Management's Responsibility for Financial Reporting

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

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

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

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

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

Edmonton, Alberta
March 16, 2023

Independent auditor's report

To the Shareholders of Melcor Developments Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Melcor Developments Ltd. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of income for the years ended December 31, 2022 and 2021;
- the consolidated statements of comprehensive income for the years ended December 31, 2022 and 2021;
- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of changes in equity for the years ended December 31, 2022 and 2021;
- the consolidated statements of cash flows for the years ended December 31, 2022 and 2021; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties *Refer to note 3 – Significant accounting policies, note 5 – Critical accounting estimates, note 11 – Investment properties and note 30 – Fair value measurement to the consolidated financial statements.* The Company measures its investment properties, properties under development and properties under development – undeveloped land at fair value and as at December 31, 2022, these assets were valued at $1,125 million. The fair values of investment properties are determined by management using the direct income capitalization method or discounted future cash flows method. Properties under development are valued using the direct income capitalization method less costs to complete. Properties under development – undeveloped land are valued using the direct comparison method. Under the direct income capitalization method, fair values are determined by dividing the stabilized net operating income of the property by a property specific capitalization rate. In applying the discounted future cash flows method, the forecasted future cash flows of each property are projected over ten years, a terminal value is applied and the cash flows are discounted using an appropriate discount rate. For the direct comparison method, fair values are determined by comparison to market transactions for similar assets.	Our approach to addressing the matter included the following procedures, among others: • Tested the design and operating effectiveness of internal controls related to the valuation of investment properties, including management's review of the significant assumptions used in the direct income capitalization method (less costs to complete, where applicable), discounted future cash flows method and direct comparison method. • For a sample of investment properties, tested how management determined the fair value based on the valuation methods of direct income capitalization (less costs to complete, where applicable), discounted future cash flows or direct comparison, which included the following: – Evaluated the appropriateness of the valuation methods used by management. – Tested the underlying data used in the methods. – Evaluated whether stabilized net operating income, changes in stabilized net operating income compared to the prior year independent external valuations and forecasted future cash flows, including assumptions related to future rental income and estimated direct operating costs, were reasonable by considering the approved budget, and the current and past

Key audit matter	How our audit addressed the key audit matter
Investment properties were valued by the Company's internal valuation team as at December 31, 2022 of which 64 investment properties (of 95 legal phases valued) with a fair value of $806 million were valued with the assistance of qualified independent external valuation professionals. At least once every two years, the valuations are performed by qualified external valuation professionals. The significant assumptions made in the valuation methods include stabilized net operating income, capitalization rates, discount rates, terminal capitalization rates, market transactions for similar assets, costs to complete and forecasted future cash flows, which involve assumptions of future rental income, including estimated market rental rates, vacancy rates and estimated direct operating costs. In determining the fair value of investment properties, significant judgment is required by management. We considered this a key audit matter due to significant judgments made by management when determining the fair values of the investment properties and a high degree of complexity in assessing audit evidence related to the significant assumptions made by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of real estate valuations.	performance of the property, as applicable. – Evaluated the reasonability of changes in the capitalization rates compared to the prior year independent external valuations by considering available third party published economic data relevant to the property. – For undeveloped land, evaluated the reasonableness of market transactions for similar assets by comparing the price per acre to available third party published economic data relevant to the property. – Evaluated whether costs to complete were reasonable considering the stage of completion of the property under development. – Professionals with specialized skill and knowledge in the field of real estate valuations further assisted us in assessing the appropriateness of the methods and evaluating the reasonableness of the discount rates, capitalization rates, terminal capitalization rates, estimated market rental rates, vacancy rates and market transactions for similar assets.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Steven Hollinger.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
March 16, 2023

MELCOR DEVELOPMENTS LTD.

Consolidated Financial Statements

December 31, 2022

Consolidated Statements of Income

For the years ended December 31 ($000s)	2022	2021
Revenue (note 22)	**241,747**	315,628
Cost of sales (note 22)	**(123,484)**	(175,502)
Gross profit	**118,263**	140,126
General and administrative expense (note 22)	**(23,022)**	(21,935)
Fair value adjustment on investment properties (note 11 and 30)	**21,554**	19,370
Adjustments related to REIT units (note 27)	**10,138**	(31,526)
Gain on sale of assets	**40**	151
Operating earnings	**126,973**	106,186
Interest income	**1,614**	572
Foreign exchange gain	**1,109**	76
Finance costs (note 21)	**(17,278)**	(27,944)
Net finance costs	**(14,555)**	(27,296)
Income before income taxes	**112,418**	78,890
Income tax expense (note 23)	**(23,064)**	(22,579)
Net income for the year	**89,354**	56,311
Earnings per share attributable to Melcor's shareholders (note 18):		
Basic earnings per share	**2.75**	1.70
Diluted earnings per share	**2.74**	1.70

See accompanying notes to the consolidated financial statements.

On behalf of Melcor's Board of Directors

Timothy C. Melton
CEO, Executive Chairman

Bruce Pennock
Audit Committee Chair

Consolidated Statements of Comprehensive Income

For the years ended December 31 ($000s)	2022	2021
Net income for the year	**89,354**	56,311
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences (note 19)	**11,740**	(745)
Comprehensive income	**101,094**	55,566

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Financial Position

($000s)	2022	2021
ASSETS		
Cash and cash equivalents	**80,465**	59,920
Restricted cash (note 3d)	**2,761**	4,824
Accounts receivable	**12,487**	10,097
Income taxes recoverable	**3,889**	323
Agreements receivable (note 9)	**97,232**	127,739
Land inventory (note 10)	**749,501**	725,806
Investment properties (note 11 and 30)	**1,124,783**	1,118,805
Property and equipment (note 12)	**12,238**	12,887
Other assets (note 13)	**57,836**	53,526
Asset held for sale (note 8)	**19,500**	—
Derivative financial instrument (note 30)	**6,358**	—
	2,167,050	2,113,927
LIABILITIES		
Accounts payable and accrued liabilities (note 14)	**53,213**	50,476
Income taxes payable	**336**	5,936
Provision for land development costs (note 15)	**58,260**	79,517
General debt (note 16)	**740,365**	716,913
Deferred income tax liabilities (note 23)	**64,650**	56,341
REIT units (note 27 and 30)	**71,890**	88,275
	988,714	997,458
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 17a)	**70,218**	73,304
Contributed surplus	**4,810**	4,727
Accumulated other comprehensive income (AOCI) (note 19)	**29,598**	17,858
Retained earnings	**1,073,710**	1,020,580
	1,178,336	1,116,469
	2,167,050	2,113,927

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

($000s)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2022	73,304	4,727	17,858	1,020,580	1,116,469
Net income for the year	—	—	—	89,354	89,354
Cumulative translation adjustment (note 19)	—	—	11,740	—	11,740
Transactions with equity holders					
Dividends	—	—	—	(18,664)	(18,664)
Share repurchase (note 17a)	(3,875)	—	—	(17,560)	(21,435)
Employee share based compensation					
Value of services recognized	—	841	—	—	841
Share issuance	789	(758)	—	—	31
Balance at December 31, 2022	70,218	4,810	29,598	1,073,710	1,178,336

($000s)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
	Equity attributable to Melcor's shareholders				
Balance at January 1, 2021	72,270	4,948	18,603	981,608	1,077,429
Net income for the year	—	—	—	56,311	56,311
Cumulative translation adjustment (note 19)	—	—	(745)	—	(745)
Transactions with equity holders					
Dividends	—	—	—	(14,532)	(14,532)
Share repurchase (note 17a)	(543)	—	—	(2,807)	(3,350)
Employee share based compensation					
Value of services recognized	—	1,132	—	—	1,132
Share issuance	1,577	(1,353)	—	—	224
Balance at December 31, 2021	73,304	4,727	17,858	1,020,580	1,116,469

