	(5,563)	671	(4,892)
Fair value adjustment on investment properties	—	72	466	(401)	—	—	137	839	976
Gain on sale of assets	—	—	—	—	4	—	4	—	4
Interest income	140	—	1	7	—	8	156	—	156
Segment earnings (loss)	4,575	(362)	6,666	10,395	(660)	(1,772)	18,842	—	18,842
Finance costs									(7,588)
Adjustments related to REIT units									(23,011)
Loss before tax									(11,757)
Income tax expense									(2,276)
Net loss for the period									(14,033)

## 10. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 44.6% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at March 31, 2022 the REIT units had a fair value of \$93,928. We recorded adjustments related to REIT units for the three months ended March 31, 2022 of \$7,234 (March 31, 2021 - \$23,011). The onset of the pandemic introduced significant volatility in equity markets that has been reflected in the valuation of REIT units, and it isn't possible to predict the severity or duration of future volatility. 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.

On April 1, 2021 the REIT commenced a normal course issuer bid ("REIT NCIB") which allows the REIT to purchase up to 652,525 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,824. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The REIT NCIB ended on March 31, 2022.

During the three month period, there was a total of 3,824 units (2021 - 38,477) purchased for cancellation at a cost of \$25 (2021 - \$228), which is recorded as a reduction in the balance of REIT units on the consolidated statement of financial position.

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

	For the three months ended	
	March 31, 2022	March 31, 2021
Fair value adjustment on REIT units (note 11)	(5,678)	(21,642)
Distributions to REIT unitholders	(1,556)	(1,369)
<b>Adjustments related to REIT units</b>	<b>(7,234)</b>	<b>(23,011)</b>

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

As at	March 31, 2022	December 31, 2021
Assets	737,113	735,668
Liabilities	462,813	460,344
<b>Net assets</b>	<b>274,300</b>	<b>275,324</b>
Cost of NCI	103,959	103,959
<b>Fair value of NCI</b>	<b>93,928</b>	<b>88,275</b>

	For the three months ended	
	March 31, 2022	March 31, 2021
Rental revenue	18,965	19,486
Net loss and comprehensive loss	(6,538)	(24,439)
Cash flows from operating activities	4,293	5,793
Cash flows used in investing activities	(217)	(179)
Cash flows used in financing activities, before distributions to REIT unitholders	(1,903)	(3,591)
Cash flows used in financing activities - cash distributions to REIT unitholders	(1,556)	(1,304)
<b>Net increase in cash and cash equivalents</b>	<b>617</b>	<b>719</b>

## 11. FAIR VALUE MEASUREMENT

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

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

- the carrying amounts of cash and cash equivalents, restricted cash, accounts 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 interest rate swaps are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 3).
- fair value of derivative financial liabilities, which is the conversion feature on the REIT convertible debenture 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).
- fair value of the convertible debenture is estimated based on the closing trading price of the REIT's debenture (Level 2).

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

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

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

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

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

	March 31, 2022					December 31, 2021	
	Fair Value Hierarchy	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
<b>Non-financial assets</b>							
Investment properties	Level 3	1,116,507	—	1,116,507	1,116,507	1,118,805	1,118,805
<b>Financial liabilities</b>							
General debt, excluding convertible debentures and derivative financial liability	Level 3	—	658,505	658,505	659,858	646,613	659,699
Convertible debentures	Level 2	—	65,980	65,980	62,496	65,637	63,683
<b>Derivative financial liability</b>							
Conversion features on convertible debentures	Level 3	6,479	—	6,479	6,479	5,408	5,408
REIT units	Level 1	93,928	—	93,928	93,928	88,275	88,275
<b>Derivative financial asset</b>							
Interest rate swaps	Level 3	2,313	—	2,313	2,313	629	629
Conversion features on convertible debentures	Level 3	—	—	—	—	116	116

## Investment properties

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

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

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

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

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

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

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

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

Investment properties are valued by Melcor's internal valuation team as at March 31, 2022 of which 2 legal phases included in investment properties (of 93 legal phases) with a fair value of \$21,800 were valued by external valuation professionals (year ended December 31, 2021 - 29 legal phases included in investment properties (of 93 legal phases) with a fair value of \$316,540). Valuations performed during the period resulted in net fair value losses of \$2,522 (December 31, 2021 - net fair value gains of \$19,370).