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31 ($000s)	2022	2021
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	**89,354**	56,311
Non cash items:		
Amortization of tenant incentives (note 13)	**7,561**	8,160
Depreciation of property and equipment (note 12)	**1,350**	1,334
Stock based compensation expense (note 17g and 22)	**841**	1,132
Non cash financing (recoveries) costs (note 21)	**(8,518)**	3,479
Straight-line rent adjustment	**(2,561)**	(858)
Fair value adjustment on investment properties (note 11 and 30)	**(21,554)**	(19,370)
Fair value adjustment on REIT units (note 27 and 30)	**(16,360)**	25,748
Gain on sale of assets	**(40)**	(151)
Deferred income taxes (note 23)	**8,225**	4,684
Cash provided by operating activities before changes in non-cash working capital	**58,298**	80,469
Agreements receivable	**30,507**	(54,403)
Development activities (note 3u)	**(44,646)**	35,084
Payment of tenant incentives and direct leasing costs	**(15,097)**	(8,047)
Change in restricted cash (note 3d)	**2,063**	2,589
Purchase of land inventory (note 10)	**(4,247)**	(3,037)
Operating assets and liabilities (note 3u)	**(8,527)**	20,167
	18,351	72,822
INVESTING ACTIVITIES		
Purchase of investment properties (note 11)	**—**	(1,358)
Additions to investment properties (note 11)	**(16,007)**	(22,810)
Net proceeds from disposal of investment properties (note 11)	**34,998**	7,425
Purchase of property and equipment (note 12)	**(735)**	(1,218)
Proceeds from disposal of assets	**74**	283
	18,330	(17,678)
FINANCING ACTIVITIES		
Redemption of debentures (note 16f)	**(22,975)**	—
Revolving credit facilities	**41,423**	17,139
Proceeds from general debt	**105,191**	132,589
Repayment of general debt	**(100,805)**	(156,093)
Repurchase of REIT units	**(25)**	(533)
Dividends paid	**(18,664)**	(14,532)
Common shares repurchased (note 17a)	**(21,435)**	(3,350)
Share capital issued	**31**	224
	(17,259)	(24,556)
FOREIGN EXCHANGE GAIN ON CASH HELD IN A FOREIGN CURRENCY	**1,123**	131
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**20,545**	30,719
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**59,920**	29,201
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**80,465**	59,920

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

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

Melcor Developments Ltd. ("Melcor" or "we") is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD". As at December 31, 2022 Melton Holdings Ltd. holds approximately 50.2% of the outstanding shares and pursuant to IAS 24, Related Party Disclosures, is the ultimate controlling shareholder of Melcor.

As at March 16, 2023, Melcor, through an affiliate, holds an approximate 55.4% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

2. BASIS OF PRESENTATION

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

Our consolidated financial statements have been prepared in accordance with IFRS. These consolidated financial statements were authorized for issue by the Board of Directors on March 16, 2023.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of measurement

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

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

b. Basis of consolidation

These consolidated financial statements include:

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

   i Melcor Developments Arizona Inc.
   ii Melcor Lakeside Inc.
   iii Stanley Investments Inc.
   iv Melcor Homes Ltd.

II. The accounts of Melcor REIT Limited Partnership (the "Partnership") (55.4% owned by Melcor Developments Ltd as at December 31, 2022). The remaining 44.6% publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to notes 7 and 27 for details related to our interest in the REIT.

III. Investments in 31 joint arrangements (2021 – 31) with interests ranging from 7% to 67%. These arrangements are undivided interests in the assets, liabilities, revenue and expenses and we record our proportionate share in accordance with the agreements. Refer to note 24 for details on joint arrangements.

All intercompany transactions and balances are eliminated on consolidation.

c. Cash and cash equivalents

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

d. Restricted cash

Restricted cash can only be used for specific purposes. As at December 31, 2022 our restricted cash represents amounts held in escrow related to land projects in the US and deposits held in trust related to the sale of an investment property.

e. Land inventory

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

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

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

f. Investment properties

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

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

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

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

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

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

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

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

g. Property and equipment

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

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

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

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

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

h. Other assets

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

i. Borrowing costs

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

j. Provision for land development costs

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

k. Provision for decommissioning obligations

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

l. Recognition of revenue

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

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

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

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

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

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

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

m. Income taxes

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

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

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

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

n. Stock based compensation

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

o. Earnings per share

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

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

p. Foreign currency

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

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

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

q. Financial instruments

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

Financial assets

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

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

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

Financial liabilities

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

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

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

Financial guarantee contracts

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

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

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

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

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

r. Non-controlling interest in Melcor REIT

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

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

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

s. Financial derivatives

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

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

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

t. Operating segments

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

u. Statement of cash flows

Development activities is defined as the net change of land inventory and the provision for land development costs and excludes the purchase of raw land. Purchase of raw land is the cost of land net of vendor financing received (see note 10 – land inventory).

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

4. ACCOUNTING STANDARD CHANGES

a. New and amended standards adopted

IAS 37, Provisions, contingent liabilities and contingent assets amendments were made to IAS 37, Provisions, contingent liabilities and contingent assets in order to clarify (i) the meaning of "costs to fulfil a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. IAS 37 is required to be applied for annual periods beginning on or after January 1, 2022.

Impact of adoption

The adoption of the amendment to IAS 37 did not result in any adjustments in our treatment of provisions, contingent liabilities and contingent assets.

5. CRITICAL ACCOUNTING ESTIMATES

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

a. Valuation of agreements receivable

We review our agreements receivable on a regular basis to estimate the risk of default on outstanding balances. Factors such as the related builder's reputation and financial status, the geographic location of the lot, and length of time the agreement receivable has been outstanding are all considered when estimating any impairment on agreements receivable. Refer to note 29a for further information related to credit risk associated with agreements receivable.

b. Valuation of investment properties

The fair value of investment property is dependent on stabilized net operating income or forecasted future cash flows and property specific capitalization or discount rates. The stabilized net operating income or forecasted future cash flows involve assumptions of future rental income, including estimated market rental rates and vacancy rates, estimated direct operating costs and estimated capital expenditures. Capitalization and discount rates take into account the location, size and quality of the property, as well as market data at the valuation date.

Refer to note 30 for further information about methods and assumptions used in determining fair value of investment properties.

c. Determination of the provision for land development costs

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

d. Income taxes

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

6. SIGNIFICANT JUDGMENTS

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

a. Capitalization of borrowing costs

IAS 23, Borrowing Costs, requires the capitalization of borrowing costs to qualifying assets. IAS 23 also requires the determination of whether the borrowings are specific to a project or general in calculating the capitalized borrowing costs. Judgment is involved in identifying directly attributable borrowing costs to be included in the carrying value of qualifying assets and in determining if funds borrowed are for general purposes or specifically for the construction of qualifying assets. We consider our centrally managed treasury function with assessment of the circumstances surrounding individual borrowings in making this judgment. Capitalization to land inventory occurs when the land is classified to land under development and ceases when the land is considered developed and ready for sale. Borrowing costs are capitalized to investment properties when under active development. We have determined that all of our borrowings are general, except project specific financing (note 16c), as the decision on how to deploy operating and acquisition funds is a centrally managed corporate decision.

b. Transfer of land to investment property

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

c. Classification of tenant incentives

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

d. Investment properties

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

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

e. Compliance with REIT exemption under ITA

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

7. INTEREST IN MELCOR REIT

As at December 31, 2022 we hold a 55.4% (2021 - 55.4%) ownership interest in the REIT through ownership of all 16,125,147 Class B LP Units of the Partnership.

The publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to note 27 for summary financial information of the REIT at December 31, 2022. As of March 16, 2023 we hold a 55.4% ownership interest in the REIT.

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8. ASSET HELD FOR SALE

As at December 31, 2022, the REIT classified an office property as an asset held for sale with a fair value of $19,500 (including investment property of $19,089, tenant incentives of $316 and straight-line rent of $95). As at December 31, 2022 management has committed to a plan of sale of the property with a contract in place. Deposits held in trust of $1,000 were classified as restricted cash at year-end. Subsequent to year-end, the property was sold to a third party for net proceeds of $19,025, resulting from a purchase price of $19,500 less transaction costs of $475 (note 31).

9. AGREEMENTS RECEIVABLE

Agreements receivable are due in 2023, except for $15,863 due in 2024 and $396 due in 2025 (2021 - balance due 2022, except $28,041 due in 2023, $1,504 due in 2024). Subsequent to the interest adjustment date, which provides an interest relief period to qualifying registered builders, these receivables earn interest at prime plus two percent (8.45% at December 31, 2022) and are collateralized by the specific real estate sold.

At December 31, 2022, promotional programs of $254 (2021 - $439) were offered to promote home sales activities in our communities and encourage agreements receivable collections. This amount was determined based on management's best estimate and is subject to measurement uncertainty introduced by the impact of the uncertain economic environment. As a result, revisions to this estimate may be required in future periods. Refer to note 29a for further discussion surrounding credit risk.

10. LAND INVENTORY

As at December 31	**2022**	**2021**
Raw land held	**384,681**	387,598
Land under development	**187,140**	153,671
Developed land	**177,680**	184,537
	749,501	725,806

A breakdown of our land purchases are as follows:

	2022	**2021**
Land purchases - acres	**13.01**	17.10
Land cost	**4,247**	3,037
Net cash to close	**4,247**	3,037

During the year ended December 31, 2022, we purchased 13.01 acres of land in Buckeye, Arizona in the United States at a cost of $4,247 (USD$3,295) for cash. We purchased 17.10 acres of land in Buckeye, Arizona in the United States at a cost of $3,037 (USD$2,450) for cash in the comparative period.

The weighted average interest rate used for capitalization of borrowing costs to land under development is 4.47% for the year ended December 31, 2022 (2021 – 3.26%). Borrowing costs capitalized to land inventory during the year were $3,634 (2021 - $3,525).

Land inventory expensed to cost of sales during the year was $71,185 (2021 - $127,058).

Land is recorded at the lower of cost and net realizable value. The net realizable value exceeds the carrying cost of all land inventories at December 31, 2022 and 2021, such that no provision for impairment is required.

11. INVESTMENT PROPERTIES

Investment properties consists of the following:

As at December 31	**2022**	**2021**
Investment properties	**1,059,490**	1,071,456
Properties under development	**65,293**	47,349
Total	**1,124,783**	1,118,805

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

2022	Investment properties	Properties under development	Total
Balance - beginning of year	1,071,456	47,349	1,118,805
Additions			
Transfer from land inventory	—	11,868	11,868
Direct leasing costs	3,644	607	4,251
Property improvements	2,455	—	2,455
Property development	—	13,246	13,246
Capitalized borrowing costs	—	306	306
Disposals	(34,998)	—	(34,998)
Transfers	13,047	(13,047)	—
Fair value adjustment on investment properties	16,590	4,964	21,554
Investment property classified as held for sale (note 8)	(19,089)	—	(19,089)
Other adjustments	(893)	—	(893)
Foreign currency translation (included in OCI)	7,278	—	7,278
Balance - end of year	1,059,490	65,293	1,124,783

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

Disposals during the year:

During the year, we disposed of 117 residential units in Arizona for net sale price of $34,998 (US$26,145) net of transaction costs.

Acquisitions and disposals in the comparative year:

- On May 31, 2021, we acquired raw land for property development in Sylvan Lake, at a net cost of $1,358.
- On June 25, 2021, we disposed of one residential unit in Arizona for net sale price of $341 (US$278) net of transaction costs.
- On July 30, 2021, we sold an investment property for net sale price of $7,084 (US$5,684) net of transaction costs. The price was settled in cash, excluding working capital adjustments.

In accordance with our policy, as detailed in note 3f, we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized NOI, while development activity on properties under development and leasing activity drive fair value adjustments on properties under development. Supplemental information on fair value measurement, including valuation techniques and significant assumptions, is included in note 30.

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Properties transferred from property under development to commercial properties during the year totaled $13,047 (2021 - $41,903). Properties transferred is net of tenant incentives of $586 (2021 - $2,646).

Presented separately from investment properties is $34,013 (2021 - $31,160) in tenant incentives and $17,504 (2021 - $15,038) in straight-line rent adjustments (included in note 13). The fair value of investment properties has been reduced by these amounts.

During the year, we reclassified $19,089 from investment properties to asset held for sale (note 8).

The weighted average interest rate used for capitalization of borrowing costs to investment properties under development is 6.95% for the year ended December 31, 2022 (2021 – 2.85%).

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

	2022	2021
Within one year	71,188	68,779
Later than one year but not later than 2 years	63,640	62,536
Later than 2 years but not later than 3 years	53,982	53,960
later than 3 years but not later than 4 years	44,519	44,550
Later than 4 years but not later than 5 years	37,160	35,529
Later than 5 years	134,206	139,002
Total	404,695	404,356

12. PROPERTY AND EQUIPMENT

	Golf course assets					
	Land	Buildings	Equipment	Greens and tees	Corporate	Total
January 1, 2022						
Cost	1,293	8,175	9,501	6,689	7,501	33,159
Accumulated depreciation	—	(3,638)	(6,974)	(3,937)	(5,723)	(20,272)
Opening net book value	1,293	4,537	2,527	2,752	1,778	12,887
Additions	—	—	539	19	177	735
Disposals	—	—	(34)	—	—	(34)
Depreciation	—	(178)	(659)	(168)	(345)	(1,350)
Net Book Value - December 31, 2022	1,293	4,359	2,373	2,603	1,610	12,238

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

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13. OTHER ASSETS

	2022	2021
Tenant incentives	34,013	31,160
Deposits and prepaids	5,838	6,876
Straight-line rent adjustments	17,504	15,038
Inventory	481	452
	57,836	53,526

During the year we provided tenant incentives of $10,730 (2021 - $6,347) and recorded $7,561 (2021 - $8,160) of amortization expense. In accordance with IFRS 16 - Leases, amortization of tenant incentives are recorded on a straight-line basis over the term of the lease against rental revenue.

During the year, we also reclassified $316 in tenant incentives and $95 in straight line rent adjustments to asset held for sale (note 8).

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2022	2021
Trade accounts payable	19,269	9,810
Distribution payable	519	519
Other payables	31,616	38,373
Provision for decommissioning obligation	1,809	1,774
	53,213	50,476

As described in note 3r distributions on trust units are recognized in the period in which they are approved and are recorded as an expense. As at December 31, 2022, distribution payable pertains to the December 2022 monthly distribution which was subsequently paid on January 15, 2023 (2021 - December 2021 monthly distribution paid on January 15, 2022).

Decommissioning obligation relates to one of our commercial properties held by the REIT. The total decommissioning obligation is estimated based on the future obligation and timing of these expenditures to be incurred. We estimate the net present value of the obligation based on an undiscounted total future provision of $2,014 (December 31, 2021 - $2,014). At December 31, 2022, a discount rate of 4.00% (December 31, 2021 - 4.00%) and an inflation rate of 2.00% (December 31, 2021 - 2.00%) were used to calculate the net present value of the obligation. Due to uncertainty surrounding the nature and timing of this obligation, amounts are subject to change.