The following table summarizes the valuation approach, significant assumptions, and the relationship between the inputs 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 annual stabilized net operating income for investment properties as at March 31, 2022 is \$1,435 (December 31, 2021 - \$1,444) per property. Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties			Properties under Development		
March 31, 2022	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.25%	10.00%	6.65%	6.00%	6.25%	6.17%
Terminal capitalization rate	5.75%	9.00%	6.80%	6.25%	6.50%	6.42%
Discount rate	6.25%	9.75%	7.73%	7.00%	7.50%	7.37%

	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%

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by \$70,386 (December 31, 2021 - \$65,956). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by \$81,832 (December 31, 2021 - \$76,635). 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.

The fair value of the convertible debentures are based on the trading price of the REIT's debentures at the period end date.

#### Derivative financial liabilities

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

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at March 31, 2022, the fair value of interest rate swap contracts was \$2,313 (December 31, 2021 - \$629).

The significant assumptions used in the fair value measurement of the conversion features on the REIT convertible debentures are volatility and credit spread. As at March 31, 2022 the fair value of the conversion features on our convertible debentures was \$6,479 liability (December 31, 2021 - \$5,408 liability and \$116 asset). The onset of the pandemic introduced significant volatility in equity markets that has been reflective in the valuation of our REIT trust units. As the valuation of the conversion features on our REIT convertible debentures is dependent on the historical price of the REIT's trust units and the trading price of the convertible debentures, the impact on the valuation of the conversation features on REIT convertible debentures cannot be estimated at this time and such impact could be material.

#### REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At March 31, 2022 the fair value of the REIT units was \$93,928, resulting in a fair value loss during the three months ended of \$5,678 (March 31, 2021 - loss of \$21,642) in the statement of income and comprehensive income for the period ended ended March 31, 2022 (note 10). The onset of the pandemic introduced significant volatility in equity markets that has been reflected in the valuation of REIT units, and it isn't possible to predict the severity or duration of future volatility. 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.

## 12. RISK MANAGEMENT

Melcor's exposure to risks as a result of holding financial instruments could be impacted. The impact on these risks is as follows:

### a. Credit Risk

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

Accounts Receivables have historically been significantly low risk due to their individual immaterial balances, the nature of the party they are due from (including joint venture participants under management by Melcor), and overall lack of historical write offs. At this time, based on management's best estimate of the current economic outlook, management has assessed and recorded the current expected credit loss at \$445 (December 31, 2021 - \$604).

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.

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

### b. Liquidity Risk

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

### 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 \$2,143 (December 31, 2021 - \$2,052). We are not subject to other significant market risks pertaining to our financial instruments.



### 13. EVENTS AFTER THE REPORTING PERIOD

#### **Normal Course Issuer Bid**

On April 1, 2022 Melcor commenced a normal course issuer bid ("NCIB"), which allows Melcor to purchase up to 1,641,627 shares for cancellation, representing approximately 5% of the issued and outstanding shares. The shares may be repurchased up to a maximum daily limit of 1,281. The price, which Melcor will pay for shares repurchased under the plan, will be the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2023.

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

As of May 9, 2022, there were 31,782 common share units repurchased for cancellation by Melcor pursuant to the NCIB at a cost of \$526.

#### **Distributions on REIT trust units**

The REIT declared the following distributions:

Month	Record Date	Distribution Date	Distribution Amount
April 2022	April 29, 2022	May 16, 2022	\$0.04 per Unit
May 2022	May 31, 2022	June 15, 2022	\$0.04 per Unit

#### **Dividends declared**

On May 9, 2022 our board of directors declared a dividend of \$0.14 per share payable on June 30, 2022 to shareholders of record on June 15, 2022.