15. PROVISION FOR LAND DEVELOPMENT

	2022	2021
Balance - beginning of year	79,517	49,770
New development projects	87,203	132,121
Changes to estimates	(2,136)	(3,277)
Costs incurred	(106,324)	(99,097)
Balance - end of year	58,260	79,517

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16. GENERAL DEBT

General debt consists of the following:

		2022	2021
Melcor - revolving credit facilities	a	**96,839**	87,050
REIT - revolving credit facility	b	**31,634**	—
Project specific financing	c	**22,597**	40,758
Secured vendor take back debt on land inventory	d	**5,717**	11,794
Debt on investment properties and golf course assets	e	**539,110**	506,382
REIT - convertible debentures	f	**44,468**	70,929
General debt		**740,365**	716,913

a. Melcor - revolving credit facilities

We have available credit facilities with approved loan limits of $196,350 (2021 - $191,410) with a syndicate of major chartered banks. The portion of these loan limits that pertain solely to Melcor is $120,000 (2021 - $120,000) with the remaining balance pertaining to specific joint arrangements.

The amount of the total credit facilities currently used is $96,839 (2021 - $87,050). We have pledged agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral for our credit facilities. The carrying value of assets pledged as collateral is $333,475 (2021 - $277,205).

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

Depending on the form under which the credit facilities are accessed, rates of interest will vary between prime plus 0.75% to prime plus 1.25% or banker's acceptance rate plus a 3.00% stamping fee resulting in interest rates ranging from 7.20% to 7.70% at December 31, 2022 (2021 - 3.20% to 3.70%). The agreements also bear a standby fee of 0.50% for the unused portions of the facilities. The weighted average effective interest rate on borrowings, based on year end balances, is 7.67% (December 31, 2021 - 3.56%).

b. REIT - revolving credit facility

Under the terms of our revolving credit facility agreement the REIT maintains an available credit limit based on the lesser of the present value of discounted cashflows or 65% of the appraised value of specific investment properties to a maximum of $35,000 for general corporate purposes and acquisitions, including a $5,000 swingline sub-facility. An additional $15,000 is available by way of an accordion feature, subject to lender approval. Depending on the form under which the credit facility is accessed, rates of interest will vary between prime plus 1.25% or bankers acceptance plus 2.25% stamping fee. The agreement also provides the REIT with $5,000 in available letters of credit which bear interest at 2.25%. Interest payments are due and payable based upon the form of the facility drawn upon, and principal is due and payable upon maturity. The agreement also bears a standby fee of 0.45% for the unused portion of the revolving facility. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the new facility. The facility matures June 1, 2024 and has been amended subsequent to year-end (note 31).

As at December 31, 2022, the carrying value of pledged properties was $56,700 (December 31, 2021 - $62,100).

As at December 31, 2022, we have an approved credit facility of $34,104 (December 31, 2021 - $35,000). As at December 31, 2022 we had $31,634 (December 31, 2021 - $nil) drawn from the facility (net of unamortized transaction fees and unamortized discount on bankers acceptance); and posted no letters of credit (December 31, 2021 - $nil). In the comparative period, unamortized transaction fees of $106 was included in other assets.

c. Project specific financing

	2022	2021
Project specific debt on land, with interest rates between 7.83% and 8.42% (2021 - 3.83%)	**13,234**	2,287
Project specific debt on investment properties under development, with 6.95% interest rate (2021 - 2.75% to 2.95%)	**9,363**	38,471
	22,597	40,758

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Land inventory and agreements receivable with a December 31, 2022 carrying value of $62,948 (2021 - $5,472) have been pledged as collateral on project specific debt on land. The debts are due on demand by the lenders. The weighted average interest rate on the above debts, based on year end balances, is 7.72% (2021 - 2.92%). Specific investment properties under development with a December 31, 2022 carrying value of $125,586 (2021 - $115,886), have been pledged as collateral on project specific debt on investment properties under development.

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

	2022	2021
Balance - beginning of year	40,758	66,248
Cash movements		
Loan repayments	(50,351)	(30,056)
New project financing	31,811	4,605
Non-cash movements		
Foreign currency translation included in OCI	379	(39)
Balance - end of year	22,597	40,758

d. Secured vendor take back debt on land inventory

	2022	2021
Agreements payable with interest at the following contractual rates:		
Fixed rates of 4.00% - 4.25% (2021- 4.00% - 4.25%)	5,717	11,794
	5,717	11,794

Land inventory with a December 31, 2022 carrying value of $22,585 (2021 - $25,754), has been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 4.13% (2021 – 4.13%). The minimum contractual principal payments due within next year are $5,717.

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

	2022	2021
Balance - beginning of year	11,794	28,616
Cash movements		
Scheduled amortization on debt	(6,077)	(16,822)
Balance - end of year	5,717	11,794

e. Debt on investment properties and golf course assets

Debt on investment properties and golf course assets	2022	2021
Mortgage at floating interest rate of prime plus 1% (2022 - 7.45%, 2021 - n/a)	5,876	–
Variable rate mortgages amortized over 10 to 30 years at variable interest rates of 2.62% - 8.05% (2021 - 2.62% - 4.89%)	122,845	77,350
Mortgages amortized over 15 to 25 years at fixed interest rates of 2.62% - 5.52% (2021 - 1.75% - 4.90%)	413,290	432,569
	542,011	509,919
Fair value adjustment for interest rate swaps	–	(629)
Unamortized deferred financing fees	(2,901)	(2,908)
	539,110	506,382
Interest rate ranges	(2.62% - 8.05%)	(1.75% - 4.90%)

As at December 31, 2022 $53,119 (2021 - $62,499) of debt was payable in US dollars (2022 - US $39,220 and 2021 - US $49,297). The debts mature from 2024 to 2028.

Specific investment properties and golf courses with a carrying value of $858,182 (2021 - $807,759) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 3.75% (2021 – 3.42%).

Following the financial crisis, the reform and replacement of benchmark interest rates such as USD LIBOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. There remains some uncertainty around the timing and precise nature of these changes. We have one debt agreement with a carrying value of $6,020 which reference USD LIBOR. As at December 31, 2022 this loans has not transitioned to alternative interest rate benchmarks.

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

2023	**91,523**
2024	**60,312**
2025	**57,396**
2026	**80,217**
2027	**32,132**
Thereafter	**220,431**
	542,011

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

	2022	2021
Balance - beginning of year	**506,382**	490,801
Cash movements		
Principal repayments:		
Scheduled amortization on mortgages	**(18,092)**	(17,076)
Mortgage repayments	**(26,285)**	(92,390)
New mortgages	**73,380**	127,984
Non-cash movements		
Mortgage amendment	**(893)**	—
Deferred financing fees capitalized	**(1,115)**	(1,315)
Amortization of deferred financing fees	**1,123**	836
Change in fair value of interest rate swap	**629**	(2,005)
Foreign currency translation included in OCI	**3,981**	(453)
Balance - end of year	**539,110**	506,382

f. REIT - convertible debentures

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

($000s) except amounts stated in units					December 31, 2022		December 31, 2021
Convertible Debentures	**Date Issued**	**Maturity Date**	**Conversion rate in units***	**Interest Rate**	**Outstanding Principal**	**Carrying Value**	Carrying Value
2017 Debentures	Dec 21, 2017	Dec 31, 2022	86.9565	5.25 %	—	—	22,458
2019 Debentures	Oct 29, 2019	Dec 31, 2024	112.3596	5.10 %	**46,000**	**44,056**	43,179
					46,000	**44,056**	65,637

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

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

A reconciliation of the convertible debentures is as follows:

($000s)	Host Instruments	Conversion Features	Total
Balance at December 31, 2020	**64,339**	**1,871**	**66,210**
Fair value adjustment on conversion features	—	3,421	3,421
Amortization of discount and transaction costs	735	—	735
Accretion on convertible debentures	588	—	588
2017 debentures conversion	(25)	—	(25)
Balance at December 31, 2021	**65,637**	**5,292**	**70,929**
Fair value adjustment on conversion features	—	(4,880)	**(4,880)**
Amortization of discount and transaction costs	769	—	**769**
Accretion on convertible debentures	625	—	**625**
2017 debentures repayment	(22,975)	—	**(22,975)**
Balance at December 31, 2022	**44,056**	**412**	**44,468**

During the year ended December 31, 2022, we recognized $3,553 of interest expense related to the convertible debentures which is included in finance costs (note 21) (2021 - $3,553).

At December 31, 2022 we remeasured the conversion features to fair value resulting in fair value gain of $4,880 for the year (2021 - fair value loss of $3,421). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 30.

At December 31, 2022, the fair value of the conversion features on our convertible debentures was $412 liability (2021 - $5,408 liability and $116 asset).

During the year, our 2017 Debentures matured resulting in a repayment of $22,975. In the comparative period, $25 of our 2017 debentures were converted into REIT units.

17. SHARE CAPITAL

a. Common Shares

		2022
	Number of Shares Issued (# of shares)	**Amount ($000s)**
Common shares, beginning of the year	**32,961,015**	**73,304**
Issued on exercise or exchange of options *	**65,275**	**789**
Shares purchased for cancellation	**(1,777,662)**	**(3,875)**
Common shares, end of the year	**31,248,628**	**70,218**

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

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

Authorized:

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

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On April 1, 2021 Melcor commenced a Normal Course Issuer (NCIB) which expired on March 31, 2022. Under this bid, we were allowed to purchase up to 1,654,553 shares for cancellation, representing approximately 5% of the issued and outstanding shares. The shares may be repurchased up to a maximum daily limit of 3,781.

On April 1, 2022 Melcor commenced a new Normal Course Issuer (NCIB) which allowed us to purchase up to 1,641,627 shares for cancellation, representing approximately 5% of the issued and outstanding shares up to a maximum daily limit of 1,281 unless acquired under a block purchase exception. The price Melcor paid for shares repurchased under the plan was the market price at the time of acquisition. On December 22, 2022, Melcor filled the NCIB by purchasing the final shares bringing the total to the maximum 1,641,627 shares allowed. The current NCIB period ends on March 31, 2023 and no additional shares can be purchased at this time.

During the year, there were 1,777,662 (2021 - 244,726) common shares purchased for cancellation by Melcor pursuant to the above NCIBs at a cost of $21,435 (2021 - $3,350).

b. Stock-Based Compensation Plans

On February 23, 2007 Melcor’s Board of Directors approved a stock-based compensation plan (the “2007 Plan”). Under the 2007 Plan, Melcor may grant options to full-time, salaried employees and designated contractors after one year of service. The 2007 Plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. At the discretion of the board, the options vest over a period of three years and expire no longer than seven (7) years from the date of issuance. The 2007 Plan was approved by Melcor’s shareholders at the Shareholders Annual Meeting in April 2007. Melcor has 1,739,252 shares reserved for issuance under the 2007 Plan (2021 – 1,747,786).

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

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

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

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

2007 Plan	2022	2021
Stock options available, beginning of the year	**1,253,486**	979,100
Stock options surrendered	**60,666**	248,353
Stock options expired / canceled	**202,100**	26,033
Stock options available, end of the year	**1,516,252**	1,253,486

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2022	Number of Options	Average Exercise Price ($)
Stock options outstanding, beginning of the year	**494,300**	**13.77**
Stock options exercised	**(69,200)**	**13.88**
Stock options expired / canceled	**(202,100)**	**14.45**
Stock options outstanding, end of the year	**223,000**	**12.74**

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

During 2022 there were 69,200 (2021 - 289,567) options exercised. The 2022 weighted average exercise price of options exercised was $13.88 (2021 - $13.04).

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

	2022	**2021**
Units available, beginning of the year	**1,137,255**	1,184,475
Units granted to employees	**(108,400)**	(78,200)
Units issued under dividend reinvestment plan	**(12,522)**	(10,269)
Units expired / canceled	**39,042**	41,249
Units available, end of the year	**1,055,375**	1,137,255

2022	Number of Units	Weighted Average Fair Value ($)
Units outstanding, beginning of the year	**288,667**	**8.96**
Units granted to employees	**108,400**	**10.89**
Units exercised	**(56,741)**	**12.42**
Units issued under dividend reinvestment	**12,522**	**10.43**
Units expired / canceled	**(39,042)**	**9.32**
Units outstanding, end of the year	**313,806**	**10.09**

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

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e. Stock Options Outstanding and Exercisable Under the 2007 Plan

		2022	
Stock option expiry date	Outstanding Stock Options	Exercise Price Per Share ($)	Stock Options Exercisable
December 12, 2023	122,500	13.01	122,500
December 11, 2024	100,500	12.42	100,500
	223,000		223,000

f. Restricted Share Units Outstanding and Redeemable

			2022
Restricted share unit expiry date	Outstanding Restricted Share Units	Exercise Price Per Unit ($)	Restricted Share Units Vested
December 31, 2023	126,496	7.48	—
December 31, 2024	77,397	14.35	—
December 31, 2025	109,913	10.85	—
	313,806		—

g. Stock Based Compensation Expense

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

i) 2007 Option Plan

There were no stock options granted during the year. Current year vesting of options resulted in a $43 (2021 - $185) charge to stock based compensation expense and corresponding credit to contributed surplus.

ii) RSU Plan

The weighted average fair value of RSUs granted during the year was $10.85 (2021 - $14.35) per RSU. Current year compensation expense related to the RSU plan resulted in a $798 (2021 - $947) charge to stock based compensation expense and corresponding credit to contributed surplus.

18. PER SHARE AMOUNTS

(# of shares)	2022	2021
Basic weighted average common shares outstanding during the year	**32,452,749**	33,038,543
Dilutive effect of options and restricted share units	**151,344**	182,827
Diluted weighted average common shares	**32,604,093**	33,221,370

For the year ended December 31, 2022, there were 223,000 stock options excluded from the calculation of diluted earnings per share (2021 - 494,300) as their impact would be anti-dilutive.

Diluted earnings per share was calculated based on the following:

	2022	2021
Profit attributable to shareholders	**89,354**	56,311
Profit for computation of diluted earnings per share	**89,354**	56,311

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19. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2022	2021
Balance, beginning of the year	**17,858**	18,603
Other comprehensive loss, net of tax of $nil	**11,740**	(745)
Balance, end of the year	**29,598**	17,858

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

20. COMMITMENTS AND CONTINGENCIES

In the normal course of operations, we issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. As at December 31, 2022 we had $31,732 (December 31, 2021 - $27,050) in letters of credit outstanding and recorded a net liability of $58,260 (December 31, 2021 - $79,517) in provision for land development costs in respect of these development agreements.

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

We enter into joint arrangements and, in doing so, may take on risk beyond our proportionate interest in the joint arrangement. These situations generally arise where preferred financing terms can be arranged on the condition that the strength of our company's covenant will backstop that of the other joint arrangement participant(s) who also provide similar guarantees. We will have to perform on our guarantee only if a joint arrangement participant was in default of their guarantee. At December 31, 2022 we had guaranteed $3,878 (December 31, 2021 - $3,355) in credit facilities in excess of the amount recognized as a liability. We also guaranteed $12,399 (December 31, 2021 - $10,240) in excess of our share of letters of credit posted with the municipalities.

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

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

We also enter into lease agreements with tenants which specify tenant incentive payments upon completion of the related tenant improvements. Incentive payments of approximately $2,289 (2021 - $2,292) may be required from lease agreements entered during the year.

21. FINANCE COSTS

	2022	2021
Interest on Melcor - revolving credit facilities	**4,816**	3,723
Interest on REIT - revolving credit facility	**322**	265
Interest on REIT - convertible debentures	**3,553**	3,553
Interest on general debt	**19,680**	19,149
Financing costs and bank charges	**1,538**	1,612
Gain on settlement of interest rate swap	**(172)**	—
Non cash financing (recoveries) costs	**(8,518)**	3,479
	21,219	31,781
Less: capitalized interest	**(3,941)**	(3,837)
	17,278	27,944

Cumulative interest capitalized on land inventory at the end of the year is $48,545 (2021 - $44,615). Finance costs paid during the year was $30,977 (2021 - $31,445). Non cash financing (recoveries) costs include debentures accretion expense, debentures amortized fees and fair value adjustment on derivatives.

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22. REVENUE AND EXPENSE BY NATURE

a. Revenue:

The components of revenue are as follows:

Revenue from contracts with customers

	2022	2021
Sale of land	118,869	199,229
Operating cost recoveries	19,453	18,459
Golf course revenue	10,045	9,280
Total	148,367	226,968

Other Revenue

	2022	2021
Lease revenue	69,471	63,569
Variable lease revenue	19,463	20,574
Management fees	4,446	4,517
Total	93,380	88,660

Total revenue	241,747	315,628

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

2022	Community Development	Investment Property	Recreational Properties	REIT	Total
Timing of Revenue Recognition					
At a point in time	118,869	—	8,647	—	127,516
Over time	—	6,354	1,398	13,099	20,851
Revenue from contracts with customers	118,869	6,354	10,045	13,099	148,367

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

b. Cost of sales:

The components of cost of sales are as follows:

	2022	2021
Cost of land sold	71,185	127,058
Investment property direct operating expenses	46,315	42,893
Direct golf course expenses	4,979	4,599
Golf course asset depreciation	1,005	952
Total	123,484	175,502

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c. General and administrative expenses:

The components of general and administrative expenses are as follows:

	2022	2021
Employee salary and benefits		
Salaries, wages and retirement allowance	**10,799**	11,080
Employee benefits	**922**	728
Stock based compensation	**841**	1,132
Corporate asset depreciation	**345**	382
Marketing	**544**	526
Other	**9,571**	8,087
Total	**23,022**	21,935

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

	2022	2021
Salaries, wages and retirement allowance	**2,955**	3,433
Employee benefits	**43**	43
Stock based compensation	**537**	560
Total	**3,535**	4,036

23. INCOME TAX

Components of tax expense:

	2022	2021
Current tax expense		
Current year	**14,912**	16,703
Adjustment to prior years	**(73)**	1,192
	14,839	17,895
Deferred tax expense		
Origination and reversal of temporary differences	**8,225**	4,684
	8,225	4,684
Total tax expense	**23,064**	22,579

Reconciliation of effective tax rate:

	2022	2021
Income before taxes	**112,418**	78,890
Statutory rate	**23 %**	23 %
	25,856	18,145
Non-taxable portion of capital gains and fair value adjustments	**(1,745)**	(2,308)
Non-deductible (non-taxable) portion of REIT loss (income)	**627**	(933)
Impact of different tax rates in subsidiaries	**818**	892
Non-deductible expenses	**1,270**	861
(Non-taxable) non-deductible fair value adjustments on REIT units	**(3,762)**	5,922
Total tax expense	**23,064**	22,579

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 29

Movement in deferred tax balances during the year:

				December 31, 2022
	Opening	Recognized in profit or loss	Foreign currency translation (included in OCI)	**Closing**
Investment property and capital assets	**53,385**	**6,488**	**91**	**59,964**
Reserves for tax purposes	**7,229**	**482**	**—**	**7,711**
Capitalized interest	**(3,615)**	**758**	**(7)**	**(2,864)**
Provision for decommissioning obligation	**(225)**	**(4)**	**—**	**(229)**
Convertible debenture	**(356)**	**502**	**—**	**146**
Tax losses carried forward	**(77)**	**(1)**	**—**	**(78)**
Deferred tax liability	**56,341**	**8,225**	**84**	**64,650**

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

No deferred tax liability has been recognized in respect of the net unrealized foreign currency exchange gain in accumulated other comprehensive income. Income tax paid during the year was $24,518 (2021 - $13,557).

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24. JOINT ARRANGEMENTS

The table below discloses our proportionate share of the assets, liabilities, revenue, and earnings of 31 arrangements (2021 – 31) that are recorded in these financial statements as follows:

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

The following summarizes financial information about our share of assets, liabilities, revenue and earnings of our interest in joint arrangements that are recorded in our accounts for the year ended December 31, 2022.

	2022	2021
Assets	**476,009**	488,178
Liabilities	**195,666**	205,691
Revenue	**81,364**	90,823
Net Earnings	**29,055**	29,608

Contingent liabilities arising for liabilities of other joint arrangement participants are disclosed in note 20.

Notes to the Consolidated Financial Statements $000s except per share and acre amounts 31

25. SEGMENTED INFORMATION

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

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

Community Development

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

Property Development

This division develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed primarily from our community development division. Once substantial completion of construction and leasing are complete, these properties are transferred to our investment property division at fair value (refer to note 11).

Investment Property

This division owns 25 leasable commercial, retail and residential properties (2021 – 24 properties) and other rental income producing assets such as parking lots and land leases.

REIT

This division owns 39 leasable commercial and retail properties (2021 – 39 properties) and other rental income producing assets such as residential property, parking lots and land leases.

Recreation Property

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

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

External Revenue:

(in Canadian dollars)	2022	2021
United States	15,825	70,383
Canada	225,922	245,245
Total	241,747	315,628

Total Assets:

As at December 31 (in Canadian dollars)	2022	2021
United States	291,635	287,421
Canada	1,875,415	1,826,506
Total	2,167,050	2,113,927

US Operations

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

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Our divisions reported the following results:

2022	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 22)	135,777	14,013	43,010	74,105	10,453	—	277,358	(35,611)	**241,747**
Cost of sales (note 22)	(83,054)	(13,633)	(17,445)	(31,060)	(6,126)	—	(151,318)	27,834	**(123,484)**
Gross profit	52,723	380	25,565	43,045	4,327	—	126,040	(7,777)	**118,263**
General and administrative expense (note 22)	(7,848)	(2,071)	(3,162)	(3,358)	(2,716)	(6,900)	(26,055)	3,033	**(23,022)**
Fair value adjustment on investment properties (note 11 and 30)	—	3,142	25,663	(11,995)	—	—	16,810	4,744	**21,554**
Gain on sale of assets	—	—	—	—	40	—	40	—	**40**
Interest income	1,406	4	31	31	6	136	1,614	—	**1,614**
Segment earnings (loss)	*46,281*	*1,455*	*48,097*	*27,723*	*1,657*	*(6,764)*	*118,449*	—	***118,449***
Foreign exchange gain									**1,109**
Finance costs (note 21)									**(17,278)**
Adjustments related to REIT units (note 27)									**10,138**
Income before income taxes									**112,418**
Income tax expense (note 23)									**(23,064)**
Net income for the year									**89,354**

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2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 22)	202,754	42,929	38,931	74,094	9,989	—	368,697	(53,069)	315,628
Cost of sales (note 22)	(127,058)	(42,800)	(16,296)	(30,340)	(5,741)	—	(222,235)	46,733	(175,502)
Gross profit	75,696	129	22,635	43,754	4,248	—	146,462	(6,336)	140,126
General and administrative expense (note 22)	(6,902)	(1,947)	(2,409)	(2,953)	(2,610)	(8,161)	(24,982)	3,047	(21,935)
Fair value adjustment on investment properties (note 11 and 30)	—	2,352	10,850	2,879	—	—	16,081	3,289	19,370
Gain on sale of assets	—	—	—	—	151	—	151	—	151
Interest income	516	—	1	30	—	25	572	—	572
Segment earnings (loss)	*69,310*	*534*	*31,077*	*43,710*	*1,789*	*(8,136)*	*138,284*	—	*138,284*
Foreign exchange gain									76
Finance costs (note 21)									(27,944)
Adjustments related to REIT units (note 27)									(31,526)
Income before income taxes									78,890
Income tax expense (note 23)									(22,579)
Net income for the year									56,311

26. SUPPLEMENTAL BALANCE SHEET INFORMATION

Given the significant impact the consolidation of the REIT has on the consolidated statement of financial position, the assets and liabilities of the REIT have been presented separately from the rest of consolidated entity. This information is presented as supplementary information to assist readers in understanding the financial position of Melcor without the impact of consolidating the REIT.

The assets and liabilities of Melcor include Melcor and its wholly-owned subsidiaries, excluding the REIT, and its proportionate share in the assets and liabilities of its joint arrangements. Melcor's investment in REIT is presented at cost as shown in the tables below.

The assets and liabilities of the REIT are presented to conform to Melcor's financial statements presentation. Intercompany eliminations are balances between Melcor and the REIT that are eliminated on consolidation.

($000s)	Melcor	REIT	Intercompany Eliminations	2022
ASSETS				
Cash and cash equivalents	77,161	3,304	—	80,465
Restricted cash (note 3(d))	1,761	1,000	—	2,761
Accounts receivable	12,043	2,079	(1,635)	12,487
Income taxes recoverable	3,889	—	—	3,889
Agreements receivable (note 9)	97,232	—	—	97,232
Land inventory (note 10)	749,501	—	—	749,501
Investment properties (note 11 and 30)	461,433	672,010	(8,660)	1,124,783
Property and equipment (note 12)	11,983	—	255	12,238
Other assets (note 13)	22,132	29,128	6,576	57,836
Asset held for sale (note 8)	—	19,500	—	19,500
Derivative financial instrument (note 30)	2,610	3,748	—	6,358
Melcor's investment in REIT	167,392	—	(167,392)	—
	1,607,137	730,769	(170,856)	2,167,050

LIABILITIES				
Accounts payable and accrued liabilities (note 14)	39,993	14,861	(1,641)	53,213
Income taxes payable	336	—	—	336
Provision for land development costs (note 15)	58,260	—	—	58,260
General debt (note 16)	340,624	399,741	—	740,365
Deferred income tax liability (note 23)	64,650	—	—	64,650
Class B LP units	—	89,172	(89,172)	—
Class C LP units	—	37,798	(37,798)	—
REIT units (note 27 and 30)	—	—	71,890	71,890
	503,863	541,572	(56,721)	988,714

($000s)	Melcor	REIT	Intercompany Eliminations	2021
ASSETS				
Cash and cash equivalents	52,665	7,255	—	59,920
Restricted cash (note 3d)	4,824	—	—	4,824
Accounts receivable	9,548	1,996	(1,447)	10,097
Income taxes recoverable	323	—	—	323
Agreements receivable (note 9)	127,739	—	—	127,739
Land inventory (note 10)	725,806	—	—	725,806
Investment properties (note 11 and 30)	430,930	699,142	(11,267)	1,118,805
Property and equipment (note 12)	12,623	—	264	12,887
Other assets (note 13)	17,936	26,558	9,032	53,526
Melcor's investment in REIT	190,069	—	(190,069)	—
	1,572,463	734,951	(193,487)	2,113,927
LIABILITIES				
Accounts payable and accrued liabilities (note 14)	38,637	13,309	(1,470)	50,476
Income taxes payable	5,936	—	—	5,936
Provision for land development costs (note 15)	79,517	—	—	79,517
General debt (note 16)	310,755	406,158	—	716,913
Deferred income tax liability (note 23)	56,341	—	—	56,341
Class B LP units	—	109,490	(109,490)	—
Class C LP units	—	40,160	(40,160)	—
REIT units (note 27 and 30)	—	—	88,275	88,275
	491,186	569,117	(62,845)	997,458

27. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, as detailed in notes 3r and 30, we account for the 44.6% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss (“FVTPL”). As at December 31, 2022 the REIT units had a fair value of $71,890 (2021 - $88,275). We recorded adjustments related to REIT units for the year of $10,138 (2021 - $31,526).

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

	2022	2021
Fair value adjustment on REIT units	**16,360**	(25,748)
Distributions to REIT unitholders	**(6,222)**	(5,778)
Adjustments related to REIT units	**10,138**	(31,526)

The following tables summarize the financial information relating to Melcor's subsidiary, the REIT, that has material non-controlling interest (NCI), before intra-group eliminations (presented at 100%).

	2022	2021
Assets	**730,769**	735,668
Liabilities (excluding Class B LP units)	**452,400**	460,344
Net assets	**278,369**	275,324
Cost of NCI	**103,934**	103,959
Fair value of NCI	**71,890**	88,275

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	2022	2021
Revenue	74,105	74,094
Net income (loss) and comprehensive income (loss)	29,610	(16,287)
Cash flows from operating activities	11,936	14,881
Cash flows used in investing activities	(4,452)	(2,322)
Cash flows used in financing activities, before distributions to REIT unitholders	(5,213)	(3,397)
Cash flows used in financing activities - cash distributions to REIT unitholders	(6,222)	(5,651)
Net (decrease) increase in cash and cash equivalents	(3,951)	3,511

28. MANAGEMENT OF CAPITAL RESOURCES

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

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

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

We are subject to financial covenants on our $120,000 (2021 - $120,000) Melcor revolving credit facility. The covenants include a maximum debt to total capital ratio of 1.25, a minimum interest coverage ratio of 2.00, and a minimum net book value of shareholders' equity of $300,000. As at December 31, 2022, and throughout the period, we were in compliance with our financial covenants.

In addition, we are subject to financial covenants on our $35,000 REIT revolving credit facility. The covenants include a maximum debt to gross book value of 60% (excluding convertible debentures), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of $140,000. As at December 31, 2022, and throughout the period, the REIT was in compliance with its financial covenants.

We also have financial covenants on certain mortgages for investment properties. At December 31, 2022, and throughout the period, we were in compliance with our financial covenants on our mortgages. We prepare financial forecasts to monitor the changes in our debt and capital levels and our ability to meet our financial covenants.

29. RISK MANAGEMENT

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

a. Credit Risk

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

We invest our cash in bank accounts and short-term deposits with a major Canadian chartered bank. Accounts receivable balances include amounts due from other joint arrangement participants for their portion of management fees due to us as well as other various smaller balances due from municipal governments, other developers and tenants. Interest rate swaps are with approved counter-party banks. Counter-parties are assessed prior to, during and after the conclusion of the transactions to ensure exposure to credit risk is limited to an acceptable level.

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.

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Accounts receivables are significantly low risk due to their individual immaterial balances, the nature of the party they are due from (including joint venture participants under management by Melcor), and the overall lack of historical write offs. At this time, management has assessed and recorded the current expected credit loss at $284 (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. At December 31, 2022, 94% of agreements receivable are due from approved builders (2021 – 95%).

	Current	0-6 months past due	Greater than 6 months past due	Total
As at December 31, 2022				
Expected loss rate	**0.06 %**	**0.18 %**	**0.18 %**	
Agreements receivable	**92,611**	**4,685**	**—**	**97,296**
Loss allowance	**56**	**8**	**—**	**64**

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

Total loans included in agreements receivable that would have otherwise been past due at December 31, 2022, but whose terms have been renegotiated is $5,816 (2021 - $5,236). In order to address current market conditions, we have provided extensions on our standard terms to relieve liquidity pressure on builders. At December 31, 2022, we have identified $4,685 (2021 - $3,346) in agreements receivable which are in arrears. At this time, the impact to our risk for agreements receivable and expected credit loss rate for our agreements receivables is not considered material because we retain title.

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.

Refer to note 16 for the maturity analysis of general debt and details on the bank indebtedness. Accounts payable and accrued liabilities are expected to be repaid in the next twelve months.

c. Market Risk

We are subject to interest rate cash flow risk as our operating credit facilities and certain of our general debt bear interest at rates that vary in accordance with prime borrowing rates in Canada. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately $2,739 (2021 - $2,052) based upon applicable year end debt balances. We are not subject to other significant market risks pertaining to our financial instruments.

30. FAIR VALUE MEASUREMENT

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

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

- the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, agreements receivable and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.

- fair value of convertible debenture is estimated based on the closing trading price of the REIT's debentures (Level 2).
- fair values of general debt and the interest rate swaps are estimated by discounting the future cash flows associated with the instrument at market interest rates (Level 3).
- fair value of the conversion features on the REIT's convertible debentures are estimated based upon unobservable inputs, including volatility and credit spread (Level 3).
- fair value of REIT units are estimated based on the closing trading price of the REIT's trust units (Level 1).

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

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

					December 31, 2022	December 31, 2021	
($000s)	**Fair Value hierarchy**	**Fair Value**	**Amortized Cost**	**Total Carrying Value**	**Total Fair Value**	Total Carrying Value	Total Fair Value
Non-financial assets							
Investment properties	**Level 3**	**1,124,783**	**—**	**1,124,783**	**1,124,783**	1,118,805	1,118,805
Asset held for sale	**Level 3**	**19,500**	**—**	**19,500**	**19,500**	—	—
Financial liabilities							
General debt, excluding derivative financial liability	**Level 3**	**—**	**695,897**	**695,897**	**642,460**	646,613	659,699
REIT - Convertible debenture	**Level 2**	**—**	**44,056**	**44,056**	**41,011**	65,637	63,683
Derivative financial liabilities							
Conversion features on convertible debentures	**Level 3**	**412**	**—**	**412**	**412**	5,408	5,408
REIT units	**Level 1**	**71,890**	**—**	**71,890**	**71,890**	88,275	88,275
Derivative financial asset							
Interest rate swap	**Level 3**	**6,358**	**—**	**6,358**	**6,358**	629	629
Conversion features on convertible debentures	**Level 3**	**—**	**—**	**—**	**—**	116	116

The table above analyzes assets and liabilities carried at fair value in the consolidated statement of financial position, by the levels in the fair value hierarchy. The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to the valuation technique, which are defined as follows:

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

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

Investment properties

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

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

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

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

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

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

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

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

Investment properties were valued by Melcor's internal valuation team as at December 31, 2022 of which 64 legal phases included in investment properties (of 95 legal phases valued) with a fair value of $806,468 were valued by qualified independent external valuation professionals during the year which resulted in fair value gains of $21,554 recorded as fair value adjustment on investment properties in the statements of income and comprehensive income (2021 - investment properties were valued by Melcor Development Ltd.'s internal valuation team of which 29 legal phases included in investment properties (of 93 legal phases valued) with a fair value of $316,540 were valued by qualified independent external valuation professionals during the year which resulted in fair value gains of $19,370).

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

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

Weighted average stabilized net operating income for investment properties is $1,448 (2021 - $1,444). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

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	Investment Properties			**Properties under Development**		
December 31, 2022	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.25%**	**10.00%**	**6.90%**	**6.00%**	**6.50%**	**6.18%**
Terminal capitalization rate	**5.75%**	**8.75%**	**7.03%**	**6.25%**	**6.75%**	**6.43%**
Discount rate	**6.25%**	**9.75%**	**7.92%**	**7.25%**	**7.75%**	**7.42%**

	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 the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by $66,000 (2021 - $65,900). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by $76,300 (2021 - $76,600).

General Debt, excluding derivative financial liabilities

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

The fair value of project specific financing, secured vendor take back debt on land inventory and debt on investment properties and golf course assets have been calculated by discounting the expected cash flows of each loan using a discount rate specific to each individual loan. The discount rate is determined using the bond yield for similar instruments of similar maturity adjusted for each individual project's specific credit risk. In determining the adjustment for credit risk, we consider current market conditions and other indicators of credit worthiness.

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as Level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At December 31, 2022 the fair value of the REIT units was $71,890 (2021 - $88,275). During the year a fair value gain of $16,360 (2021 - loss of $25,748) was recognized in the statement of income and comprehensive income, and was included in adjustments related to REIT units.

Derivative financial instruments

Our derivative financial liabilities are comprised of floating for fixed interest rate swaps on mortgages (level 2) and the conversion features on our convertible debentures (level 3).

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at December 31, 2022 the fair value of interest rate swap asset was $6,358 (2021 - $629 interest rate swap asset, included in general debt).

The conversion features on the convertible debentures was valued at December 31, 2022. This resulted in a fair value gain of $4,880 (2021 - fair value loss of $3,421) being recognized in income. The significant unobservable inputs used in the fair value measurement of the conversion features on the REIT convertible debentures as at December 31, 2022 are as follows:

- Volatility - expected volatility as at December 31, 2022 was derived from the historical prices of the REIT's trust units. Volatility was 23.80% (2021 - 37.44%).
- Credit spread - the credit spread of the convertible debentures was imputed from the traded price of the convertible debentures as at December 31, 2022. The credit spread used was 11.13% (2021 - 7.88%).

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31. SUBSEQUENT EVENTS

Distributions on REIT trust units:

On January 16, 2023 , we declared the following distributions:

Month	Record Date	Distribution Date	Distribution Amount
January 2023	January 31, 2023	February 15, 2023	$0.04 per unit
February 2023	February 28, 2023	March 15, 2023	$0.04 per unit
March 2023	March 31, 2023	April 14, 2023	$0.04 per unit

Asset Disposition

On February 1, 2023, we sold an investment property for net proceeds of $19,025, resulting from a purchase price of $19,500 less transaction costs of $475. The price was settled in cash, excluding working capital adjustments. Proceeds from the sale were used to repay the outstanding principle balance on the mortgage, with the remaining cash of $9,030 being used to reduce our borrowings on our credit facility.

REIT revolving credit facility

On February 10, 2023 the REIT entered in the fourth amendment to their revolving credit agreement with existing lenders (the “Credit Facility Amendment”). The following terms were amended pursuant to the Credit Facility Amendment:

- the maximum available credit limit was increased from $35,000 to $50,000;
- changes to the inputs used in the calculation of available credit limit; and
- additional property pledged as collateral with a carrying value of $11,900.

Dividend declared:

On March 16, 2023, our board of directors declared a quarterly dividend of $0.16 per share payable on March 31, 2023 to shareholders of record on March 24, 2023.